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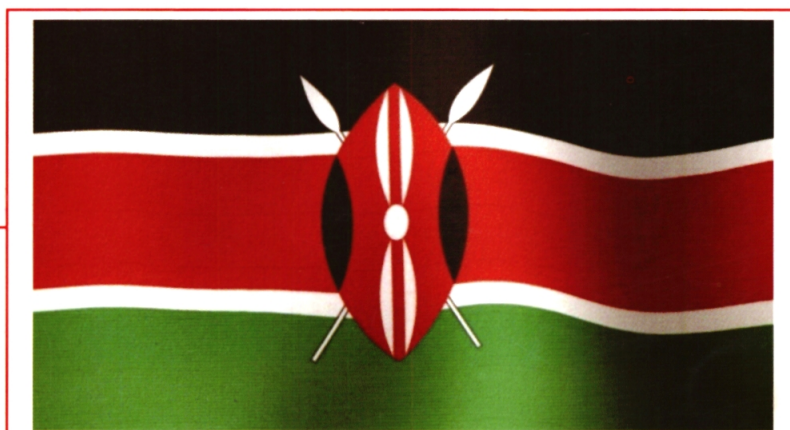


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Senate Majority Whip
on 8th Nov, 2016
[Signature]*

COMMISSION ON REVENUE ALLOCATION

Promoting an Equitable Society

RECOMMENDATION FOR THE EQUITABLE SHARING OF REVENUE RAISED NATIONALLY BETWEEN THE NATIONAL AND COUNTY GOVERNMENTS FOR FINANCIAL YEAR 2017/2018



Baringo



Bomet



Bungoma



Busia



Elgeyo Marakwet



Embu



Garissa



Homa Bay



Isiolo



Kajiado



Kakamega



Kericho



Kiambu



Kilifi



Kirinyaga



Kisii



Kisumu

30TH SEPTEMBER 2016

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COMMISSION ON REVENUE ALLOCATION

Our Ref: CRA/P&S/VOL
Clerk of the Senate
Clerk of the National Assembly
Cabinet Secretary, National Treasury
Clerks of County Assemblies
Governors, County Governments

DATE: 30th September 2016

Dear Sir/Madam,

**RE: RECOMMENDATION ON SHARING OF REVENUE FOR
FINANCIAL YEAR 2017/18**

Pursuant to Article 216 (1)(a), the Commission on Revenue Allocation is mandated to make recommendations concerning the basis for the equitable sharing of revenue raised by the national government between national and county governments.

Article 216 (5) requires the Commission to submit its recommendations to the Senate, National Assembly, the National Executive, County Assemblies and County Executives. Accordingly, the Commission hereby recommends that Ksh.331,599 million be allocated to county governments as equitable share and Ksh.35,963 million as conditional grants for 2017/18.

Yours Sincerely,

Micah Cheserem
CHAIRMAN

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ACRONYMS AND ABBREVIATIONS

| | |
|--------|--|
| AG | Auditor-General |
| AMISOM | Africa Union Mission on Somalia |
| CARA | County Allocations Revenue Act |
| CBK | Central Bank of Kenya |
| CBR | Central Bank Rate |
| CoB | Controller of Budget |
| CTTI | County Technical Training Institutes |
| CRA | Commission on Revenue Allocation |
| BROP | Budget Review and Outlook Paper |
| BPS | Budget Policy Paper |
| DANIDA | Danish International Development Agency |
| DPP | Director of Public Prosecutions |
| EACC | Ethics and Anti-Corruption Commission |
| GDP | Gross Domestic Product |
| ICT | Information Communication Technology |
| IEBC | Independent Electoral and Boundaries Commission |
| IPOA | Independent Policing Oversight Authority |
| JSC | Judicial Service Commission |
| KeRRA | Kenya Rural Roads Authority |
| KNCHR | Kenya National Commission on Human Rights |
| KURRA | Kenya Urban Roads Authority |
| KRB | Kenya Roads Board |
| KWS | Kenya Wildlife Services |
| OSR | Own Source Revenue |
| NG&EC | National Gender and Equality Commission |
| NLC | National Land Commission |
| PAYE | Pay As You Earn |
| PSC | Public Service Commission |
| RDA | Regional Development Authorities |
| SRC | Salaries and Remuneration Commission |
| TSC | Teachers Service Commission |
| TIVET | Technical Industrial and Vocational Education Training |
| VAT | Value Added Tax |
| RMLF | Road Maintenance Levy Fund |
| KeNHA | Kenya National Highways Authority |

EXECUTIVE SUMMARY

In accordance with the provisions of Article 216(1)(a) and Article 203(1), the Commission recommends that out of the shareable revenue of Ksh. 1,038,035 million for the financial year 2014/2015, Ksh. 331,599 million be allocated to county governments as equitable share and Ksh. 35,963 million as conditional grants for financial year 2017/18. The equitable share allocation to county governments is equivalent to 32 percent of the shareable revenue for 2014/15 amounting to Ksh. 1,038,035 million.

In making this recommendation, the Commission has used allocation to county governments for FY 2016/17 of Ksh. 280,300 million as the base. The base has been increased by Ksh. 42,550 million using a three year average revenue growth rate of 15.18 percent. The years considered are 2013/14; 2014/15 and 2015/16.

The Commission also considered the provisions of Article 187 (2), in recommending that Ksh 13,296 million from the Road Maintenance Levy Fund be allocated to counties for maintenance of county roads, and Ksh. 319 million from the Kenya Library Services for salaries and operations of devolved Libraries.

The recommendation on conditional allocation has two components:

1. An adjustment to the current conditional allocation on Level 5 Hospitals, Maternal Health Care, and Compensation for User Fees Forgone by the target inflation rate of 5 percent. The allocation on the Road Fuel Levy Fund is based on 25 percent of the projected fuel levy revenues for financial year amounting to Ksh.53,184 million. This allocation is net of the Roads Annuity Fund, projected at Ksh. 10,290 million for financial year 2017/18.
2. Provision for new conditional grants from the national government equitable share amounting to Ksh. 8,900 million. The grants are for:
 - a. Establishment of two Regional Cancer Referral Treatment Centers at a cost of Ksh. 2.5 billion each annually,
 - b. Establishment of a National Cancer Drug Access Programme at a cost of Ksh.1 billion annually,
 - c. Construction of headquarters for five counties, namely: Lamu, Tharaka Nithi, Nyandarua, Tana River and Isiolo at a cost of Ksh. 1 billion annually,
 - d. Construction and equipping of 20 Libraries in twenty counties at a cost of Ksh. 20 million each, and
 - e. Construction and/or rehabilitation of village polytechnics in all the counties at a cost of Ksh.1.5 billion.

Table 1 provides a summary of the Commission's recommendation on the equitable share to counties for financial year 2017/18.

Table 1: Equitable Share to County Governments

| | ITEM | FY 2016/17 Actuals | FY 2017/18 Recommen dations |
|-----------|---|----------------------------|-----------------------------------|
| A | EQUITABLE SHARE | Millions | Millions |
| 1 | Shareable Revenue | 935,653¹ | 1,038,035² |
| 2 | Equitable Share (Baseline) | 259,775 | 280,300 |
| 3 | Three Year Average Revenue growth Rate 15.18 % of KSh.280,300 Million | 20,525 | 42,550 |
| 4 | Sub Total | | 322,850 |
| 5 | Additional County Roads | - | 8,430 |
| 6 | County Libraries | - | 319 |
| 7 | Sub Total | - | 8,749 |
| 8 | Total Equitable Share | 280,300 | 331,599 |
| 9 | Total Equitable Share as % of Shareable Revenue | 30% | 32% |
| B | CURRENT CONDITIONAL ALLOCATIONS³ | | |
| 10 | Level 5 Hospitals | 4,000 | 4,020 |
| 11 | Free maternal Health Care | 4,121 | 4,142 |
| 12 | Compensation for user fees forgone | 900 | 905 |
| 13 | Leasing of Medical Equipment | 4,500 | 4,500 |
| 14 | Road Fuel Levy Fund (25% of Fuel Levy (Less Annuity Fund) Ksh. 53,183,600,000) | 4,307 | 13,296 |
| 15 | Special Purpose Grant for Emergency Medical Services | 200 | 200 |
| 16 | Sub Total | 18,028 | 27,063 |

Source: CRA, 2016

¹ Shareable revenue for Financial year 2013/14² Shareable revenue for financial year 2014/15³ Recommendations on current allocation on conditional grants to County Governments for financial year 2017/18 have been adjusted by target inflation factor of 5 percent

| C | NEW CONDITIONAL GRANTS | | |
|-----------|---|----------------|----------------|
| 17 | Establishment of two Regional Cancer Referral Centres at a cost of Ksh. 2.5 billion each | - | 5,000 |
| 18 | Establishment of a National Cancer Drugs Access Programme | - | 1,000 |
| 19 | Construction and Equipping of Libraries in 20 Counties at a cost of Ksh. 20 million each | - | 400 |
| 20 | Construction of Headquarters in Five Counties at a cost of Ksh. 800 million each | - | 1,000 |
| 21 | Rehabilitation of Village Polytechnics | - | 1,500 |
| 22 | Sub Total | - | 8,900 |
| 23 | Total Conditional Grants | 18,028 | 35,963 |
| 24 | Total Recommendation on Transfer to counties for FY 2017/18 | 298,328 | 367,562 |
| 25 | Total Recommended as percentage of equitable share for FY 2014/15 (Ksh. 1,038,035 million) | 32% | 35% |

CRA, 2016

1.0. INTRODUCTION

1.1 Background Information

Article 216(1)(a) of the Constitution of Kenya mandates the Commission on Revenue Allocation (CRA) to make a recommendation concerning the basis for the equitable sharing of revenue raised nationally between the national and county governments. The constitution further stipulates in article 203(1) the criteria to take into account when determining the equitable share between the two levels of government. These are:

- (a) the national interest;
- (b) any provision that must be made in respect of the public debt and other national obligations;
- (c) the needs of the national government, determined by objective criteria;
- (d) the need to ensure that county governments are able to perform the functions allocated to them;
- (e) the fiscal capacity and efficiency of county governments;
- (f) developmental and other needs of counties;
- (g) economic disparities within and among counties and the need to remedy them;
- (h) the need for affirmative action in respect of disadvantaged areas and groups;
- (i) the need for the economic optimization of each county and to provide incentives for each county to optimize its capacity to raise revenue;
- (j) the desirability of stable and predictable allocations of revenue; and
- (k) the need for flexibility in responding to emergencies and other temporary needs, based on similar objective criteria.

The Commission has over the past four years made its recommendation on the division of revenue through a consultative process. This process has given valuable input into the preparation of the recommendations which informs the Division of Revenue Bill prepared by the National Treasury for debate and approval by Parliament.

1.2 Legal Framework for Revenue Sharing

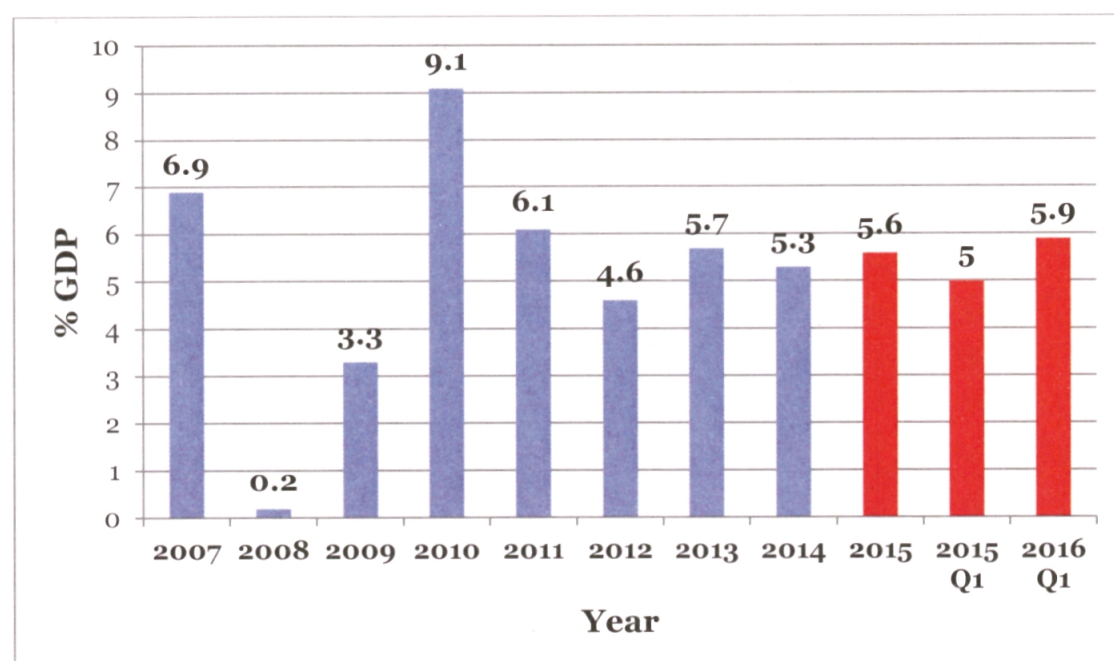
1. The Constitution of Kenya 2010 provides for a devolved system of government in which the sovereign power of the people is exercised at the national and county levels, (Article 6).
2. Article 202 (1) stipulates that revenues raised nationally shall be shared equitably among the national and county governments.
3. Article 202 (2) stipulates that county governments may be given additional allocations from the national government's share of revenue, either conditionally or unconditionally.
4. Article 203(1) stipulates the criteria to be taken into account in determining the equitable shares between the national government and the county governments.
5. Article 203(2) stipulates that for every financial year, the equitable share of revenue raised nationally that is allocated to county governments shall be no less than fifteen percent of all revenue collected by the national government.
6. Article 205 (1) stipulates that when a bill that includes provisions dealing with the sharing of revenue, or any financial matter concerning county governments is published, the Commission on Revenue Allocation shall consider those provisions and may make recommendations to the National Assembly and the Senate.
7. Article 205 (2) stipulates that any recommendations made by the Commission on Revenue Allocation shall be Tabled in Parliament, and each House shall consider the recommendations before voting on the Bill.
8. The Commission, under Article 216 (1) (a) of the Constitution is mandated to make recommendations concerning the basis for equitable sharing of revenue raised by the National Government between the national and county governments.
9. Article 218 stipulates that at least two months before the end of each financial year, there shall be introduced in parliament a Division of Revenue Bill, which shall divide revenue raised by the national government among the national and county levels of government in accordance with the Constitution. The Bill shall be accompanied by a memorandum setting out a summary of any significant deviation from the Commission on Revenue Allocation's recommendations, with an explanation for each deviation.
10. Article 219 provides that a county share of revenue be transferred to the county without undue delay and without deduction.

