



**Promoting an
Equitable Society**

**BRIEF ON THE THIRD BASIS FOR
EQUITABLE SHARING OF REVENUE AMONG
THE COUNTY GOVERNMENTS**

1. CRA mandate

The Commission on Revenue Allocation is mandated to make recommendations on the basis for equitable sharing of revenue among the county governments. This is the third such basis (popularly known as the formula). This recommendation was submitted to Senate in April 2019 for consideration for approval. It is the mandate of the Senate to determine the Basis for sharing revenue among county governments.

2. The Objectives of the Third Basis

The objectives of revenues are drawn from Article 203 of the Constitution and as shown in Table 1, they are linked to functions of county governments and appropriate measures of expenditure identified to ensure county governments are equitably financed.

Table 1: Revenue Sharing Framework for Third Basis

Public Sector Function	Constitutional Functions & Powers	Indicator of Expenditure	Weight
Objective 1. Enhance services delivery			
1.1 Health	<ul style="list-style-type: none"> County health services 	Health index	17%
1.2 Agriculture	<ul style="list-style-type: none"> Agriculture Animal control and welfare 	Agricultural index	10 %
1.3 Other county services	<ul style="list-style-type: none"> Pre-primary education, village polytechnics, homecraft centres and childcare facilities. Cultural activities, public entertainment and public amenities 	County population	18 %
1.4 Urban Services	<ul style="list-style-type: none"> Urban services and environment ✓ Control of air pollution, noise pollution, other public nuisances and outdoor advertising. ✓ Fire-fighting services and disaster management. ✓ Control of drugs and pornography. 	Urban households	5 %

Public Sector Function	Constitutional Functions & Powers	Indicator of Expenditure	Weight
	✓ County public works and services for storm water management, water and sanitation services		
1.5 Public Administration	<ul style="list-style-type: none"> • County planning and development • Implementation of specific national government policies on natural resources and environmental conservation • Ensuring and coordinating the participation of communities in governance at the local level 	Basic share index	20%
Objective 2. Promote balanced development			
2.1 Infrastructure	<ul style="list-style-type: none"> • County transport • Trade development and regulation 	Land area Rural access index Poverty	8 % 4 % 14%
Objective 3. Incentivize capacity to raise revenue			
3.1 Revenue collection	<ul style="list-style-type: none"> • County revenue collection 	Fiscal effort index	2 %
Objective 4. Incentivize prudent use of public resources			
4.1 Prudent use of public resources	<ul style="list-style-type: none"> • Establishment of Internal audit committee • Establishment of the County Budget and Economic Forum • Expenditure on development • Opinion of the External Auditor 	Prudence index	2 %

Source CRA 2019

3. Revenue Sharing Outcomes

a) Service Delivery

The service delivery component of the third basis considers county health services, agriculture services, urban services and a basic minimum allocation to each county. In addition, it provides for other devolved functions such as pre-primary education, village polytechnics, homecraft centres and childcare facilities, cultural activities, public entertainment and public amenities, and implementation of specific national government policies on natural resources and environmental conservation. The allocations to each county are shown in Table 2

