COAST REGIONAL BUDGET HUB

COAST REGIONAL BUDGET HUB & STAKEHOLDERS SUBMISSION TO COMMISSION ON REVENUE ALLOCATION ON REVIEW OF 3RD BASIS OF REVENUE SHARING, SUBMITTED ON 30TH JULY 2023.

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Introduction

The Coast Regional Budget Hub is a civic engagement space, convened at the Local Empowerment for Good Governance (LEGGO) and supported by the International Budget Partnership Kenya. The Coast Regional Budget Hub, composed of budget coordinators, facilitators, and community budget champions, is undertaking advocacy, capacity building, and training in Coastal counties and national budgets. The Coast Regional Budget Hub operates in Mombasa, Kwale, Kilifi, Lamu, Taita-Taveta, and Tana River Counties.

One of the key objectives of devolution was to share resources equitably and address the glaring historical inequalities, across Kenya. According to Article 216 (1)(a) of the Constitution of Kenya, the Commission on Revenue Allocation (CRA), principal mandate is to make recommendations concerning the basis for equitable sharing of revenue raised by the national government, between the national and county governments and among the county governments.

Since devolution, the CRA has provided recommendations for three bases, 1st, 2nd, and 3rd, and is currently working to formulate the 4th basis of revenue. The first basis, approved in November 2012 and used to share revenue from 2013/2014 to 2016/17, the second basis, approved in June 2016, has been used to share revenue between 2017/18- 2019/20 and the 3rd basis has been used to share revenue between 2020/21 to 2024/2025.

Through this submission, we are pleased to share our thoughts on the third basis and proposals thereof, that might be helpful in the determination of the 4th Formula, by CRA. The submission is a product of a consultative process between Coast Regional Budget Hub and Stakeholders, drawn from county officials, Civil Society Organisations, and media practitioners. This submission reviews the various parameters in the 3rd formula, the advantages and disadvantages, and the proposals to be considered.

1. ***The Evolution of the revenue sharing mechanisms and how it has changed the allocation among the counties.***
2. ***The review of the third formula basis parameters, weighing against the updated data***
3. ***The proposals and justifications to inform the 4th Formula.***

Detailed submission

1. The Evolution of the revenue sharing mechanisms and how it has changed the allocation among the counties.

Table 1 below shows the changes in parameters and weight between the first and second formulas. Whereas there can never be a fair or best formula, the first and the second formula had their own shortcomings, particularly, using proxy measures in some parameters to share revenue.

Table 1: 1st and 2nd CRA formula and parameters

Parameters	Weight in 1st Formula	Weight in the 2nd Formula	How each parameter was measured to show the transfer to each county in first and second formulas.
Population	45%	45%	This parameter measures the county's share of the national population. The parameter ensures equal per capita allocation to all counties.
Basic equal share	25%	26%	This parameter assumes that the administrative cost of running county governments is similar for all counties and therefore ensures an equal share to counties to run their governments. The amount to be distributed equally is divided into 47 equal parts. The weight increased by 1% from 25% in the first formula to 26% in the second formula.
Poverty	20%	18%	The poverty gap measures the extent to which individuals or households fall below the (rural/urban) poverty line. This was calculated using the Kenya Integrated Household Budget Survey 2005/06 and the 2009 Kenya Population and Housing Census. The

			weight reduced from 20% in the first formula to 18% in the second formula.
Land area	8%	8%	This parameter measures the land area of a county as a percentage of the total land area in Kenya.
Fiscal Responsibility	2%	2%	Calculated from each county's annual revenue increase per capita, the fiscal responsibility parameter sought to incentive counties to maximize revenue collection and encourage fiscal prudence.
Development	-	1%	This parameter considered water, electricity, and roads to capture economic disparities and developmental needs of a county. It was introduced during the second formula in 2016.