1.3 Performance of the Economy

The Gross Domestic Product (GDP) is estimated to have expanded by 5.6 per cent in the year 2015 compared to a 5.3 per cent growth in 2014. The growth was largely supported by agricultural sector (30%), manufacturing sector (10.3%), transport and storage (8.4%), real estate (7.6%), wholesale and retail (7.5%), and financial and insurance activities (6.9%). Despite the resilient performance of the economy, sectors such as information and communication, mining and quarrying and wholesale and trade had contracted growth rates⁴.

The economy is forecasted to grow at an average rate of 6 per cent in 2016. This target is achievable given the prevailing low interest rates, stable exchange rate, low and stable inflation, and a vibrant construction sector. During the first quarter of 2016, the country witnessed a growth rate of 5.9 percent up from 5 per cent during the same period in the previous year. It is projected that the economy will be largely supported by private consumption, expected to grow by 7.1% and government consumption by 4.1%. The export growth is expected to be modest at 4.1% while imports are projected to grow by 7.1%. The annual GDP trend is shown in Figure 1.

Figure 1: Annual GDP Growth Rates, 2007-2016



Source: Kenya National Bureau of Statistics, 2016

⁴ Kenya National Bureau of Statistics, 2016

In contrast, the East African community witnessed a slower growth of 3.4 per cent in 2015 from a high of 5.8 per cent realized in 2014. This was occasioned mainly by the political instability in Burundi and uncertainties associated with general elections in Tanzania and Uganda. Likewise, the Sub Saharan region also witnessed decelerated economic growth of 3.8 per cent in 2015 from 5.1 per cent achieved in 2014. The trend was replicated at the international level where the world's real economic growth plummeted slightly from 3.4 per cent in 2014 to 3.1 per cent in 2015 on account of low commodity prices, weaker capital flows, subdued global trade and increasing financial market volatility.

Despite the stronger projections on the performance of the Kenyan economy, risks to the outlook still remain evident. The country is still facing numerous macroeconomic challenges. The fiscal consolidation is still a big challenge coupled with probable pressure on the domestic interest rates due to increase in expected domestic borrowing beyond the ceiling projected in the Budget Review Outlook Paper (BROP) 2016. This is more so, taking into account that 2017 is an election year.

1.3.1 Inflation

The overall inflation eased slightly from 6.9 per cent in 2014 to 6.6 per cent in 2015 due to lower energy and transport prices. Monthly inflation rates fluctuated between 5.5 per cent and 8.0 per cent but were largely contained within the Central Bank's target throughout the year. The easing occurred in the July –December 2014 period, as upward pressure on prices was recorded in the January – June 2015 period. The inflationary pressures reflected rising food prices following the onset of the dry season in the months of January-March 2015, and weakening of the exchange rate due to strengthening of the US Dollar against major international currencies, and concerns of insecurity in the domestic economy. To contain inflationary pressures, the Central Bank of Kenya tightened monetary policy in June 2015. Overall inflation eased by 33 basis points to 7.02 percent in the first quarter of 2016 from 7.35 percent in the fourth quarter of 2015 on account of declining food and fuel inflation.

1.3.2 Interest Rate

There was mixed performance on nominal interest rates during 2015. Most notable are the upward revisions of the Central Bank Rate (CBR). The CBR was revised upwards twice during the review period. The rate increased from 8.50 per cent in December 2014 to 10.00 per cent and 11.50 per cent in June and December 2015, respectively. The 91-day Treasury bill rate dropped from 8.58 per cent in December 2014 to 8.26 per cent in June 2015 and rising to 9.81 per cent by December 2015. The interbank lending rate increased in June 2015 to 11.78 per cent from 6.91 per cent in December 2014 before dropping to 7.27 per cent in December 2015. Similar oscillations were reported for all commercial banks interest rates in 2015. Commercial banks loans and advances lending interest rates rose to 17.45 per cent in December 2015 from 15.99 per cent in December 2014.

The fluctuations in interest rates by commercial banks was similarly reflected in the Loans-Deposits interest rate spread which dropped from 9.18 percentage points in December 2014 to 8.84 percentage points in June 2015 and rose to 9.53 percentage points in December 2015. There was a general decline in real interest rates during the review period. Real interest rates for commercial bank savings deposit rate and the inter-bank rate were negative at 4.46 per cent and 0.74 per cent, respectively. The real interest rate for 91 day treasury bills dropped from 2.56 per cent in 2014 to 1.80 per cent in 2015 , while real interest rate for loans and advances from commercial banks dipped slightly to 9.44 per cent in 2015 from 9.97 per cent recorded in 2014.

1.3.3 Exchange Rate

The Kenya shilling displayed mixed performance against the international and regional currencies during the twelve months to June 2015. It depreciated against its major trading currencies during the review period but appreciated against the Euro, South Africa Rand and the Japanese Yen. The Shilling was mainly supported by a significant fall in the international oil prices as the country cut-back expenditure on importation of petroleum fuels and increased diaspora remittances. However, lower earnings from the tourism sector impacted negatively on the exchange rate of the Shilling in 2015. The exchange rate strengthened against the Euro by 6.7 percent and the Japanese Yen by 6.9 percent but weakened against the US Dollar by 5.4 percent and the Sterling Pound by 2.1 percent. The depreciation against the US Dollar is

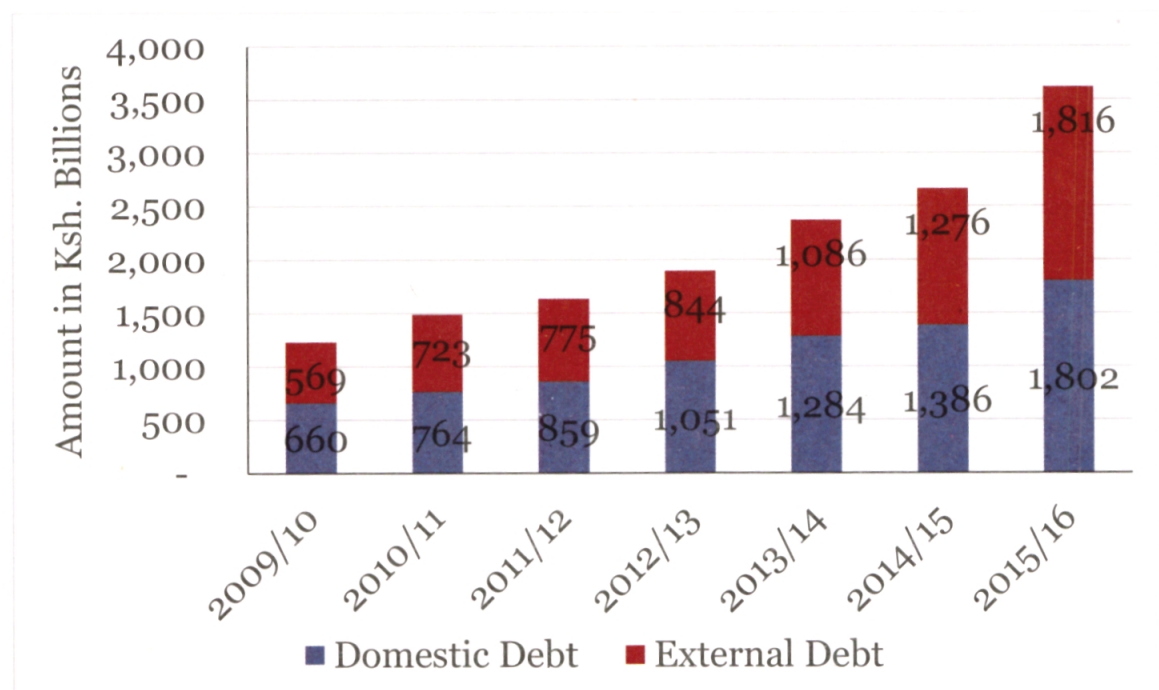
attributed to strengthening of the US Dollar against major world currencies (anchored on positive sentiment for economic recovery in the US), and high dollar demand on the domestic market against subdued inflows.

Against the regional currencies, the Shilling strengthened against the South African Rand, the Uganda and Tanzania Shillings but weakened against the Rwanda and Burundi Francs. The Uganda and Tanzania Shilling exhibited more volatility compared to the Kenya Shilling. However in the last half of 2015, the foreign exchange market remained stable supported by a narrowing current account deficit largely due to a lower import bill, improved earnings from exports and resilient inflows from diaspora remittances. The risks to the stability of the exchange rate include: the strengthening of the USA dollar that would make it costly to borrow in the international markets; a deteriorating trade balance owing to high imports and non performing export sector.

1.3.4 Public Debt

Kenya’s public debt has increased gradually over time (Figure 2) despite the government’s policy objective to contain and reduce the level of public debt in the medium term.

Figure 2: Kenya’s Stock of Public Debt in Ksh. Billions



Source: Quarterly Economic and Budgetary Reviews, Various issues

The national government objectives of containing overall fiscal deficit and putting emphasis on efficiency and effectiveness of public spending as well as enhanced revenue performance through broadening the tax base and improving revenue administration have not achieved the desired effects⁵. Kenya's public and publicly guaranteed debt increased by 27.2 per cent to Ksh. 3,618.4 billion as at the end of June 2016 from 2,843.7 billion held at the end of June 2015. External debt accounted for 47.9 per cent out of which 29.9 per cent, 45 per cent, 24.5 per cent and 0.5 per cent respectively was owed to bilateral, multilateral institutions, commercial banks and suppliers' credit respectively. As at the end of June 2016, the total cumulative debt service payments to external creditors amounted to Ksh. 77.3 billion comprising Ksh. 35 billion (45.3 per cent) principal and Kshs. 42.3 billion (54.7 per cent) interest. On the other hand, the stock of gross domestic debt increased by Ksh. 394.7 billion from Ksh. 1,420.4 billion in June 2015 to Ksh. 1,815.1 billion in June 2016.

It is projected that during the FY 2017/18, the fiscal deficit of Ksh. 596.1 billion will be financed by net external financing of Ksh. 231.4 billion (2.8 percent of GDP) and Ksh. 323.8 billion (4 percent of GDP) net domestic borrowing. The country's continued fiscal expansion remains the greatest challenge to debt sustainability as the country is likely to borrow beyond the current target to meet its increasing expenditure demands, especially on infrastructure.

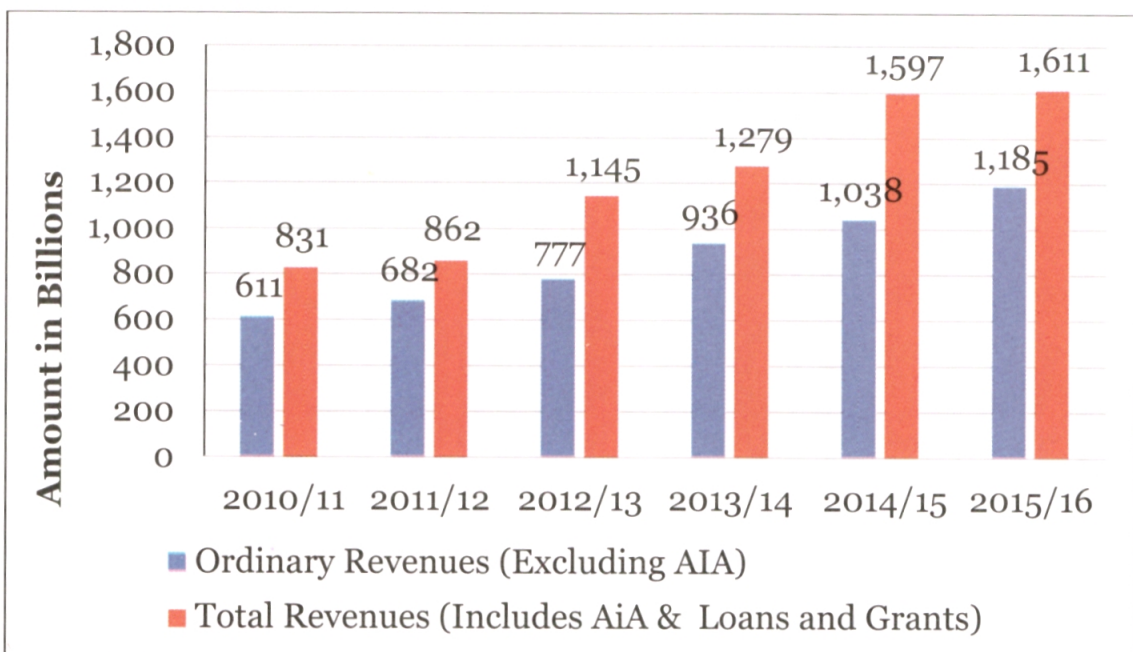
⁵ Medium Term Debt Management Strategy, 2016/17

2.0 FISCAL PERFORMANCE OF GOVERNMENTS

2.1 Analysis of Revenue Raised Nationally

The ordinary revenue growth has been on an increasing trend over the years attributed to various tax reforms and a resilient economy. The total revenue raised in 2015/16 was estimated at Ksh. 1,611 billion including loans and grants. The total ordinary revenue collected in 2015/16 amounted to Ksh. 1,185 billion up from Ksh 1,038 billion collected in 2014/15 which represents a 14 percent growth. The trend of ordinary revenue growth is presented in Figure 3.