Table 2: Allocations to Enhance Service Delivery

No	County	Population 2019	Health (17%)	Agriculture (10%)	Other Services (18%)	Urban services (5%)	Basic Share (20%)	Total (70%)
1	Nairobi City	4,397,073	3,168	34	5,267	5,061	1,290	14,820
2	Kiambu	2,417,735	1,996	874	2,896	1,973	1,299	9,038
3	Nakuru	2,162,202	2,164	1,151	2,590	1,141	1,301	8,347
4	Kakamega	1,867,579	2,821	1,564	2,237	184	1,304	8,110
5	Bungoma	1,670,570	2,300	1,280	2,001	171	1,307	7,059
6	Machakos	1,421,932	2,029	1,083	1,703	480	1,312	6,607
7	Meru	1,545,714	1,645	1,553	1,851	171	1,310	6,530
8	Kilifi	1,453,787	1,572	785	1,741	379	1,312	5,789
9	Kisii	1,266,860	1,688	1,093	1,517	155	1,316	5,769
10	Kisumu	1,155,574	1,720	717	1,384	442	1,320	5,583
11	Uasin-Gishu	1,163,186	1,353	614	1,393	542	1,320	5,222
12	Migori	1,116,436	1,543	832	1,337	144	1,321	5,177
13	Mombasa	1,208,333	1,078	34	1,447	1,271	1,318	5,148
14	Murang'a	1,056,640	1,215	1,152	1,266	140	1,324	5,097
15	Kitui	1,136,187	1,295	1,020	1,361	65	1,321	5,062
16	Homa-Bay	1,131,950	1,064	964	1,356	108	1,321	4,813
17	Makueni	987,653	1,288	914	1,183	91	1,327	4,803
18	Trans-Nzoia	990,341	1,262	739	1,186	166	1,327	4,680
19	Siaya	993,183	1,045	944	1,190	86	1,326	4,591
20	Nyeri	759,164	1,339	804	909	194	1,341	4,587
21	Turkana	926,976	1,467	575	1,110	103	1,330	4,585
22	Kwale	866,820	1,475	585	1,038	124	1,333	4,555
23	Kericho	901,777	1,251	742	1,080	104	1,331	4,508
24	Nandi	885,711	1,273	765	1,061	62	1,332	4,493
25	Bomet	875,689	1,240	754	1,049	32	1,333	4,408
26	Kajiado	1,117,840	566	473	1,339	697	1,321	4,396
27	Busia	893,681	1,146	711	1,070	103	1,332	4,362
28	Narok	1,157,873	541	880	1,387	107	1,320	4,235
29	Kirinyaga	610,411	1,252	659	731	166	1,356	4,164
30	Mandera	867,457	983	379	1,039	135	1,333	3,869
31	Nyandarua	638,289	962	667	765	78	1,353	3,825
32	Embu	608,599	867	659	729	95	1,356	3,706
33	Baringo	666,763	908	519	799	76	1,349	3,651
34	West Pokot	621,241	810	469	744	29	1,355	3,407
35	Garissa	841,353	448	453	1,008	127	1,335	3,371
36	Nyamira	605,576	642	590	725	44	1,357	3,358
37	Vihiga	590,013	654	549	707	53	1,359	3,322
38	Wajir	781,263	412	427	936	103	1,339	3,217
39	Laikipia	518,560	588	456	621	150	1,369	3,184
40	Elgeyo-Marakwet	454,480	616	413	544	21	1,382	2,976
41	Tharaka-Nithi	393,177	427	430	471	40	1,398	2,766
42	Taita-Taveta	340,671	406	304	408	99	1,416	2,633
43	Marsabit	459,785	310	264	551	69	1,381	2,575
44	Tana-River	315,943	362	229	378	67	1,427	2,463
45	Samburu	310,327	295	249	372	43	1,430	2,389
46	Isiolo	268,002	175	150	321	98	1,454	2,198
47	Lamu	143,920	147	146	172	34	1,604	2,103
	Total	47,564,296	53,808	31,648	56,970	15,825	63,302	221,553

Source CRA 2020

b) Development Component

The Constitution in Article 203(f),(g),(h) provides for the need to address developmental needs and economic disparities. In promoting balanced development, the third basis takes into account the need for county governments to address poverty and provide infrastructure, especially county roads. To achieve this, the framework uses land area, proportion of poor people in a county and access to roads, as measures. The allocations to each county are shown in Table 3.