The following are some of the notable shortcomings of the first and second formulas:

1. **The disconnect between the vertical and horizontal, revenue sharing frameworks.** The question of whether the resources allocated to counties to carry out their functions outlined in Schedule 4 of the constitution of Kenya, compared to the resources retained by the national government, are enough, is yet to be addressed. The first and second formulas did not satisfactorily consider the principle of funds following the functions, hence a gap.
2. **Utilizing a single transfer in addressing multiple objectives**. The transfers in the second formula were expected to address the three clear objectives in the second formula, that is the provision of adequate funding, addressing economic disparities, and spurring economic growth and incentivizing counties to raise more revenues. The formula did not provide an opportunity to assess the effectiveness of the formula in achieving the objectives through the second formula.
3. **High weight for population parameter-** This parameter measures the county's share of the national population. The parameter ensures equal per capita allocation to all counties. The assumption that a higher population leads to a higher expenditure need for a County does not always hold true. For instance, two Counties may have the same population size and density but the County with an ill population may spend more to provide healthcare to the citizens.

2. The review of the third formula basis parameters, weighing against the updated data

The 3rd basis formula approved by the Senate in November 2020, has been used to share revenue from 2020/21 to 2024/25. The Senate omitted the last two parameters on fiscal effort and prudence, and added more weight to the roads, from 4% to 8%. The implementation of the Third Basis provides that Ksh.158.25 billion of the equitable share allocation to county governments be shared among the counties based on the aggregate allocation ratio of the Second Basis. The balance of the equitable share allocation to county governments is shared based on the allocation ratio of the Third Basis.

Table 2: The 3rd CRA formula proposals vis-a-vis the formula approved by the Senate in November 2020

Objective	Parameter	Indicators of expenditure need	Proposed weight by CRA	Approved weight by Senate
To Enhance service Delivery				
	Health Services	Health Index	17%	17%
	Agriculture services	Agriculture Index	10%	10%
	Population	Population index	18%	18%
	Urban Service	Urban Service Index	5%	5%
	Basic Share	Basic Share Index	20%	20%
To promote balanced development				
	Land	Land Index	8%	8%
	Roads	Rural access Index	4%	8%

	Poverty levels	Poverty headcount Index	14%	14%
Incentivize revenue collection	Fiscal Effort	Fiscal effort index	2%	0%
Incentivize fiscal prudence	Fiscal prudence	Fiscal prudence index	2%	0%

Source: CRA and Senate Report, 2020

3. A review of the third formula parameters, concerns, and proposals.

a. Health Services

Three variables are used; facility gap, number of primary health care visits to Level 2 & 3 health facilities, and average in-patient days in Level 4 & 5 hospitals

weighed at 20 percent, 60 percent, and 20 percent, respectively. The overall health index is weighted at 17 percent (%).

Issues of concerns

i) Workload measure

The workload measure has two components namely outpatient and inpatient visits. The outpatient visits component considers the three-year average number of primary health care visits to levels 2 and 3 health facilities, while the inpatient visits component considers the three-year average in-patient days in levels 4 and 5 hospitals.

Proposal: ***Counties have increased their number of facilities but still have sub-optimal human resources for health which makes access to health inequitable. The commission should consider conducting a review of the current number of facilities when considering the health parameter for resource allocation. Further, CRA should support counties in the cost of health services as the previous costing of 2015 focused on the transition from local authorities but has not been updated to focus on the present situation.***

ii) Health Facility Gaps

Observation

The health infrastructure norms require that for every 5,000 people, a community health facility needs to be established. A dispensary (level 2) should exist for every 10,000 persons while a health center (level 3), should be established to serve a population of 30,000. Primary referral facilities (level 4), serve a population of 100,000. The Secondary referral facilities (level 5) are required to serve a population of approximately one million persons while the tertiary referral facilities (level 6) which focus on highly specialized services serve a population of approximately five million persons.