Figure 3: Revenue Trends 2010/11 -2015/16 (Ksh. Billions)



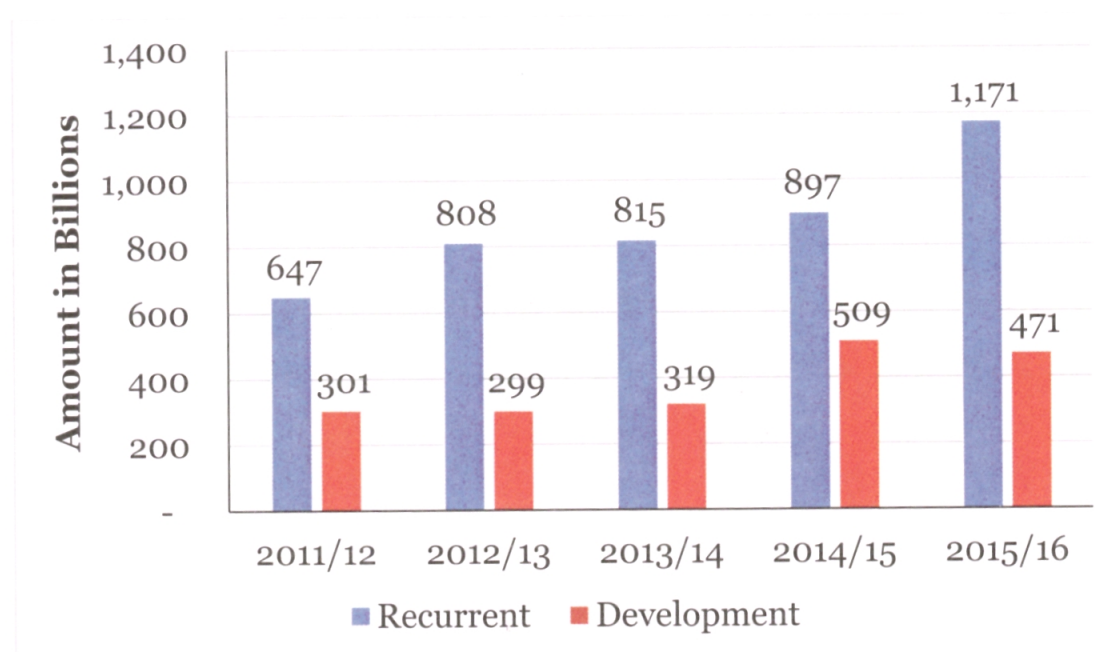
Source: BPS & Exchequer Statements, various Issues

Whilst the national government's ordinary revenue collections have occasionally fallen below targets, the revenues have gradually increased over the years as shown in Figure 4. This is not the same for county governments. As shown in Appendix I and II, collection of own source revenue by county governments has remained volatile, not only by missing targets by huge margins, but some counties are also collecting less revenue in current financial years compared to previous years. This under performance of own source revenues greatly constrains implementation of budgets, given that county governments have not been able to access external financing.

2.2 Analysis of National Government Expenditures

The overall fiscal plan of the national government in 2015/16 entailed a deliberate effort to exercise prudence in public expenditure management so as to contain fiscal risks by gradually lowering the fiscal deficit, and growth of recurrent expenditures. However, the trend of national government expenditures presented in Figure 4 reveals that national government expenditure on recurrent has expanded faster over the years than development expenditure.

Figure 4: National Government Expenditures, Ksh. Billion



Source: Budget Review and Outlook Papers, Various Issues

The total Government expenditure in the FY2015/16 stood at Ksh. 1,642 billion, representing an increase of 16 per cent from Ksh 1,406 billion spent in 2014/15. Total recurrent expenditure for FY 2015/16 is estimated at Ksh 1,171 billion, while development expenditure was Ksh.471 billion, a decline of 7 per cent from Ksh. 509 Billion spent in 2014/15. A steady increase in recurrent expenditures coupled with declining development expenditure greatly constrains the objectives of government to realize an industrializing country status by the year 2030. This objective is further constrained by the low absorption of development funds by the county government. The national government needs to articulate and implement deliberate measures to contain recurrent cost and increase the development expenditures.

2.3 Analysis of County Revenue

The county governments total transfers for FY 2016/17 amounts to Ksh. 302.2 billion. This comprises of Ksh. 280.3 billion for equitable share and Ksh.22 billion for conditional grants. This was an increase from Ksh. 287 billion for FY 2015/16 of which, Ksh. 259.8 billion was equitable share and Ksh. 28 billion was conditional grants.

The equitable share allocated to counties from revenues raised nationally is the major source of revenue for the county governments, defraying on average over 90 percent of their expenses. Timeliness in releasing of funds from the national government is a key challenge impacting negatively on county budget outturn. The national government has not adhered to the approved schedule of disbursement. Adherence to the monthly schedule on disbursements and the availing of over-drafts to county governments through the Central bank will enable counties implement budget according to approved plans

2.3.1 Analysis of County Own Revenue Sources

During Financial year 2015/16 county governments targeted to raise a total of Ksh. 55 billion from the sources assigned to them by the Constitution in Article 209 (3) and (4). However, by end of financial year 2015/16 only Ksh. 35 billion had been raised, a performance rate of 64 per cent. As shown in Table 2, total county revenue has increased progressively, largely on account of the equitable share allocated to counties.

Table 2: County Government Revenue Ksh. Millions

| Year | Equitable Share | Conditional Grants | Own source of Revenue | Total county Revenue |
|--------------|-----------------|--------------------|-----------------------|----------------------|
| 2012/13 | 9,784 | 6,658 | 6,756 | 23,198 |
| 2013/14 | 190,000 | 20,000 | 26,296 | 236,296 |
| 2014/15 | 226,661 | 15,759 | 33,849 | 276,269 |
| 2015/16 | 259,775 | 16,598 | 35,022 | 311,395 |
| 2016/17 | 280,300 | 18,028 | 55,000 ⁶ | 353,328 |
| Total | 966,520 | 77,043 | 156,923 | 1,200,486 |

Source: CARA; County Budget Implementation Review Reports, Various issues

⁶ County Own source revenue projections for FY 2016/17

Ability of county governments to realize projected revenues is fundamental in implementation of county governments' budgets. The counties risk falling into huge budget deficits with continued under performance of own source revenues. As shown in Appendix II, 22 counties (marked red) did not only fail to realize the revenues projected for 2015/16, they collected less than they had collected in 2014/15. The Commission has observed in the last three years that most counties are overestimating their revenues as a way to balance their budget on account of the PFMA, 2012 requirement on county balanced budgets.

Further, with the exception of a number of counties that have invested in automation of their revenue, most counties have not initiated any credible strategies to enhance their own source revenues. It is crucial that all counties embrace technology in all spheres of their operations. In this regard, going forward, county governments need to provide for adequate resources for automation of all county processes.

2.4. Analysis of County Governments Expenditures

The county governments' cumulative expenditure up to third quarter of financial year 2015/16 was Ksh. 183.8 billion which represents 50 per cent of the total expected expenditures. This comprised of Ksh. 128.4 billion for recurrent and Ksh. 55.3 billion for development expenditures. The county governments' use of funds on both recurrent and development is shown in Table 3.

Table 3: Analysis of County Government Expenditures, Ksh. Millions

| Year | Total County Revenue | Actual Expenditures | | Total Expenditure | Absorption of Funds |
|---------|----------------------|---------------------|-------------|----------------------|---------------------|
| | | Recurrent | Development | | |
| 2012/13 | 23,198 ⁷ | 14,531 | 1,695 | 16,226 | 70% |
| 2013/14 | 236,296 | 132,800 | 36,600 | 169,400 | 72% |
| 2014/15 | 276,268 | 167,560 | 90,441 | 258,001 | 93% |
| 2015/16 | 311,395 | 128,439 | 55,323 | 183,762 ⁸ | 59% |

Source: County Budget Implementation Review Reports, Various issues

⁷ Total County Expenditures does not include conditional allocations.

⁸ These are expenditures for three quarters to March 2016.

The delays in disbursement of county funds from the national government, low capacity in some counties to use technology to undertake procurement and slow implementation of projects have largely contributed to the low utilization of development funds. With continued training of both the users and suppliers on the use of e-procurement, and the approval of counties to access internal and external borrowing, county governments have huge potential to double their development expenditures and contribute immensely to the overall growth and development of the country.

3.0 FUNCTIONAL ASSIGNMENT

3.1 Functional Assignment to National & County Governments

The Constitution establishes two levels of government that are distinct and interdependent. The functions of national and county governments are listed under the Fourth Schedule of the Constitution.

Article 186(2) provides concurrent functions that are performed by more than one level of government, and residual functions or power not assigned by the Constitution or national legislation to a county as a function of the national government.

Article 187 (2) of the Constitution also provides that, if a function or power is transferred from a government at one level to a government at the other level, then arrangements shall be put in place to ensure that the resources necessary for the performance of the function or exercise of the power are transferred in line with the principle of *'funds must follow functions.'* This invariably requires clear linkages between assigned functions, planning, budgeting, and resource allocation at either level of government.

Gazette Notice No. 2238 of 1st April 2016 provides clarification on functions as exercised by the national and county governments in accordance with the Fourth Schedule of the Constitution. The following functions with no attendant resources have been transferred to county governments;

3.1.1. Water Sector

- a) Implementation of specific national government policy related to water,
- b) Monitoring and reporting on implementation of specific policies related to natural resources and environment conservation in accordance with national monitoring and evaluation framework,
- c) Development of county policy on water services in accordance with National Water Policy and National Water Service Strategy,
- d) Development of county legislation on waters services in accordance with the national policies, norms and standards,
- e) Implementation of policy and legislation(both national and county) related to water and sanitation services,

- f) Appointments and monitoring of Water Service Provides in line with national guidelines, enforcement of legislation, regulations and standards (both national and county level) related and water and sanitation services,
- g) Enforcement of legislation, regulations and standards (both national and county level),
- h) Planning for county public works related to water services and sanitation to meet demand,
- i) Mobilization of resources for county public works related to water and sanitation services,
- j) Implementation of county public works related to water and sanitation services,
- k) Implementation of pro-poor interventions in accordance with national guidelines,
- l) Asset management, maintenance, inventory and valuation of county public works related to water and sanitation, and
- m) Rapid assessment of projects, initial feasibility and packaging of ready projects.

3.1.2. Regional Development Authorities

A number of functions performed by the Regional Development Authorities (RDAs) which are functions of county governments were financed through appropriations in aid and not exchequer releases. The following functions hitherto performed by RDAs have been transferred to all the county governments with no attendant resources:

- a) Establishment of tree nurseries,
- b) Animal husbandry extension services,
- c) Agriculture extension services,
- d) Construction of water pans,
- e) Horticultural development,
- f) Farmer extension component relating to technology transfer in fish farming,
- g) Irrigation components,
- h) Tree seedling-production and planting,
- i) Brick making,
- j) Beekeeping-(outside buffer zone and riparian zones) and refinery,
- k) Livestock fattening/finishing and marketing, and
- l) Artificial Insemination (AI) extension services

3.1.3. Library Services

Library services are assigned to counties by the Fourth Schedule of the Constitution. The Kenya National Library Services operated a total of 47 libraries in Kenya which are spread in 27 counties. Out of the 47 libraries, three Libraries strategic to the nation have been set and will remain under the operations of the Kenya Library services for the following reasons:

- a) **Ngong Road Library** is repository for legal deposits in accordance with the Books and Newspapers Act Chapter (CAP) 111 of the Laws of Kenya facilitates preservation of the national imprint.
- b) **Nakuru Library** is the offsite data security and backup storage Centre for all library materials in Kenya, and
- c) **Buruburu Library** is the anchor to all ICT library systems including online material and which also provides the linkage with all the other libraries in Kenya and international libraries including universities.

The above three libraries have been retained by the national government under the operations of Kenya National Library Services. The 44 libraries devolved together with attendant resources amounting to Ksh 319 million to 27 County governments through the Kenya Gazette Supplement of 22nd April 2016 are indicated in Table 4.

Table 4: Distribution of Devolved Libraries

| | County | Number of libraries | Location of libraries |
|-----|-----------------|----------------------------|-------------------------------|
| 1. | Baringo | 2 | Kabarnet, Meisori |
| 2. | Bomet | 1 | Silibwet |
| 3. | Bungoma | 1 | Kimilili |
| 4. | Elgeyo Marakwet | 1 | Lagam |
| 5. | Garissa | 3 | Garissa, Mbalambala, Masalani |
| 6. | Isiolo | 1 | Isiolo |
| 7. | Kakamega | 2 | Kakamega, Lusumu |
| 8. | Kericho | 2 | Kericho, Sotik |
| 9. | Kiambu | 1 | Thika |
| 10. | Kilifi | 3 | Kilifi, Dzitsoni, Malindi |

| | County | Number of libraries | Location of libraries |
|-----|---------------|----------------------------|---------------------------------|
| 11. | Kisii | 1 | Kisii |
| 12. | Kisumu | 2 | Kisumu, Koru |
| 13. | Kitui | 1 | Mwingi |
| 14. | Kwale | 1 | Ukunda |
| 15. | Laikipia | 2 | Nanyuki, Rumuruti |
| 16. | Makueni | 3 | Mutyambua, Kinyambu, Kithasyu |
| 17. | Mandera | 1 | Mandera |
| 18. | Marsabit | 1 | Moyale |
| 19. | Meru | 4 | Meru, Mikumbune, Timau, Gatimbi |
| 20. | Mombasa | 1 | Mombasa |
| 21. | Nairobi City | 1 | Kibera |
| 22. | Nakuru | 2 | Naivasha, Gilgil |
| 23. | Nandi | 1 | Kapsabet |
| 24. | Narok | 2 | Narok, Lelechonik |
| 25. | Nyandarua | 1 | Olkalou |
| 26. | Taita Taveta | 2 | Wundanyi, Welugha |
| 27. | Uasin Gishu | 1 | Eldoret |
| | Total | 44 | |

Kenya Supplement No. 4 of 22nd January, 2016

The allocation of Ksh. 319 million is for salaries, allowance of staff and operations. In addition, in FY 2015/16 the national government transferred to county governments an equivalent of Ksh. 200 million for library services through the County Allocation of Revenue Act 2015.