Table 3: Allocations to Promote Balance Development

No	County	Land Area (8%)	Poverty (14%)	Roads (4%)	Total (26)
1	Turkana	2,046	2,324	1,008	5,378
2	Mandera	1,307	1,491	1,209	4,007
3	Wajir	2,046	777	868	3,691
4	Kitui	1,533	1,409	466	3,408
5	Kilifi	634	1,756	708	3,098
6	Garissa	2,046	764	209	3,019
7	Marsabit	2,046	544	325	2,915
8	Tana-River	1,933	510	238	2,681
9	Nakuru	377	1,598	659	2,634
10	Kajiado	1,101	958	316	2,375
11	Kakamega	152	1,817	328	2,297
12	Narok	902	657	709	2,268
13	Nairobi City	35	2,013	4	2,052
14	Bungoma	152	1,498	289	1,939
15	Samburu	1,057	582	274	1,913
16	West Pokot	461	1,006	401	1,868
17	Uasin-Gishu	168	1,256	342	1,766
18	Busia	85	1,573	103	1,761
19	Kwale	416	1,050	257	1,723
20	Baringo	554	753	378	1,685
21	Kisii	66	1,518	61	1,645
22	Isiolo	1,274	219	90	1,583
23	Makueni	403	902	257	1,562
24	Migori	131	1,254	171	1,556
25	Nandi	145	927	443	1,515
26	Homa-Bay	160	972	342	1,474
27	Trans-Nzoia	126	953	339	1,418
28	Bomet	140	1,208	65	1,413
29	Meru	349	770	267	1,386
30	Kiambu	128	1,176	62	1,366
31	Taita-Taveta	859	312	131	1,302
32	Siaya	127	900	233	1,260
33	Laikipia	476	629	132	1,237
34	Kisumu	105	1,037	81	1,223
35	Machakos	312	750	115	1,177
36	Kericho	109	773	100	982
37	Nyandarua	163	645	101	909
38	Murang'a	129	740	30	899
39	Mombasa	11	867	5	883
40	Elgeyo-Marakwet	152	550	161	863
41	Vihiga	28	732	7	767
42	Nyamira	45	618	30	693
43	Embu	142	426	85	653
44	Nyeri	168	415	48	631
45	Lamu	315	98	93	506
46	Tharaka-Nithi	133	253	107	493
47	Kirinyaga	74	329	15	418
	Total	25,321	44,309	12,662	82,292

Source CRA 2020

c) Revenue Collection and Prudence Components

This component has two measures; revenue and fiscal prudence.

i. Revenue Measure

County governments have been empowered in Article 209(3) to raise revenues by imposing taxes, charges and fees for services rendered. Article 203(i) requires counties to optimize their capacity to raise revenues. The basis has considered the capacity of county governments in raising revenue relative to the county's gross domestic product.

ii. Prudence Measure

The Constitution requires governments to exercise prudence. Article 216(3)(c) requires public institutions to exercise fiscal responsibility. Article 203(e) provides that the criteria take into account the fiscal capacity and efficiency of county governments. Further, the Public Finance Management Act of 2012 requires county governments to allocate a minimum of thirty percent of their budget to development expenditure; that counties establish internal audit committees and County Budget and Economic Forum. Article 229 mandates the Auditor General to conduct an independent audit and report on the accounts of all public entities. The prudence measure therefore is a composite index of this measures. The outcome of the incentive component of the basis is shown in Table 4

Table 4: Incentive Component (Revenue Collection and Fiscal Prudence)

No	County	Effort (2%)	Prudence (2%)	Total (4%)	No	County	Effort (2%)	Prudence (2%)	Total (4%)
1	Narok	593	79	672	25	Vihiga	85	162	246
2	Makueni	144	315	460	26	Murang'a	124	117	241
3	Kilifi	179	266	445	27	Nakuru	195	40	236
4	Kajiado	247	166	412	28	Taita-Taveta	192	43	235
5	Isiolo	263	149	412	29	Nyamira	49	166	215
6	Kakamega	141	270	411	30	Kirinyaga	122	88	209
7	Laikipia	315	88	403	31	Tana-River	52	156	208
8	Kitui	127	275	401	32	Busia	116	88	204
9	Samburu	282	84	366	33	Lamu	87	117	204
10	Kiambu	183	166	348	34	Nyeri	153	49	202
11	Mombasa	270	75	344	35	Wajir	43	156	199
12	Migori	109	230	338	36	Kisumu	110	75	185
13	Machakos	174	162	336	37	Kericho	99	83	181
14	Bungoma	137	166	303	38	Tharaka-Nithi	106	75	181
15	Baringo	138	162	299	39	Meru	79	79	157
16	Embu	180	117	297	40	West Pokot	70	88	157
17	Kwale	102	192	294	41	Garissa	71	79	150
18	Marsabit	101	192	293	42	Homa-Bay	30	117	146
19	Trans-Nzoia	88	192	280	43	Kisii	66	79	145
20	Nairobi City	154	126	280	44	Siaya	63	79	142
21	Nyandarua	74	202	276	45	Nandi	53	88	140
22	Uasin-Gishu	151	119	270	46	Bomet	47	88	135
23	Mandera	68	192	260	47	Elgeyo- Marakwet	39	49	88
24	Turkana	61	192	253		Total	6,330	6,330	12,660