Proposals

- ***While the justification given by the third proposal focused on the counties with suboptimal health facilities. The commission should consider reviewing the parameter based on the current data on facilities with some counties having upgraded their facilities to various levels based on workload and provision of services but have not managed to gazette the changes.***
- ***For counties with facilities that serve a regional population e.g., Coast General Teaching and Referral Hospital in Mombasa County and Jaramogi Oginga Odinga Teaching and Referral Hospital in Kisumu County. They are unable to provide the services to fit their level and standards this is because they are stretched beyond their limits in managing health care services but if well-financed, they are strategically placed to enhance equity in the provision of specialized care at the regional level. Further, these facilities have a huge workload with human resources who take up over 70% of the budget allocated to health hence limiting the allocation for renovation, equipping, and provision of medical supplies for facilities.***

b. Agriculture services

The proposed formula assigns agricultural services 10% based on the rural household as a measure of sharing revenue. Like the health index parameter, the agriculture parameter considers only rural populations as a key indicator. Agriculture services provided by county governments include crop and animal husbandry; livestock sale yards; county abattoirs; plant and animal disease control; and fisheries. County governments provide agriculture extension services to farmers in each sub-sector of agriculture. The agriculture services measure is based on a county's proportion of rural households as provided in the Kenya Population and Housing Census (KPHC) of 2009.

Issues

consideration of other sub-sectors for agriculture, including livestock and fisheries. As of such, the parameter disadvantages counties practicing fisheries and blue economy, especially in the Coast and the lake region.

Proposals

- ***Consider blue economy and livestock as a variable while computing the agricultural index***
- ***Importantly, the formula is skewed to rural households- while not all households in the rural areas practice agriculture, particularly in the Coastal region, Agriculture is practiced in ranches, hence, the Commission might want to look to more measurable variables and reduce the weight given to the agricultural index.***

c. Population

The population parameter is weighted at 18 percent. Allocation to Counties is based on a county's proportion of population based on the Kenya Population and Housing Census (KPHC), of 2019. The measure for other county services is therefore a county's proportion of population based on the KPHC 2009. The population parameter is weighted at 18 percent. These other services include pre-primary education; village polytechnics; home craft centers and childcare facilities; cultural activities, public entertainment, and public amenities; animal control and welfare; fire-fighting services and disaster management; control of drugs and pornography and implementation of specific national government policies on natural resources and environmental conservation. Given that these services are population-based, the total county population is considered an appropriate measure of expenditure needs.

Proposal: ***There is a need to consider the floating population, especially in counties that have shared infrastructures, such as Referral health facilities.***

d. Urban service

The urban services index is defined by a county's proportion of urban households. Counties are responsible for the provision of urban-based services including solid waste management; control of air pollution, noise pollution, other public nuisances, and outdoor advertising. County governments are also responsible for county public works and services such as stormwater management.

Proposal: ***Given that these services are largely population-based, the total county population is considered an appropriate measure of expenditure needs. Proposal: Consider including the floating population when computing resource allocation using this parameter.***

e. Basic Share

This is a minimum share index at 20% that has been reduced from the second-generation formula and 1% is based on the County's inverse population. The basic share allocation guarantees all counties a minimum allocation to establish administrative structures and coordinate the participation of communities in county planning and governance at the local level. The measure is assigned a total weight of 20 percent in the sharing framework, of which, 19 percent is shared equally among all counties and one percent is based on the inverse of a county's population.

Proposal: ***CRA has existing data on counties' Gross County Product (GCP) and their contribution to the national GDP. The commission might want to consider this as a variable while computing the Basic share index.***

f. Land

Allocation to counties is based on the proportion of county land area, capped at a maximum of 7 percent. The parameter is assigned a weight of 8 percent. The measure used for this parameter is the county's proportion of the land area. The allocation of revenues based on land parameters is meant to provide counties with adequate resources to cater to costs related to service delivery. This is informed by the fact that a county with a larger area incurs additional administrative costs to deliver comparable standards of service to citizens.

Issues: This index has been static and impacts negatively on the Counties with small land areas and high population density. Counties with larger land areas are advantaged regardless of whether the area is productive or not. This means that the formula uses revenue generated from all counties and allocates it in favor of the less productive counties. Further, the parameter only includes the Land area but there are Coastal Counties whose Land area is covered by the ocean and that is usually excluded when measuring the Land Area.

Proposals- ***Consider the facilities existing in the County apart from pegging the parameter only on the surface land area and also include the water mass in nautical miles that the county borders the high seas.***

g. Roads

Allocation to counties is based on the share of a population who cannot access all-weather roads within 2 kilometers as of the 2017 survey. The parameter is assigned a weight of 8 percent as per the approved formula by the Senate.