3.1.4. Roads

Construction and operation of roads is a concurrent function. In total, the country has a road network of 161,440.4km, of which, 39,984.0Km constitute the national trunk roads under classes A,B,C and others as shown in Table 4 and 121,456.4Km defined as county roads under road classification classes D,E,F, G and others as Shown in Table 5.

Table 5: National Trunk Roads

| Class | Length (Km) |
|--------------|--------------------|
| A | 7,566.0 |
| B | 10,535.9 |
| C | 19,501.7 |
| CU | 35.7 |
| UCA | 104.7 |
| UCB | 2,240.0 |
| Total | 39,984.0 |

Source: Kenya Gazette Supplement No.4 of 22nd April 2016

In accordance with the provision of the Fourth Schedule, the national trunk roads shown in Table 5 are a function of the national government. The Fourth Schedule further provides that county roads, as shown in Table 6 are a function of county governments.

Table 6: County Roads

| No. | County | Length (Km) | No. | County | Length (Km) |
|------------|-----------------|--------------------|------------|---------------|--------------------|
| 1 | Baringo | 1,981.2 | 25 | Marsabit | 2,886.7 |
| 2 | Bomet | 1,517.1 | 26 | Meru | 3,886.2 |
| 3 | Bungoma | 2,027.2 | 27 | Migori | 1,654.7 |
| 4 | Busia | 1,154.3 | 28 | Mombasa | 739.3 |
| 5 | Elgeyo Marakwet | 1,222.5 | 29 | Murang'a | 3,134.7 |
| 6 | Embu | 2,654.9 | 30 | Nairobi City | 2,504.5 |
| 7 | Garissa | 1,660.6 | 31 | Nakuru | 8,526.2 |
| 8 | Homa Bay | 1,917.4 | 32 | Nandi | 1,957.6 |
| 9 | Isiolo | 1,565.7 | 33 | Narok | 3,250.9 |
| 10 | Kajiado | 4,538.3 | 34 | Nyamira | 857.7 |
| 11 | Kakamega | 3,104.7 | 35 | Nyandarua | 3,046.3 |
| 12 | Kericho | 1,311.9 | 36 | Nyeri | 3,292.0 |
| 13 | Kiambu | 4,545.3 | 37 | Samburu | 1,491.1 |
| 14 | Kilifi | 2,763.7 | 38 | Siaya | 1,636.1 |
| 15 | Kirinyaga | 1,943.5 | 39 | Taita Taveta | 3,086.4 |
| 16 | Kisii | 1,688.8 | 40 | Tana river | 1,786.4 |
| 17 | Kisumu | 2,223.7 | 41 | Tharaka Nithi | 1,325.7 |

| No. | County | Length (Km) | No. | County | Length (Km) |
|-----|----------|-------------|-----|--------------|------------------|
| 18 | Kitui | 6,752.4 | 42 | Trans nzoia | 1,400.4 |
| 19 | Kwale | 2,479.5 | 43 | Turkana | 2,969.0 |
| 20 | Laikipia | 2,445.7 | 44 | Uasin Gishu | 3,405.5 |
| 21 | Lamu | 415.1 | 45 | Vihiga | 551.7 |
| 22 | Machakos | 4,727.1 | 46 | Wajir | 3,329.6 |
| 23 | Makueni | 6,939.3 | 47 | West Pokot | 1,318.4 |
| 24 | Mandera | 1,839.1 | | Total | 121,456.4 |

Source: Kenya Gazette Supplement No.4 of 22nd April 2016

The Transitional Authority Gazetted 90,000 Kilometers of roads under road classification Classes E, F, G and non-classified roads, and transferred them to county governments together with their attendant resources amounting to Ksh. 27.6 billion in financial year 2013/14 through County Allocation of Revenue Act, 2013.

Roads classified under Class D were not transferred to either level of government until completion of the exercise for the reclassification of class D roads. After the reclassification of the roads under class D, they were subsequently transferred by the Transitional Authority to the two levels of government as follows:

- a) National Government 24,000 km ; and
- b) County governments 31,456.4 km

The criterion provided by the State Department of Infrastructure, indicates that construction of roads under KeRRA reclassified as C will cost three times more than roads classified as Class D and roads under KURA reclassified as C will cost ten times as those classified as D remaining with county governments. Based on this criteria, the Commission recommends that Ksh.8,430 million be transferred to county governments for construction of the additional 31,456.4 Km, transferred to county governments through Gazette Supplement No.4 of 22nd April 2016

3.1.5. Roads Maintenance Levy Fund

Kenya Roads Board Bill 2015 provides that the Road Maintenance Levy Fund (RMLF) be shared among various institutions as shown in Table 7.

Table 7: Sharing of Revenues from the RMLF

| | Institution | Percentage allocation |
|---|---|------------------------------|
| 1 | Kenya National Highways Authority (KeNHA) | 40% |
| 2 | Kenya Rural Roads Authority (KERRA) | 21.8% |
| 3 | Kenya Urban Roads Authority (KURA) | 10.2% |
| 4 | County Governments | 15% |
| 5 | National Park Roads-Kenya Wildlife Services (KWS) | 1% |
| 6 | Kenya Roads Board Operations (KRB) | 2% |
| 7 | KRB/CS Allocation | 10% |
| | Total | 100% |

Source: Kenya Roads Board, 2016

The Bill needs to be amended further by increasing the allocation to county governments from 15 percent to 25.27 percent and reducing the allocation to KeRRA from 21.8 percent to 11.53 percent. This will ensure equity in the sharing of resource meant for maintenance of roads assigned to each level of government.

It is important to note that when the 90,000 Km and the attendant resources were transferred to county governments in the fiscal year 2013/14, for construction of roads, the resources for maintenance of those roads were not transferred. On realization of this omission, county governments were allocated 15 per cent of the RMLF as a conditional allocation in financial year 2015/16. Of the 15% allocated to counties, 10.2 per cent was from KERRA and 4.8 per cent from KURA allocations, respectively.

The 15 % revenues allocated to county government for RMLF is not adequate to maintain the 121,456.4 KM assigned to county governments. Based on the additional 31,456.4 Km transferred to county governments through the Kenya Gazette Supplement No.4 of 22nd April 2016, the 15 per cent of revenues from the RMLF is not adequate to maintain the number of kilometers assigned to county governments.

According to the State Department of Infrastructure, it costs ten times to maintain a class C road compared to a class D road under KURA. Further, it costs three times to maintain a class C road compared to class D road under KeRRA. Based on these provisions, allocations from the RMLF to county governments should be increased from the current allocation of 15 per cent to 25.27 percent of the RMLF. The additional 10.27 per cent should be achieved by reducing the allocation to KeRRA by the same percentage.

The Kenya Roads Board projects the Fuel Levy revenue at Ksh. 63,000 million for financial year 2017/18, (Appendix III). The allocations to county governments and indeed other institutions assigned the roads functions should be net of the Roads Annuity Fund allocation of Ksh. 10,290 million. The Commission recommends that Ksh. 13,296 million be allocated to county governments for financial year 2017/18.

3.2 Financing of National Government Functions

The Fourth Schedule details the functions assigned to the national government. The national government in performing its functions, projects in the Budget Review Outlook Paper 2016 to spend a total of Ksh. 2,27,300 million for FY2017/18. This is a reduction in government expenditure for 2016/17 by 2.35 per cent. Projections on financing of the various national government functions are summarized in Table 8.

Table 8: Financing of National Government Functions Ksh. Millions

| | Sector/State Department | Printed Estimates 2016/17 | BROP Projection 2017/18 |
|----------|---|----------------------------------|--------------------------------|
| 1 | Agriculture, Rural & Urban Development Land, Housing and Urban Development, Agriculture, Livestock, Fisheries, NLC | 46,544.2 | 47,135.7 |
| 2 | Education: Education; Science and Technology; TSC | 339,924.4 | 355,008.5 |
| 3 | Energy, Infrastructure and ICT: Infrastructure; Transport, ICT; Energy and Petroleum) | 529,162.9 | 487,765.0 |
| 4 | Environmental Protection, Water and Natural Resources: Environment & Natural Resources; Water & Regional Authorities; Mining | 88,999.4 | 89,102.6 |
| 5 | General Economic and Commercial Affairs: Industrialization & Enterprise, East African Affairs; Commerce & Tourism) | 23,66.2 | 19,932.8 |
| 6 | Governance, Justice, Law and Order (GJLOS): Interior; Coordination of National Government; Attorney General & Justice; The | 195,518.0 | 195,741.1 |

| | Sector/State Department | Printed Estimates 2016/17 | BROP Projection 2017/18 |
|----|---|--|--|
| | Judiciary; EACC; DPP; Registrar of Political Parties, KNCHR, IEBC, JSC, NPSC; NGEC; IPOA | | |
| 7 | Health | 60,269.9 | 61,112.6 |
| 8 | Public Administration and International Relations: Presidency; Planning; Devolution; Foreign Affairs & International Trade; National Treasury, Parliamentary Service Commission, CRA,PSC, SRC, AG, CoB ; IGTRC; & CAJ) | 224,909.7 | 244,272.6 |
| 9 | Social Protection, Culture and Recreation: Sports, Culture and Arts; Labour Social Security and Services | 44,647.5 | 47,181.8 |
| 10 | National Security: Defence, National Intelligence Services) | 124,045.2 | 127,765.2 |
| 11 | Sub Total | 1,677,687.4 | 1,675,018.1 |
| 12 | Other Government obligations Loan repayments, pension and other expenses | 603,112.6 | 552,281.9 |
| 13 | Total | 2,280,800 | 2,227,300 |

Budget Review Outlook Paper (BROP) 2016

The reduction in financing of national government functions is largely on account of projected reductions on the overall deficit financing, projected at Ksh.596.1 billion in FY 2017/18 against a deficit of Ksh. 760.8 billion for FY 2016/17.

3.3 Financing of County Governments Functions

The Fourth Schedule stipulates the functions and powers of county governments. In February 2013, the Transition Authority transferred the first batch of functions from the national government to county governments through Legal Notice No.16. The Transition Authority in August 2013 transferred additional functions to county governments under Special Gazette Supplement No. 116. The outstanding functions were transferred through the Kenya Gazette Supplement No.4 of 22nd April 2016. Table 9 summarizes the financing of the county government functions.

Table 9: Financing of County Functions in Ksh. Millions

| | | 2016/17 | 2017/18 |
|---|---|----------------|----------------|
| A. | Devolved Functions | Actual | Recommendation |
| 1 | Health Services | 76,677 | 95,846 |
| 2 | Planning & Development | 57,661 | 58,815 |
| 3 | Agriculture, Livestock and Fisheries | 21,881 | 28,445 |
| 4 | Culture, Public Entertainment & Public Amenities | 3,351 | 3,519 |
| 5 | Youth Affairs and Sports | 4,848 | 8,969 |
| 6 | Trade, Cooperative Development & Regulation | 4,855 | 6,555 |
| 7 | Roads & Transport | 44,256 | 61,733 |
| 8 | Lands, Housing and Public Works | 6,316 | 7,263 |
| 9 | Water, Natural Resources & Environmental Conservation | 7,937 | 8,731 |
| 10 | Pre-Primary Education | 2,605 | 4,560 |
| B. Sub Total Devolved Functions | | 230,387 | 284,435 |
| 11 | New County Structures | 49,913 | 47,164 |
| C. Total Equitable Share | | 280,300 | 331,599 |
| D. Conditional Allocations | | | |
| 12 | Level 5 Hospitals | 4,000 | 4,020 |
| 13 | Free maternal Health Care | 4,121 | 4,142 |
| 14 | Establishment of Two regional Cancer Referral Hospitals | - | 5,000 |
| 15 | Establishment of a national Cancer Drug programme | - | 1,000 |
| 16 | Compensation for user fees | 900 | 905 |
| 17 | Leasing of Medical Equipment | 4,500 | 4,500 |
| 18 | Road Fuel Levy Fund | 4,307 | 13,296 |
| 19 | Special Purpose Grant for Emergency Medical Services | 200 | 200 |
| 20 | Construction of Headquarters in five Counties | - | 1,000 |
| 21 | Construction and Equipping of 20 Libraries | - | 400 |
| 22 | Rehabilitation of Village Polytechnics | - | 1,500 |
| E. Total Conditional Allocations | | 18,028 | 35,963 |
| TOTAL | | 298,328 | 367,562 |

Source, CRA 2016

4.0. APPROACH TO REVENUE SHARING

In making the recommendations for sharing of revenue between the national and county governments, the Commission has taken into account the functions assigned to each level of government and the growth in revenue raised nationally. Further, the Commission considered conditional grants to address specific objectives. This is meant to ensure that there is no mismatch between the revenues and service delivery objectives on functions assigned to national and county governments.