Source CRA 2020

4. Aggregate Framework for the Third Basis

The framework for revenue sharing is an allocation framework and not a budgeting tool. Effectively, this framework is used to make a general-purpose transfer to all county governments. The transfer framework allocates Kshs. 316,500 million to all counties based on the third revenue sharing basis. Allocations to each county based on the third basis is shown in Table 5 below.

Table 5: Total Allocations based on Kshs. 316,500 Million

No	County	Allocation Factor	Total Allocation	No	County	Allocation Factor	Total Allocation
1	Baringo	1.780	5,634	25	Marsabit	1.827	5,783
2	Bomet	1.882	5,956	26	Meru	2.551	8,073
3	Bungoma	2.938	9,300	27	Migori	2.234	7,071
4	Busia	1.999	6,327	28	Mombasa	2.014	6,376
5	Elgeyo-Marakwet	1.241	3,927	29	Murang'a	1.970	6,236
6	Embu	1.471	4,655	30	Nairobi City	5.419	17,150
7	Garissa	2.066	6,539	31	Nakuru	3.544	11,217
8	Homa-Bay	2.032	6,433	32	Nandi	1.943	6,149
9	Isiolo	1.325	4,193	33	Narok	2.267	7,174
10	Kajiado	2.270	7,184	34	Nyamira	1.348	4,266
11	Kakamega	3.418	10,819	35	Nyandarua	1.582	5,008
12	Kericho	1.792	5,672	36	Nyeri	1.712	5,419
13	Kiambu	3.397	10,752	37	Samburu	1.474	4,666
14	Kilifi	2.948	9,332	38	Siaya	1.894	5,994
15	Kirinyaga	1.514	4,792	39	Taita-Taveta	1.318	4,171
16	Kisii	2.389	7,560	40	Tana-River	1.691	5,352
17	Kisumu	2.209	6,991	41	Tharaka-Nithi	1.087	3,439
18	Kitui	2.803	8,871	42	Trans-Nzoia	2.015	6,377
19	Kwale	2.077	6,573	43	Turkana	3.228	10,215
20	Laikipia	1.525	4,825	44	Uasin-Gishu	2.293	7,258
21	Lamu	0.889	2,814	45	Vihiga	1.370	4,336
22	Machakos	2.566	8,120	46	Wajir	2.245	7,106
23	Makueni	2.156	6,824	47	West Pokot	1.716	5,432
24	Mandera	2.571	8,137		Total	100	316,500

5. Implementation of the Third Revenue Sharing Basis

The Commission being cognizant of the fact that the sharing framework should not destabilise functionality of county governments, recommended for a phased-in approach to avoid disruption in service delivery and development programs. For this reason, the Commission recommended the setting aside of 15% of the annual increment in equitable share allocation to counties for financial year 2020/21 to cushion 8 counties with a negative reduction in revenue exceeding 5 per cent. This is in line with the provisions of Article 203(d) that require the revenue allocation criteria to take into account the need to ensure that county governments are able to perform functions assigned to them. Further, the phased-in approach is also in line with 203(j) which provides that a revenue sharing basis should ensure stable and predictable allocations of revenue. The phasing in allocation factor to be used to cushion the 8 counties is provided in Table 6 below.

Table 6: Phasing in allocation factor

No	County	Allocation Factor
1	Mandera	0.190556813
2	Wajir	0.129846866
3	Kwale	0.110657402
4	Kilifi	0.100971965
5	Marsabit	0.089684482
6	Narok	0.077690619
7	Mombasa	0.062134624
8	Makueni	0.052318157
9	Nyamira	0.051040204
10	Tana-River	0.045484043
11	Tharaka-Nithi	0.045474794
12	Garissa	0.04414003
	Total	1.000000

Source: CRA 2020