Issue: The index is inclined toward the rural access index and disadvantages urban counties like Mombasa and Nairobi counties are classified as purely urban, with most of the population living informal settlements, with no classified roads in the urban setup, and entirely inaccessible in the rural areas.

Proposal: ***The index to take into account the unclassified roads in the informal settlements.***

h. Poverty levels

Allocation to counties is based on the proportion of poor people in a county as of 2015/16 KIHBS. The parameter is assigned a weight of 14 percent.

Issues: Poverty still remains an unstable parameter, as it remains unchanged when a poor household becomes poorer and it does not consider how far below the poverty line the poor are. Importantly, there is no correlation that a higher allocation would improve the livelihoods of poor households. According to the KNBS poverty report 2021, some of the poor counties that were considered poorest years ago are still appearing in all the categories of poverty, including food, overall, and hardcore poverty. Overall poverty incidence is highest in the following eight counties: Turkana (77.7%), Mandera (71.9%), Garissa (68.3%), Tana River (67.8%), Wajir (66.3%), Samburu (66.2%), Marsabit (65.9%), and West Pokot (61.4%). Further, those living below a dollar a day are considered to be poor despite the fact that those earning more than a dollar a day may be living in uninhabitable conditions with no access to social amenities.

Proposal: ***The weight of this parameter should be greatly reduced to 10 percent and ensure the parameter incorporates poverty dynamics (both the poverty gap and the severity index) to enable access to basic services for all.***

Table 3: Counties with the highest poverty incidence as per the poverty report 2021 & their allocation.

county	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Cumulative Payments (2013/14 - 2019/20)	Payments Per Person (Annual Average)
	A	B	C	D	E		G	H = A+B+C+D+E+F+G	I
Wajir	5,311,159,775	6,355,760,549	7,470,850,704	8,159,999,887	8,716,567,070	9,418,866,978	8,474,445,051	53,907,650,013	9,857
Garissa	4,431,683,790	5,190,150,287	6,351,245,243	6,911,228,790	7,518,607,376	8,107,741,132	7,756,509,712	46,267,166,330	7,856
Samburu	2,604,240,722	3,118,803,006	3,700,905,733	4,080,440,211	4,206,339,743	5,009,568,253	4,847,706,557	27,568,004,226	12,691
Mandera	6,569,847,929	7,851,533,937	9,224,728,949	10,084,615,714	10,354,026,318	11,281,577,308	10,376,501,495	65,742,831,650	10,827
Marsabit	3,805,077,542	4,554,700,287	5,363,688,014	5,861,348,668	7,021,526,717	7,823,178,728	6,896,898,151	41,326,418,107	12,840
Turkana	7,674,315,857	9,178,804,658	10,748,014,432	11,709,814,817	10,804,298,494	11,535,858,600	10,482,638,028	72,133,744,885	11,117

West Pokot	3,177,935,726	3,795,568,370	4,511,622,736	4,942,855,225	5,171,692,585	5,592,259,659	5,252,167,523	32,444,101,825	7,461
Tana River	2,921,556,211	3,495,601,069	4,137,496,801	4,627,810,651	5,713,763,880	6,022,998,660	6,006,330,570	32,925,557,841	14,888

Cumulative payments to county Governments from 2013/14 – 2019/20

i. Fiscal prudence parameter

The parameter has been introduced by CRA over the years, but shelved by the Senate, however for purposes of transparency & accountability, the commission needs to reintroduce the same but change the variables as indicated below.

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Table 4: Fiscal prudence parameter

PARAMETER	VARIABLE	WEIGHT	RECOMMENDATIONS
Fiscal prudence	✓ Civic education unit formed & operationalized ✓ Annual transparency survey rankings on budget transparency by IBP Kenya ✓ CBEF constituted & operationalized ✓ Auditor general's opinion	2%	Fiscal prudence enhances transparency and accountability in all aspects and should be part of every formula. Prudent use of public resources is a matter of utmost importance and though CRA proposed and the senate shelved the same in the third formula, counties have deliberately chosen not to form and operationalized key structures that would enhance public participation in county planning & budgeting processes and the proposed variables are in line with the public discourse.

Annexes- List of Participants Contributed to the development of this submission.

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