4.1. Criteria for Revenue Sharing

Article 203 stipulates criteria to be taken into account in determining the equitable shares among the national and county governments. These are:

4.1.1. The National Interest

National interest refers to agreed policies, goals, priorities, and resultant programs which have fiscal implications and benefit the whole country. Decisions on national interest priorities do have financial implications on the functions of either level of government.

The Commission submits the following priorities defined in the second Medium Term Expenditure Framework (2013-2017), and the Budget Review Outlook Paper 2016 as a basis to determine national interest. These priority areas should therefore guide resources allocation by both levels of government from their equitable share allocations:

- (a) Quality and accessible Education and Healthcare services;
- (b) Infrastructure Development, especially energy, roads and ICT;
- (c) Security;
- (d) Food Security;
- (e) Social Welfare, Youth and Women Empowerment; and
- (f) Development of Arid regions

The revenue allocation to both levels of government, and indeed the budgets of both levels of government should be aligned with the above priorities to spur overall development in the country.

4.1.2. The Public Debt and Other National Obligations

4.1.2.1. Public Debt

Public debt is defined in Article 214 as all financial obligations attendant to loans raised or guaranteed and securities issued or guaranteed by the national government. Article 203(1) provides for consideration of public debt during revenue sharing. The Commission in preparing this recommendation has considered that the national government will spend Ksh. 596.1 billion on debt repayment for financial year 2017/18.

4.1.2.2. Other National Obligations

National obligations refer to those obligations that the National government may have and which affect the entire country. Excluded from these criteria are those obligations that arise as part of the National government's functions. The obligations that are outside the national government functions considered in this revenue sharing is the cost of shared institutions including the Judiciary, Parliament, constitutional commissions, and independent offices.

4.1.3. Needs of the National Government, Ability of Counties to Perform the Functions Allocated to them and Developmental needs of Counties

These three criteria have to do with functions of the National and County governments as set out in Fourth Schedule of the Constitution and relates to both recurrent and development needs. The needs of both levels of government should be determined through objective criteria. Table 8 provides for the financing of national government functions, amounting to Ksh. 2,227,300 million while the county government, as shown in Table 9, will spend Ksh. 331,599 million in financial year 2017/18.

4.1.4. Flexibility in Response to Emergencies

The Constitution allocates to both national and county government the function of disaster management, which incorporates the management of emergencies at a national and/ or county level. Indeed the Constitution requires the setting up of a Contingency Fund to manage unforeseen and urgent expenditure, which would include disaster management. The Contingency Fund has already been set up under the PFM Act 2012 Section 20(2) with a ceiling of Ksh. 10 billion. Based on practice, the national government funding provided in Table 7 provides for the Contingency Funding at Ksh 5,000 million budgeted under other government obligations.

The County governments are also required to establish an emergency fund to manage urgent and unforeseen expenditures for which there is no specific legislative authority to deal with emergencies that may affect Counties. The PFMA Section 110 provides that county government may establish an emergency fund not exceeding two percent of their total revenues. The term flexibility recognizes that it is not possible to budget with certainty for emergencies and therefore anticipates an allocation that enables both levels of government to set up a buffer to cushion them when disaster strikes. County governments have discretion of planning and budgeting. From the revenues recommended for financial year 2017/18 for county governments and indeed from their own source revenues, counties have adequate revenues from which to set up emergency funds.

4.1.5. Economic Disparities Within and Among Counties and the Need for Affirmative Action

Article 202 (2) stipulates that county governments may be given additional allocations from the national government's share of revenue, either conditionally or unconditionally. The Commission has recommended that Ksh. 35,963 million be allocated to county governments as conditional allocations to cater for other needs of counties and address economic inequalities. This conditional allocations also considers specific counties for a special grants to build county headquarters and county Libraries. In addition, the Commission recommends that two counties be considered for establishment of two regional cancer treatment centers based on prevalence of cancer in the country.

4.1.6. The desirability of stable and predictable allocations of revenue.

The recommendation on equitable sharing of revenue to both national and county governments has remained stable and predictable. In making the recommendation, the Commission has ensured that both the national and county government functions are not subjected to volatile budgets. This has been achieved through the use of a three year average revenue growth factor to smooth revenue growth cross the years.

5.0. SHAREABLE REVENUE

The shareable revenue as stipulated under Article 202(1) of the Constitution requires that the revenues raised nationally shall be shared equitably among the national and county governments. The shareable revenue excludes internal and external loans borrowed by the national government. The allocation to counties is based on shareable revenues defined in the Constitution and Section 2 of the Commission on Revenue Allocation Act, 2011 as follows:

“all taxes imposed by the national government under Article 209 of the constitution and any other revenue (including investment income) that may be authorized by an Act of Parliament, but excludes revenues referred to under Articles 209 (4) and 206(1)(a)(b) of the Constitution”.

Table 10 below presents a summary of the revenues raised nationally, the shareable revenue and the non-shareable revenues for financial years 20012/13 to 2014/15.

Table 10: Shareable and Non-Shareable Revenues

| | PARTICULARS | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|----|---|----------------|----------------|----------------|----------------|
| 1 | Opening Balance | 1,159 | 496 | 162 | |
| 2 | Income Tax from Individuals (P.A.Y.E) | 199,790 | 249,873 | 279,796 | 309,189 |
| 3 | Income Tax from Corporations | 173,296 | 199,717 | 228,785 | 268,797 |
| 4 | Withholding Tax | | | | |
| 5 | Immovable Property | | | | 5,336 |
| 6 | Second Hand Motor Vehicle Purchase Tax | | | | |
| 7 | V.A.T. on Domestic Goods & Services | 92,772 | 105,888 | 127,905 | 165,758 |
| 8 | V.A.T. on Imported Goods & Services | 92,144 | 126,911 | 131,781 | 134,267 |
| 9 | Excise Taxes | 85,660 | 102,029 | 115,872 | 137,175 |
| 10 | Licenses under Traffic Act | 2,431 | 3,323 | 2,825 | 3,751 |
| 11 | Royalties | | | | 654 |
| 12 | Customs Duties | 57,650 | 67,555 | 74,048 | 83,628 |
| 13 | Other Taxes from International Trade & Transactions | 24,163 | 26,678 | 26,993 | 26,141 |
| 14 | Stamp Duty | 8,538 | 9,987 | 11,468 | 11,570 |
| 15 | Interest Received | 1,356 | 586 | 1,609 | 1,848 |

| | PARTICULARS | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|----|---|----------------|----------------|------------------|------------------|
| 16 | Profit & Dividends from CBK | 1,500 | | | 4,818 |
| 17 | Other Profits and Dividends | 13,764 | 10,181 | 12,873 | 16,762 |
| 18 | Rent of Land | 1,789 | 1,588 | 1,774 | 1,422 |
| 19 | Fees under Traffic Act | | | | |
| 20 | Motor Driver's Licenses | | | | |
| 21 | Land Adjudication and Case Fee | | | | 124 |
| 22 | Sale of Freehold Interest in Agricultural Land | | | | 0 |
| 23 | Immigration Visas and Other Consular Fees | 2,688 | 775 | 2,509 | 2,631 |
| 24 | Work Permit Fees | 4,277 | 1,121 | 1,489 | 1,787 |
| 25 | Passport Fees | 502 | 170 | 11 | 10 |
| 26 | Fishing Rights | 171 | | 211 | 215 |
| 27 | Betting Control | 112 | | 3 | 3 |
| 28 | Registration Services | 247 | 129 | 505 | 464 |
| 29 | Fines, Penalties & Forfeitures & Other Charges | 1,465 | 1,443 | 2,491 | 2,428 |
| 30 | Others | 2,136 | 1,023 | 678 | 3,313 |
| 31 | Miscellaneous Revenue | 9,245 | 26,180 | 14,249 | 2,797 |
| | SUB TOTAL- SHAREABLE REVENUE | 776,858 | 935,653 | 1,038,035 | 1,184,888 |
| 32 | Recurrent Recovery Over Issues 2008/09 & 2009/10 | | 66 | | |
| 33 | Development Recovery Over Issues 2008/09 & 2009/10 | | 17 | | |
| 34 | Grants from Foreign Govt. through Exchequer | 5,188 | 6,431 | 6,631 | 5,703 |
| 35 | Contribution from Govt. Emp. To S.&W.S within Govt. | | | 120 | |
| 36 | Loans from Foreign Govt. through Exchequer | 23,569 | 28,432 | 30,310 | 6,705 |
| 37 | Loans to Non-financial Public Enterprises | 2,035 | 1,148 | 2,695 | 2,366 |
| 38 | Loans to Financial Institutions | 66 | 119 | 203 | 213 |

| | PARTICULARS | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|----|--|------------------|------------------|------------------|------------------|
| 39 | Domestic lending-T/Bills | 99,400 | | 37,000 | |
| 40 | Domestic lending-T/Bonds | 232,430 | 160,660 | 255,680 | 191,149 |
| 41 | Civic Contingencies Fund Recoveries | | | | |
| 42 | Appropriation in AID | | | | |
| 43 | Grants from International Organisations | 5,826 | | 3,843 | 13,662 |
| 44 | Borrowing from International Organizations | | | 3,454 | 37,087 |
| 45 | Commercial loan | | 34,648 | 215,470 | 162,545 |
| 46 | AMISOM Grants | | 4,695 | 3,843 | 6,440 |
| 47 | Net Domestic Borrowing(CBK) | | 106,700 | 0 | 0 |
| | SUB TOTAL -NON SHAREABLE | 368,515 | 342,917 | 559,248 | 425,870 |
| | GRAND TOTAL | 1,145,373 | 1,278,570 | 1,597,283 | 1,610,758 |

Source: Audited Exchequer Accounts, Various Issues

The ordinary revenues raised nationally has increased overtime from Ksh. 611 billion in 2010/11 to Ksh. 1,185 billion in 2015/16. The growth of various revenues is presented in Table 11. Though the shareable revenues has exhibited a stable growth, increasing overtime, the growth in total revenues and indeed, non-sharable revenues has fluctuated widely during the last three financial years, revealing shifts in overall financing policy of public expenditures by the national government.

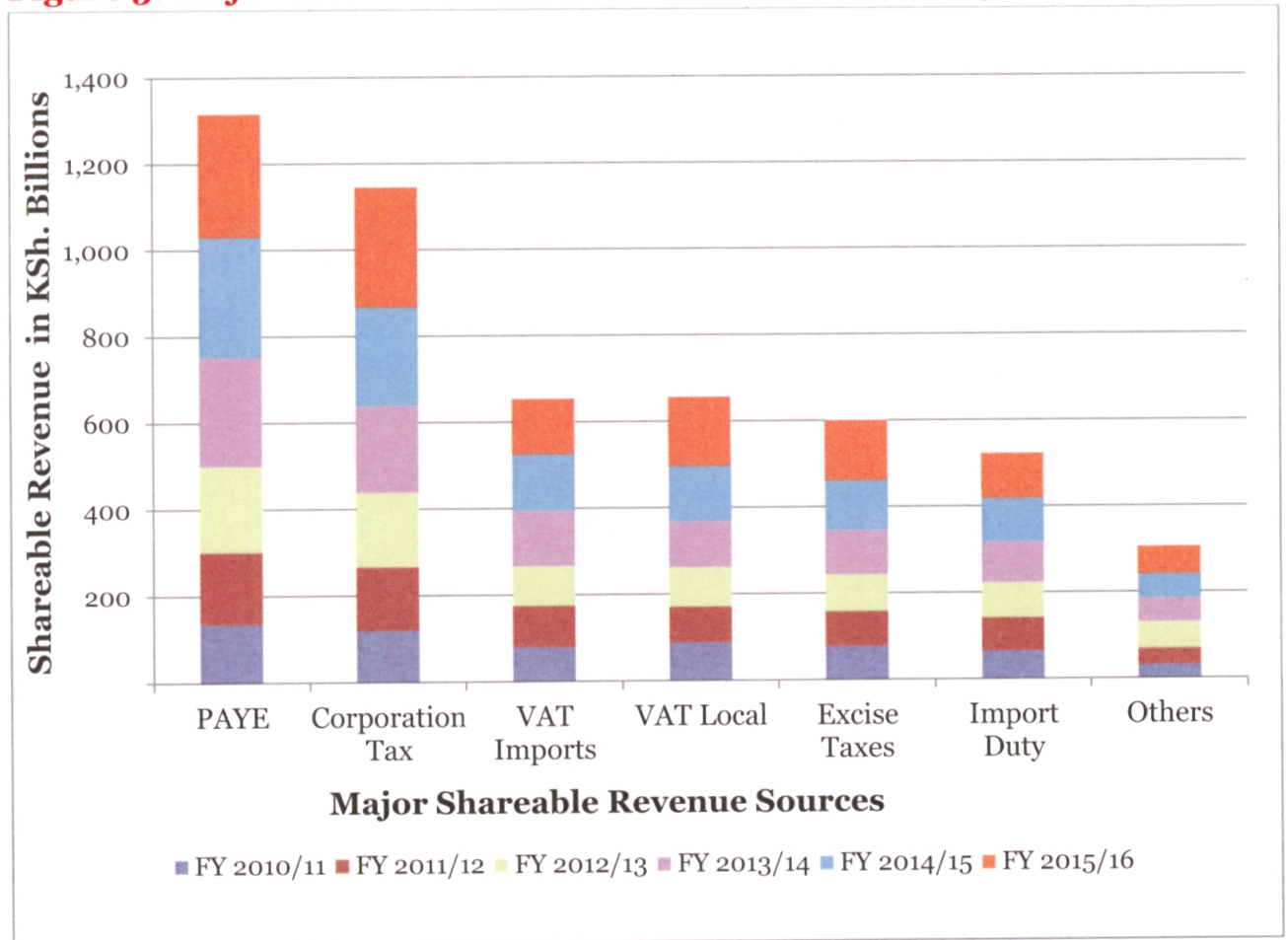
Table 11: Growth in Revenue Raised Nationally

| PARTICULARS | 2013/14 | 2014/15 | 2015/16 | Three Year Average |
|----------------------|----------------|----------------|----------------|---------------------------|
| Total Revenue | 11.63% | 24.93% | 0.84% | 12.47% |
| Sharable Revenue | 20.44% | 10.94% | 14.15% | 15.18% |
| Non-Sharable Revenue | -6.95% | 63.09% | -23.85% | 10.76% |

Source: Audited Exchequer Accounts, Auditor General's Reports

The stable growth in shareable revenue is as a result of stability of the growth of various revenue streams as revealed in Figure 5 below.

Figure 5: Major Sources of Shareable Revenues for 2010/11 - 2015/16



Source: Audited Exchequer Accounts, Auditor General Reports

Tax revenues from PAYE, corporation tax and Value added tax have remained over the years the key source of government revenue.

6.0 RECOMMENDATIONS ON SHARE OF REVENUE TO NATIONAL AND COUNTY GOVERNMENTS

6.1. Determination of Equitable Share of Revenue 2017/18

In accordance with the provisions of Article 216(1)(a) and Article 203(1), the Commission recommends that out of the shareable revenue of Ksh. 1,038,035 million for the financial year 2014/15, Ksh. 331,599 million be allocated to county governments as equitable share for financial year FY 2017/18. The equitable share allocation to county governments is equivalent to 32 percent of the shareable revenue for FY 2014/15 amounting to Ksh. 1,038,035 million.

In making this recommendation, the Commission has used allocation to county governments for FY 2016/17 of Ksh. 280,300 million as the base. The base has been increased by Ksh. 42,550 million using a three year revenue growth rate of 15.18 percent. The financial years considered are 2013/14; 2014/15 and 2015/16.

The Commission also considered the provisions of Article 187 (2), in recommending additional allocation for construction of county roads. Construction and operation of roads is a concurrent function. In total, the country has a road network of 161,440.4km, of which, 39,984.0Km constitute the national trunk roads and 121,456.4Km county roads. The Transition Authority Gazetted 90,000 Kilometers of roads under road classification Classes E, F, G and non-classified roads, and transferred them to county governments together with the attendant resources amounting to Ksh. 27.6 billion in financial year 2013/ 14 through County Allocation of Revenue Act, 2013.

Roads classified under Class D were not transferred to either level of government until completion of the exercise on reclassification of class D roads in 2016. After the reclassification, additional kilometers of roads were subsequently transferred by the Transition Authority through the Kenya Gazette Supplement No.4 of 22nd April 2016. The national government was allocated additional 23,437 km and county governments 31,456.4 km.

Based on the criteria provided by State Department of Infrastructure, the Commission recommends that Ksh.8,430 million be transferred to county governments for construction of the additional 31,456.4 km, transferred to county governments through Gazette Supplement No.4 of 22nd April 2016.

Further, the Commission under the provisions of Article 187(2) recommends that Ksh. 319 million from the Kenya Library Services be allocated to county governments for salaries and operations of devolved Libraries.

Table 12 provides a summary of the Commission recommendation on the equitable share to counties for financial year 2017/18.

Table 12: Recommendation on Shareable Revenue to Counties

| | ITEM | FY 2016/17 Actuals | FY 2017/18 Recommendations |
|---|---|--------------------|----------------------------|
| A | EQUITABLE SHARE | Millions | Millions |
| 1 | Shareable Revenue | 935,653 | 1,038,035 |
| 2 | Equitable Share (Baseline) | 259,775 | 280,300 |
| 3 | Three Year Average Revenue growth Rate 15.18 % of KSh.280,300 Million | 20,525 | 42,550 |
| 4 | Sub Total | | 322,850 |
| 5 | Additional County Roads | - | 8,430 |
| 6 | County Libraries | - | 319 |
| 7 | Sub Total | - | 8,749 |
| 8 | Total Equitable Share | 280,300 | 331,599 |
| 9 | Equitable Share as % of Shareable Revenue | 30% | 32% |

Source CRA, 2016

6.2. Conditional Allocation to County Governments

Article 187 (2) of the Constitution provides that, if a function or power is transferred from a government at one level to a government at the other level, then arrangements shall be put in place to ensure that the resources necessary for the performance of the function or exercise of the power are transferred in line with the principle of *'funds must follow functions.'*

The Constitution in Article 202(2) further provides that county governments may be given additional allocations from the national government share of the revenue, either conditionally or unconditionally. Based on these two provisions, the Commission recommends for additional conditional allocations from the national government share to county governments. These are summarized in Table 13.

Table 13: Conditional Allocations to County Governments

| A | CURRENT CONDITIONAL ALLOCATIONS⁹ | | |
|-----------|--|------------------------------|--|
| | BUDGET ITEM | FY 2016/17 Actual | FY 2017/18 Recommen- dation |
| 1 | Level 5 Hospitals | 4,000 | 4,020 |
| 2 | Free maternal Health Care | 4,121 | 4,142 |
| 3 | Compensation for user fees forgone | 900 | 905 |
| 4 | Leasing of Medical Equipment | 4,500 | 4,500 |
| 5 | Road Fuel Levy Fund (25% of Fuel Levy (Less Annuity Fund) Ksh. 53,183,600,000) | 4,307 | 13,296 |
| 6 | Special Purpose Grant for Emergency Medical Services | 200 | 200 |
| 7 | Sub Total | 18,028 | 27,063 |
| B | NEW CONDITIONAL GRANTS | | |
| 8 | Establishment of two Regional Cancer Referral Centres at a cost of Ksh. 2.5 billion each | - | 5,000 |
| 9 | Establishment a National Cancer Drugs Access Programme | - | 1,000 |
| 10 | Construction and Equipping of Libraries in 20 Counties at a cost of Ksh. 20 million each | - | 400 |
| 11 | Construction of Headquarters in Five Counties at a cost of Ksh. 800 million each | - | 1,000 |
| 12 | Rehabilitation of Village Polytechnics | - | 1,500 |
| 13 | Sub Total | - | 8,900 |
| 14 | Total Conditional Grants | 18,028 | 35,963 |

Source, CRA 2016

The recommendation on conditional allocation has two components:

1. An adjustment to the current conditional allocation on Level 5 Hospitals, Maternal Health Care, and Compensation for User Fees Forgone by the target inflation rate of 5 percent. The allocation on the Road Maintenance Levy Fund is based on 25 percent of the projected fuel levy revenues for financial year 2017/18 amounting to Ksh. 53, 184 million. The allocation to counties from the RMLF is net of the Roads Annuity Fund, projected at Ksh. 10,290 million.
2. Provision for new conditional grants to counties from national government equitable share amounting to Ksh. 8,900 million. The grants are for:

⁹ Allocation of conditional grants to County Governments for financial year 2017/18 have been adjusted by target inflation factor of 5 percent

- a. Establishment of two Regional Cancer Referral Treatment Centers at a cost of Ksh. 2.5 billion each annually,
- b. Establishment of a National Cancer Drug Access Programme at a cost of Ksh.1 billion annually,
- c. Construction of headquarters for five counties, namely: Lamu, Tharaka Nithi, Nyandarua, Tana River and Isiolo at a cost of Ksh. 1 billion annually for the next three financial years,
- d. Construction and equipping of 20 Libraries in twenty counties at a cost of Ksh. 20 million each, and
- e. Construction and/or rehabilitation of village polytechnics in all the counties at a cost of Ksh.1.5 billion.

6.2.1. Level Five Hospitals

These grants are meant to benefit the health referral hospitals whose catchment areas go beyond the boundaries of a specific county. For this reason, a total of Ksh. 4,000 million was set aside in FY2016/17 to compensate the host counties. The funds were shared among the 11 hospitals based on *percentage bed occupancy per hospital in 2014*. The Commission recommends that this grant is retained and be adjusted by the target inflation rate of five percent to Ksh. 4,020 million. This allocation should not be shared based on percentage of bed occupancy. The Commission recommends that the allocation be shared among the 11 level five hospital based on *each hospital's proportion of in-patients days*.

6.2.2. Free Maternal Health Care

Health care is largely a devolved function. As one of the strategic intervention under health care the counties had a total of Ksh. 4,121 million for the FY2016/17. The grant was shared using a direct re-imburement to health providers based on percentage contribution to total number of maternity deliveries during the FY2014/15. The Commission recommends that the grant be retained and adjusted by target inflation rate of five percent to Ksh. 4,142 million. In line with the proposal by the Ministry of Health, this allocation should be transferred to county government through a health insurance scheme under the National Hospital Insurance Fund (NHIF). The money should be shared *based on a county's actual maternity deliveries during the FY2017/18*.

6.2.3. Leasing of Health Care Equipment.

The national government contracted purchase of modern specialised health care equipment in at least two health facilities in each county government at a total budgetary allocation of Ksh. 4,500 million annually. The Commission recommends that the allocation be retained for FY2017/18.

6.2.4. Compensation of user Fees Forgone

The national government introduced this conditional grant to compensate the counties for the revenue from the user fees charged by health centers and dispensaries. During the financial year 2016/17, the national government set aside Ksh. 900 million for this purpose. The National Treasury used the annual consolidated facility outpatient attendance workload to share the money among health centers and dispensaries within the county. The Commission recommends that the conditional allocation be retained and adjusted by target inflation rate of five percent to Ksh. 905 million. The allocation will compensate counties for user fees forgone and will be shared among the counties *using annual consolidated facility outpatient attendance workload*.

6.2.5. Road Maintenance Fuel Levy Fund

Kenya Road Boards Act provides that the Road Maintenance Levy Fund (RMLF) be shared among various institutions. Based on the additional roads (31,456.4 Km) transferred to county governments, the 15 per cent of revenues transferred to the county government from the RMLF is not adequate to maintain the number of kilometers assigned to county governments.

Based on the State Department of Infrastructure criteria on cost of maintenance of roads, the Commission recommends that allocations from the RMLF to county governments be increased from the current allocation of 15 per cent to 25.27 percent of the RMLF. The additional 10.27 percent should be achieved by reducing the allocation to KeRRA by the same margin.

The Kenya Roads Board projects the Fuel Levy revenue at Ksh. 63,000 million for financial year 2017/18, (Appendix I). The allocations to county governments and indeed other institutions assigned the roads functions should be net off the Roads Annuity Fund allocation of Ksh. 10,290 million. The Commission recommends that Ksh. 13,296 million be allocated to county governments for financial year 2017/18.

6.2.6. Regional Programme on Cancer Treatment

The governments within Article 187 (2) have actualized the equipping of two hospitals in each county through the leasing of medical equipment programme. County hospitals received cancer diagnostic equipment, among other equipment leased to county governments. Treatment of cancer is either through surgery, chemotherapy or radiotherapy or a combination of both. Although a number of county referral hospitals can now diagnose cancer and undertake surgical operation, chemotherapy can only be done at either Kenyatta Referral hospital or at Nyeri level 5 hospitals. Radiotherapy can only be done at Kenyatta Referral hospital.

After the equipping of hospital throughout the country with diagnostic machines, the national government should establish regional cancer referral treatment centers in addition to Kenyatta and Moi Teaching and referral hospitals. The Commission recommends that every year, the national government identifies, based on cancer prevalence rates, at least two regions to establish and equip two regional cancer referral centers at a cost of Ksh. 2.5 billion each and establishes a national cancer drug access programme at a cost of Ksh. 1 billion annually. This will ensure that citizens diagnosed with cancer are treated and have access to necessary drugs either for free or at subsidized costs.

6.2.7. County Headquarters for Five Counties

Five counties namely; Tharaka Nithi, Nyandarua, Isiolo, Lamu and Tana River need financial assistance to build their headquarters. The Commission recommends that the national government establishes a conditional grant/a matching grant of Ksh. 1 billion annually for a period of three years to be shared equally among the five counties to enable them build their headquarters. It is estimated that each of the five counties needs Ksh 800 million to construct and furnish a headquarters.

6.2.8. Rehabilitation of Village Polytechnics

The Village polytechnics are devolved functions assigned to county governments under the Fourth Schedule. Youth empowerment is a national interest and more resources need to be allocated to counties for construction and /or equipping of village polytechnic (*County Technical Training Institutes*). These institutions are essential in developing skills to empower the youth to generate employment opportunities.

The curriculum to be followed by the CTTI needs to be developed jointly by the county governments and TIVET. This will ensure that the curriculum is well synchronized and progressive to enable students to transit from CTTI to technical universities.

The Commission recommends that counties be allocated a conditional grant of Ksh. 1.5 billion from the national government share to build and/or renovate the village polytechnics and purchase equipment and machinery. This grant should be shared among all the counties based on a county’s proportion of population.

6.2.9. Library Services

Library services are a devolved function under the Fourth Schedule of the Constitution. The Kenya National Library Services operated a total of 47 libraries in Kenya which are spread in 27 counties. A total of 20 counties do not have libraries. To achieve equity, the Commission recommends that a conditional allocation of Ksh. 20 million be given to the 20 counties for establishment and equipping of libraries in these counties. The allocation of Ksh. 319 million to all counties through the *approved revenue sharing formula* will cater for salaries and allowance.

6.3. Recommendation on Equitable Shares between the National and County Governments for FY 2017/18

Pursuant to Article 216 (5), the Commission hereby submits its recommendation to the Senate, the National Assembly, the National Executive, County Assemblies, and County Executives that county governments be allocated Ksh. 331,599 million as shareable revenue. This is equivalent to 22 percent of the projected shareable revenues for financial year 2017/18 amounting to Ksh. 1,495 billion. The projected allocations to either level of government are shown in Table 14.

Table 14: Revenue Shares for National and Counties for FY 2017/18

| Budget Items | | Ksh Billions | Percentage |
|---|---------------------|--------------|------------|
| Projected Ordinary Revenues for 2017/18 | | 1,495 | 100% |
| Of Which | | | |
| 1 | National Government | 1,163 | 78% |
| 2 | County Governments | 332 | 22% |

Budget Review Outlook Paper September, 2016 & CRA 2016

The Commission, having taken into consideration the shareable revenue for 2014/15 and the level of revenue to be raised nationally for financial year 2017/18, further recommends that from the national government share of revenue for 2017/18 amounting to Ksh. 1,163 billion, Ksh. 36 billion be allocated to county governments as conditional allocations.

7.o. BASIS FOR SHARING OF REVENUE AMONG COUNTIES FOR FY 2017/18

In accordance with the provision of Article 217, and the Sixth Schedule Section 16, Parliament determined in June 2016, the second basis for allocating among the counties, the share of revenue raised nationally that is annually allocated to the county governments. The basis approved is based on six parameters, weighted differently as shown in Table 15

Table 15: Second Basis for Revenue Sharing among Counties

| No | Parameter | First Basis | Second Basis |
|----|-----------------------|-------------|--------------|
| 1 | Population | 45% | 45% |
| 2 | Basic Equal Share | 25% | 26% |
| 3 | Poverty | 20% | 18% |
| 4 | Land Area | 8% | 8% |
| 5 | Fiscal Responsibility | 2% | 2% |
| 6 | Development Factor | - | 1% |
| | TOTAL | 100% | 100% |

Source CRA 2016

Based on the approved basis for the equitable sharing of revenues among county governments, Table 16 presents the basis for allocating to each county the approved equitable share.

Table 16: Sharing of Revenue among County Governments

| No | County | 1 st Basis Allocation factor | 2 nd Basis Allocation factor |
|----|-----------------|---|---|
| 1 | Baringo | 1.71 | 1.65 |
| 2 | Bomet | 1.81 | 1.74 |
| 3 | Bungoma | 2.95 | 2.90 |
| 4 | Busia | 2.09 | 1.93 |
| 5 | Elgeyo-Marakwet | 1.26 | 1.20 |
| 6 | Embu | 1.48 | 1.36 |
| 7 | Garissa | 2.22 | 2.21 |
| 8 | Homa-bay | 2.17 | 2.16 |
| 9 | Isiolo | 1.18 | 1.25 |
| 10 | Kajiado | 1.70 | 1.91 |
| 11 | Kakamega | 3.43 | 3.29 |
| 12 | Kericho | 1.73 | 1.73 |

| No | County | 1 st Basis Allocation factor | 2 nd Basis Allocation factor |
|----|---------------|---|---|
| 13 | Kiambu | 2.87 | 3.20 |
| 14 | Kilifi | 2.86 | 3.30 |
| 15 | Kirinyaga | 1.36 | 1.46 |
| 16 | Kisii | 2.73 | 2.46 |
| 17 | Kisumu | 2.19 | 2.17 |
| 18 | Kitui | 2.80 | 2.87 |
| 19 | Kwale | 1.97 | 2.40 |
| 20 | Laikipia | 1.33 | 1.49 |
| 21 | Lamu | 0.79 | 0.82 |
| 22 | Machakos | 2.61 | 2.45 |
| 23 | Makueni | 2.30 | 2.26 |
| 24 | Mandera | 3.45 | 3.23 |
| 25 | Marsabit | 2.00 | 2.18 |
| 26 | Meru | 2.50 | 2.55 |
| 27 | Migori | 2.25 | 2.14 |
| 28 | Mombasa | 2.00 | 2.70 |
| 29 | Murang'a | 2.06 | 2.05 |
| 30 | Nairobi city | 5.00 | 5.10 |
| 31 | Nakuru | 3.12 | 3.07 |
| 32 | Nandi | 1.83 | 1.69 |
| 33 | Narok | 2.04 | 2.16 |
| 34 | Nyamira | 1.60 | 1.53 |
| 35 | Nyandarua | 1.66 | 1.58 |
| 36 | Nyeri | 1.71 | 1.64 |
| 37 | Samburu | 1.37 | 1.26 |
| 38 | Siaya | 1.92 | 1.83 |
| 39 | Taita-taveta | 1.27 | 1.29 |
| 40 | Tana-river | 1.53 | 1.77 |
| 41 | Tharaka-nithi | 1.21 | 1.22 |
| 42 | Trans-nzoia | 1.96 | 1.87 |
| 43 | Turkana | 4.03 | 3.34 |
| 44 | Uasin-gishu | 2.00 | 1.89 |
| 45 | Vihiga | 1.49 | 1.46 |
| 46 | Wajir | 2.78 | 2.70 |
| 47 | West pokot | 1.66 | 1.57 |
| | Total | 100.00 | 100.00 |

Source, CRA 2016

The approved basis for the sharing of revenues among county governments provides that the parameter on Fiscal Effort weighted at two per cent will be revised annually. The county fiscal effort is measured based on the county's actual own source revenue increment per capita for the previous two financial years. Table 17 provides the revised Fiscal Effort index.

Table 17: County Own Source Revenue for Various Years

| No | County | County Own Source Revenue (Ksh. Millions) | | | Per Capita Revenue Increment | Fiscal Effort index ¹⁰ |
|----|-----------------|---|---------|---------|------------------------------|-----------------------------------|
| | | 2013/14 | 2014/15 | 2015/16 | | |
| 1 | Baringo | 202 | 250 | 279 | 53 | 2.62 |
| 2 | Bomet | 201 | 206 | 167 | (54) | 0.00 |
| 3 | Bungoma | 183 | 505 | 631 | 92 | 4.52 |
| 4 | Busia | 329 | 315 | 334 | 26 | 1.26 |
| 5 | Elgeyo-Marakwet | 61 | 129 | 128 | (2) | 0.00 |
| 6 | Embu | 168 | 401 | 397 | (9) | 0.00 |
| 7 | Garissa | 36 | 131 | 106 | (40) | 0.00 |
| 8 | Homa-bay | 135 | 158 | 184 | 27 | 1.32 |
| 9 | Isiolo | 125 | 134 | 110 | (165) | 0.00 |
| 10 | Kajiado | 453 | 786 | 651 | (196) | 0.00 |
| 11 | Kakamega | 325 | 517 | 504 | (8) | 0.00 |
| 12 | Kericho | 371 | 414 | 434 | 28 | 1.36 |
| 13 | Kiambu | 1,247 | 2,111 | 2,461 | 216 | 10.63 |
| 14 | Kilifi | 460 | 545 | 519 | (24) | 0.00 |
| 15 | Kirinyaga | 200 | 312 | 390 | 149 | 7.34 |
| 16 | Kisii | 250 | 297 | 306 | 8 | 0.40 |
| 17 | Kisumu | 622 | 971 | 979 | 8 | 0.41 |
| 18 | Kitui | 255 | 321 | 416 | 94 | 4.65 |
| 19 | Kwale | 208 | 254 | 249 | (8) | 0.00 |
| 20 | Laikipia | 347 | 400 | 471 | 177 | 8.71 |
| 21 | Lamu | 36 | 62 | 57 | (43) | 0.00 |
| 22 | Machakos | 1,175 | 1,357 | 1,122 | (214) | 0.00 |
| 23 | Makueni | 189 | 215 | 213 | (2) | 0.00 |
| 24 | Mandera | 90 | 88 | 88 | 0 | 0.02 |
| 25 | Marsabit | 46 | 99 | 112 | 44 | 2.17 |
| 26 | Meru | 344 | 539 | 548 | 7 | 0.33 |
| 27 | Migori | 239 | 355 | 339 | (17) | 0.00 |
| 28 | Mombasa | 1,716 | 2,493 | 2,944 | 480 | 23.63 |
| 29 | Murang'a | 420 | 562 | 618 | 59 | 2.89 |
| 30 | Nairobi city | 10,026 | 11,500 | 11,710 | 67 | 3.29 |

¹⁰ Fiscal effort measure is based on county's increment in own source revenue per capita for the financial years 2014/15 ad 2015/16.

| No | County | County Own Source Revenue (Ksh. Millions) | | | Per Capita Revenue Increment | Fiscal Effort index ¹⁰ |
|----|---------------|---|---------------|---------------|------------------------------|-----------------------------------|
| | | 2013/14 | 2014/15 | 2015/16 | | |
| 31 | Nakuru | 1,817 | 2,200 | 2,295 | 59 | 2.92 |
| 32 | Nandi | 131 | 298 | 237 | (81) | 0.00 |
| 33 | Narok | 1,539 | 1,639 | 1,753 | 134 | 6.58 |
| 34 | Nyamira | 94 | 104 | 107 | 5 | 0.22 |
| 35 | Nyandarua | 138 | 241 | 279 | 65 | 3.19 |
| 36 | Nyeri | 432 | 681 | 710 | 42 | 2.05 |
| 37 | Samburu | 201 | 196 | 167 | (129) | 0.00 |
| 38 | Siaya | 100 | 143 | 128 | (18) | 0.00 |
| 39 | Taita-Taveta | 127 | 217 | 173 | (154) | 0.00 |
| 40 | Tana-River | 32 | 33 | 28 | (19) | 0.00 |
| 41 | Tharaka-Nithi | 85 | 116 | 139 | 64 | 3.15 |
| 42 | Trans-Nzoia | 202 | 301 | 365 | 78 | 3.83 |
| 43 | Turkana | 133 | 127 | 134 | 9 | 0.43 |
| 44 | Uasin-Gishu | 564 | 801 | 719 | (91) | 0.00 |
| 45 | Vihiga | 123 | 116 | 139 | 41 | 2.04 |
| 46 | Wajir | 61 | 108 | 82 | (39) | 0.00 |
| 47 | West Pokot | 59 | 104 | 98 | (11) | 0.00 |
| | Total | 26,297 | 33,849 | 35,022 | | 100 |

Source: CRA 2016

APPENDICES

Appendix I: Revenue from Road Maintenance Levy Fund



Financing Road Maintenance

KENYA ROADS BOARD

3rd Floor, Kenya Re-Towers, Off Ragati Road, Upper Hill

P. O. Box 73718 - 00200, Nairobi, Kenya.

Tel: +254 (020) 2722865/6/8, Fax: + 254 (020) 2723161

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KRB/F/29/01/A/Vol. II (7)

25th August 2016

Ms. Fatuma Abdulkadir, MBS
Vice Chairperson
Commission on Revenue Allocation
P. O. Box 1310 - 00200
NAIROBI

Dear *Madam,*

RE: FUEL LEVY FUND FORWARD BUDGET ESTIMATES FOR FY 2017/18 AND 2018/19

Reference is made to letter Ref. No. CRA/R&P/11/VOL. IV (43) of 22nd August 2016.

Please find attached the forward budget estimates for Road Maintenance Levy Fund for financial years 2017/18 and 2018/19, which are based on current trends.

The estimates have been prepared based on discussions with the National Treasury. These estimates may change in future, in light of emerging economic conditions.

Yours

Sincerely,

Eng. Jacob Z. Ruwa
EXECUTIVE DIRECTOR

ISO 9001:2008 Certified

| ANNEX II: FORMAT FOR PRESENTING INFORMATION FOR SAGAS | | | |
|---|---|-----------------------|-----------------------|
| VOTE TITLE: ROAD MAINTENANCE LEVY FUND | | | |
| NAME OF SAGA: KENYA ROADS BOARD | | | |
| ESTIMATES FOR FY 2016/17 TO FY 2018/19 | | | |
| | | ESTIMATES | |
| RECEIPTS | | FY 2017/18 | FY 2018/19 |
| | | Kshs | Kshs |
| 1 | Grants Received by Other General Government Units from Fund Accounts: | | |
| | (i) Fuel Levy | 63,000,000,000 | 66,150,000,000 |
| 2 | Receipts of Taxes on Goods and Services: | | |
| | (ii) Transit Tolls | 473,600,000 | 478,600,000 |
| 3 | TOTAL FUNDS AVAILABLE | 63,473,600,000 | 66,628,600,000 |
| DISBURSEMENTS | | | |
| 4 | KRB Operations | 2.0% | 1,260,000,000 |
| 5 | KRB: 2% Transit Tolls | | 9,472,000 |
| 6 | KRB OPERATIONS TOTAL | | 1,269,472,000 |
| 7 | National Roads (KeNHA) - Maintenance | 40.0% | 21,000,000,000 |
| 8 | National Roads (KeNHA) - Development | | - |
| 9 | KeNHA: Transit Tolls | | 464,128,000 |
| 10 | KeNHA TOTAL | | 21,464,128,000 |
| 11 | KRB Board/CS Allocation | 10.0% | 5,250,000,000 |
| 12 | National Park Roads (KWS) | 1.0% | 525,000,000 |
| 13 | Rural Roads (KeRRA) | 21.8% | 11,438,297,872 |
| 14 | Urban Roads (KURA) | 10.2% | 5,361,702,128 |
| 15 | SUB-TOTAL | 85.0% | 45,308,600,000 |
| 16 | CARA Act (County Governments) | 15.0% | 7,875,000,000 |
| 17 | Road Annuity Fund | | 10,290,000,000 |
| 18 | TOTAL RMLF | 100.0% | 63,473,600,000 |

Appendix II: Analysis of County Government Revenues

| County | Target OSR (Ksh. Millions) | | | OSR Actual Collection (Ksh. Millions) | | | Performance OSR (Percentage) | | |
|--------------|-------------------------------|---------|---------|--|---------|---------|---------------------------------|---------|---------|
| | 2013/14 | 2014/15 | 2015/16 | 2013/14 | 2014/15 | 2015/16 | 2013/14 | 2014/15 | 2015/16 |
| Nairobi City | 15,448 | 17,763 | 17,528 | 10,026 | 11,500 | 11,710 | 65 | 65 | 67 |
| Mombasa | 5,075 | 6,936 | 4,072 | 1,716 | 2,493 | 2,944 | 34 | 36 | 72 |
| Kiambu | 3,059 | 3,374 | 3,683 | 1,247 | 2,111 | 2,461 | 41 | 63 | 67 |
| Nakuru | 3,077 | 2,708 | 2,911 | 1,817 | 2,200 | 2,295 | 59 | 81 | 79 |
| Narok | 3,699 | 3,909 | 3,507 | 1,539 | 1,639 | 1,753 | 42 | 42 | 50 |
| Machakos | 2,542 | 2,533 | 2,372 | 1,175 | 1,357 | 1,122 | 46 | 54 | 47 |
| Kisumu | 1,740 | 2,843 | 1,864 | 622 | 971 | 979 | 36 | 34 | 53 |
| Uasin Gishu | 821 | 1,193 | 1,037 | 564 | 801 | 719 | 69 | 67 | 69 |
| Nyeri | 479 | 1,344 | 1,082 | 432 | 681 | 710 | 90 | 51 | 66 |
| Kajiado | 517 | 1,847 | 1,135 | 453 | 786 | 651 | 88 | 43 | 57 |
| Bungoma | 2,754 | 1,075 | 820 | 183 | 505 | 631 | 7 | 47 | 77 |
| Murang'a | 800 | 1,140 | 850 | 420 | 562 | 618 | 52 | 49 | 73 |
| Meru | 658 | 902 | 998 | 344 | 539 | 548 | 52 | 60 | 55 |
| Kilifi | 736 | 1,000 | 1,407 | 460 | 545 | 519 | 62 | 55 | 37 |
| Kakamega | 2,813 | 874 | 1,000 | 325 | 517 | 504 | 12 | 59 | 50 |
| Laikipia | 557 | 400 | 500 | 347 | 400 | 471 | 62 | 100 | 94 |
| Kericho | 339 | 671 | 553 | 371 | 414 | 434 | 110 | 62 | 78 |
| Kitui | 714 | 650 | 608 | 255 | 321 | 416 | 36 | 49 | 68 |
| Embu | 659 | 748 | 631 | 168 | 401 | 397 | 26 | 54 | 63 |
| Kirinyaga | 438 | 729 | 500 | 200 | 312 | 390 | 46 | 43 | 78 |
| Trans Nzoia | 502 | 670 | 389 | 202 | 301 | 365 | 40 | 45 | 94 |
| Migori | 795 | 300 | 400 | 239 | 355 | 339 | 30 | 118 | 85 |
| Busia | 366 | 766 | 543 | 329 | 315 | 334 | 90 | 41 | 62 |
| Kisii | 729 | 974 | 700 | 250 | 297 | 306 | 34 | 30 | 44 |

| County | Target OSR (Ksh. Millions) | | | OSR Actual Collection (Ksh. Millions) | | | Performance OSR (Percentage) | | |
|-----------------|-------------------------------|---------------|---------------|--|---------------|---------------|---------------------------------|-----------|-----------|
| | 2013/14 | 2014/15 | 2015/16 | 2013/14 | 2014/15 | 2015/16 | 2013/14 | 2014/15 | 2015/16 |
| Baringo | 260 | 452 | 300 | 202 | 250 | 279 | 78 | 55 | 93 |
| Nyandarua | 174 | 211 | 392 | 138 | 241 | 279 | 80 | 114 | 71 |
| Kwale | 642 | 500 | 300 | 208 | 254 | 249 | 32 | 51 | 83 |
| Nandi | 422 | 456 | 256 | 131 | 298 | 237 | 31 | 65 | 93 |
| Makueni | 350 | 501 | 400 | 189 | 215 | 213 | 54 | 43 | 53 |
| Homa Bay | 141 | 402 | 182 | 135 | 158 | 184 | 96 | 39 | 101 |
| Taita/Taveta | 244 | 522 | 310 | 127 | 217 | 173 | 52 | 42 | 56 |
| Bomet | 236 | 380 | 335 | 201 | 206 | 167 | 85 | 54 | 50 |
| Samburu | 224 | 407 | 357 | 201 | 196 | 167 | 90 | 48 | 47 |
| Tharaka -Nithi | 84 | 250 | 248 | 85 | 116 | 139 | 102 | 46 | 56 |
| Vihiga | 204 | 378 | 252 | 123 | 116 | 139 | 60 | 31 | 55 |
| Turkana | 250 | 500 | 200 | 133 | 127 | 134 | 53 | 25 | 67 |
| Elgeyo/Marakwet | 85 | 85 | 150 | 61 | 129 | 128 | 72 | 152 | 85 |
| Siaya | 153 | 302 | 343 | 100 | 143 | 128 | 65 | 48 | 37 |
| Marsabit | 44 | 48 | 130 | 46 | 99 | 112 | 105 | 205 | 86 |
| Isiolo | 360 | 361 | 360 | 125 | 134 | 110 | 35 | 37 | 31 |
| Nyamira | 100 | 219 | 241 | 94 | 104 | 107 | 94 | 48 | 44 |
| Garissa | 151 | 500 | 500 | 36 | 131 | 106 | 24 | 26 | 21 |
| West Pokot | 38 | 96 | 177 | 59 | 104 | 98 | 155 | 108 | 55 |
| Mandera | 437 | 251 | 199 | 90 | 88 | 88 | 21 | 35 | 44 |
| Wajir | 119 | 102 | 200 | 61 | 108 | 82 | 51 | 105 | 41 |
| Lamu | 86 | 65 | 107 | 36 | 62 | 57 | 41 | 94 | 54 |
| Tana River | 87 | 120 | 120 | 32 | 33 | 28 | 36 | 28 | 24 |
| Total | 54,208 | 62,460 | 55,150 | 26,296 | 33,849 | 35,022 | 49 | 54 | 64 |

Source: Budget Implementation Review Report, Various Issues

Appendix III: Analysis of Performance of County Government Revenues

| County | Population | Target OSR (Ksh. Millions) | | | OSR Actual Collection (Ksh. Millions) | | | Per Capita performance OSR (Ksh.) | | |
|---------------------|------------------|-------------------------------|--------------|--------------|--|--------------|--------------|--------------------------------------|--------------|--------------|
| | | 2013/14 | 2014/15 | 2015/16 | 2013/14 | 2014/15 | 2015/16 | 2013/14 | 2014/15 | 2015/16 |
| Nairobi City | 3,138,369 | 15,448 | 17,763 | 17,528 | 10,026 | 11,500 | 11,710 | 3,195 | 3,664 | 3,731 |
| Mombasa | 939,370 | 5,075 | 6,936 | 4,072 | 1,716 | 2,493 | 2,944 | 1,827 | 2,654 | 3,134 |
| Narok | 850,920 | 3,699 | 3,909 | 3,507 | 1,539 | 1,639 | 1,753 | 1,809 | 1,926 | 2,060 |
| Kiambu | 1,623,282 | 3,059 | 3,374 | 3,683 | 1,247 | 2,111 | 2,461 | 768 | 1,300 | 1,516 |
| Nakuru | 1,603,325 | 3,077 | 2,708 | 2,911 | 1,817 | 2,200 | 2,295 | 1,133 | 1,372 | 1,431 |
| Laikipia | 399,227 | 557 | 400 | 500 | 347 | 400 | 471 | 869 | 1,002 | 1,180 |
| Nyeri | 693,558 | 479 | 1,344 | 1,082 | 432 | 681 | 710 | 623 | 982 | 1,024 |
| Machakos | 1,098,584 | 2,542 | 2,533 | 2,372 | 1,175 | 1,357 | 1,122 | 1,070 | 1,235 | 1,021 |
| Kisumu | 968,909 | 1,740 | 2,843 | 1,864 | 622 | 971 | 979 | 642 | 1,002 | 1,010 |
| Kajiado | 687,312 | 517 | 1,847 | 1,135 | 453 | 786 | 651 | 659 | 1,144 | 947 |
| Uasin Gishu | 894,179 | 821 | 1,193 | 1,037 | 564 | 801 | 719 | 631 | 896 | 804 |
| Embu | 516,212 | 659 | 748 | 631 | 168 | 401 | 397 | 325 | 777 | 769 |
| Isiolo | 143,294 | 360 | 361 | 360 | 125 | 134 | 110 | 872 | 935 | 768 |
| Samburu | 223,947 | 224 | 407 | 357 | 201 | 196 | 167 | 898 | 875 | 746 |
| Kirinyaga | 528,054 | 438 | 729 | 500 | 200 | 312 | 390 | 379 | 591 | 739 |
| Murang'a | 942,581 | 800 | 1,140 | 850 | 420 | 562 | 618 | 446 | 596 | 656 |
| Taita/Taveta | 284,657 | 244 | 522 | 310 | 127 | 217 | 173 | 446 | 762 | 608 |
| Kericho | 752,396 | 339 | 671 | 553 | 371 | 414 | 434 | 493 | 550 | 577 |
| Lamu | 101,539 | 86 | 65 | 107 | 36 | 62 | 57 | 355 | 611 | 561 |
| Baringo | 555,561 | 260 | 452 | 300 | 202 | 250 | 279 | 364 | 450 | 502 |
| Nyandarua | 596,268 | 174 | 211 | 392 | 138 | 241 | 279 | 231 | 404 | 468 |
| Kilifi | 1,109,735 | 736 | 1,000 | 1,407 | 460 | 545 | 519 | 415 | 491 | 468 |
| Bungoma | 1,375,063 | 2,754 | 1,075 | 820 | 183 | 505 | 631 | 133 | 367 | 459 |
| Busia | 743,946 | 366 | 766 | 543 | 329 | 315 | 334 | 442 | 423 | 449 |

| County | Population | Target OSR (Ksh. Millions) | | | OSR Actual Collection (Ksh. Millions) | | | Per Capita performance OSR (Ksh.) | | |
|------------------------|-------------------|-------------------------------|---------------|---------------|--|---------------|---------------|--------------------------------------|------------|------------|
| | | 2013/14 | 2014/15 | 2015/16 | 2013/14 | 2014/15 | 2015/16 | 2013/14 | 2014/15 | 2015/16 |
| Trans Nzoia | 818,757 | 502 | 670 | 389 | 202 | 301 | 365 | 247 | 368 | 446 |
| Kitui | 1,012,709 | 714 | 650 | 608 | 255 | 321 | 416 | 252 | 317 | 411 |
| Meru | 1,356,301 | 658 | 902 | 998 | 344 | 539 | 548 | 254 | 397 | 404 |
| Marsabit | 291,166 | 44 | 48 | 130 | 46 | 99 | 112 | 158 | 340 | 385 |
| Kwale | 649,931 | 642 | 500 | 300 | 208 | 254 | 249 | 320 | 391 | 383 |
| Tharaka -Nithi | 365,330 | 84 | 250 | 248 | 85 | 116 | 139 | 233 | 318 | 380 |
| Migori | 917,170 | 795 | 300 | 400 | 239 | 355 | 339 | 261 | 387 | 370 |
| Elgeyo/Marakwet | 369,998 | 85 | 85 | 150 | 61 | 129 | 128 | 165 | 349 | 346 |
| Nandi | 752,965 | 422 | 456 | 256 | 131 | 298 | 237 | 174 | 396 | 315 |
| Kakamega | 1,660,651 | 2,813 | 874 | 1,000 | 325 | 517 | 504 | 196 | 311 | 303 |
| Kisii | 1,152,282 | 729 | 974 | 700 | 250 | 297 | 306 | 217 | 258 | 266 |
| Vihiga | 554,622 | 204 | 378 | 252 | 123 | 116 | 139 | 222 | 209 | 251 |
| Makueni | 884,527 | 350 | 501 | 400 | 189 | 215 | 213 | 214 | 243 | 241 |
| Bomet | 730,129 | 236 | 380 | 335 | 201 | 206 | 167 | 275 | 282 | 229 |
| West Pokot | 512,690 | 38 | 96 | 177 | 59 | 104 | 98 | 115 | 203 | 191 |
| Homa Bay | 963,794 | 141 | 402 | 182 | 135 | 158 | 184 | 140 | 164 | 191 |
| Nyamira | 598,252 | 100 | 219 | 241 | 94 | 104 | 107 | 157 | 174 | 179 |
| Garissa | 623,060 | 151 | 500 | 500 | 36 | 131 | 106 | 58 | 210 | 170 |
| Turkana | 855,399 | 250 | 500 | 200 | 133 | 127 | 134 | 155 | 148 | 157 |
| Siaya | 842,304 | 153 | 302 | 343 | 100 | 143 | 128 | 119 | 170 | 152 |
| Wajir | 661,941 | 119 | 102 | 200 | 61 | 108 | 82 | 92 | 163 | 124 |
| Tana River | 240,075 | 87 | 120 | 120 | 32 | 33 | 28 | 133 | 137 | 117 |
| Mandera | 1,025,756 | 437 | 251 | 199 | 90 | 88 | 88 | 88 | 86 | 86 |
| Total | 38,610,097 | 54,208 | 62,460 | 55,150 | 26,296 | 33,849 | 35,022 | 681 | 877 | 907 |

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| | | | | |
|--|---|---|---|--|
|  Kitui |  Kwale |  Laikipia |  Lamu |  Machakos |
|  Makueni |  Mandera |  Marsabit |  Meru |  Migori |
|  Mombasa |  Murang'a |  Nairobi |  Nakuru |  Nandi |
|  Narok |  Nyamira |  Nyandarua |  Nyeri |  Samburu |
|  Siaya |  Taita Taveta |  Tana River |  Tharaka Nithi |  Trans Nzoia |
|  Turkana |  Uasin Gishu |  Vihiga |  Wajir |  West Pokot |

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