

Module 3 ■ Revenue Sharing

2 HOURS 30 MINUTES

LEARNING OUTCOMES

By the end of this module, you will have:

- reviewed the Commission on Revenue Allocation (CRA) formula, which determines how the funds allocated to counties are shared among the counties;
- reviewed and discussed principles and concepts related to sharing of resources;
- debated the advantages and disadvantages of the first approved formula;
- discussed the second revenue sharing formula; as approved by the Senate;
- discussed the reasoning behind the county distribution of resources to its sub-units, wards and sub-counties; and
- discussed alternative mechanisms for distribution of resources across the county.

Module 3 Session 1: Fairness and National Division of Revenue

TASK 3.1 ■ REVIEWING REVENUE DISTRIBUTION BY THE NATIONAL GOVERNMENT

1 HOUR

TASK OBJECTIVES

- ❖ UNDERSTANDING PRINCIPLES OF FAIRNESS IN SHARING REVENUES ACROSS THE COUNTRY
- ❖ MEASURING THE CRA FORMULA(S) AGAINST THE YARDSTICK OF THESE PRINCIPLES

RESOURCES NEEDED

- ✓ Infographic on division of revenue available at <http://www.internationalbudget.org/publications/sources-of-revenue-for-kenyan-counties-infographic/>
- ✓ IBP Kenya LightBox cartoon, Mwita's Dilemma, available at <https://www.youtube.com/watch?v=AnQuLkxLUuM>

TASK EXPLANATORY NOTES

This session has two parts.

Part one: Discussing Fairness (30minutes)

1. Participate in answering the discussion question below.
2. Watch Mwita's Dilemma cartoon about revenue sharing and pick out what principles of sharing are evident.
3. Participate in the discussion on principles of sharing revenue; ensure you ask any questions or give any comments you may have on this.

Part two: Reviewing the Commission on Revenue Allocation (CRA) Formula(30Minutes)

1. Participate in the discussion on the first and second formula recommended by CRA on division of revenue.
2. Refer to the infographic on division of revenues explaining how revenues have been shared under the 2012 formula.
3. Relate the 2012 and 2016 formula to the principles learnt in part one and answer the task question.

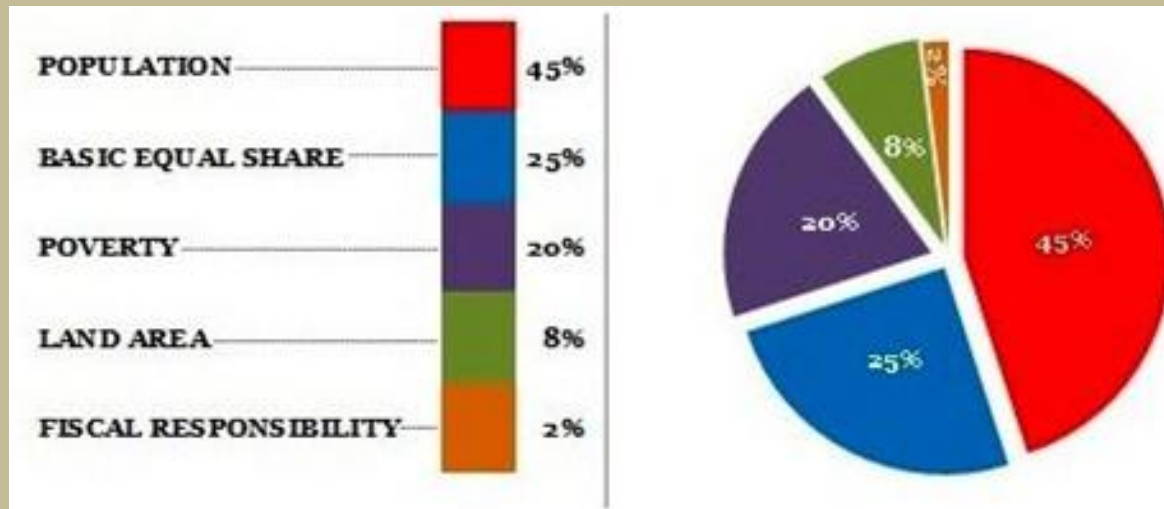
TASK 3.1

Part I: Discussing Fairness

Do you agree or disagree with the following statement: It is always fairest to give everyone an equal share. Supposing you had 100Ksh, how would you distribute it among four people? 25 Ksh each or in some other way?

Part 2:

Are the 2012 and 2016 CRA formulas consistent with these principles? Explain your answer.



DIVISION OF REVENUE AMONG COUNTY GOVERNMENTS 2013-2014
SHAREABLE REVENUE: KSHS. 190,000,000,000

NO.	COUNTY	45%	20%	8%	25%	2%	100%
		POPULATION (SHILLINGS)	POVERTY (SHILLINGS)	LAND AREA (SHILLINGS)	BASIC EQUAL SHARE (SHILLINGS)	FISCAL RESPON- SIBILITY (SHILLINGS)	TOTAL REVENUE (SHILLINGS)
1	BARINGO	1,230,260,196	666,964,954	259,138,703	1,010,638,298	80,851,064	3,247,853,215
2	BOMET	1,603,671,262	610,719,813	136,758,186	1,010,638,298	80,851,064	3,442,638,623
3	BUNGOMA	3,611,616,334	1,340,802,999	136,758,186	1,010,638,298	80,851,064	6,180,666,881
4	BUSIA	1,080,816,049	1,103,340,563	136,758,186	1,010,638,298	80,851,064	3,412,404,160
5	ELGEYO- MARAKWET	819,340,832	344,423,211	136,758,186	1,010,638,298	80,851,064	2,392,011,591
6	EMBU	1,143,123,935	435,711,208	136,758,186	1,010,638,298	80,851,064	2,807,082,691
7	GARISSA	1,379,733,130	710,950,923	1,039,260,300	1,010,638,298	80,851,064	4,221,433,715
8	HOMA-BAY	2,134,270,396	758,911,881	136,758,186	1,010,638,298	80,851,064	4,121,429,825
9	ISIOLO	317,316,918	230,722,751	596,054,306	1,010,638,298	80,851,064	2,235,583,337
10	KAJIADO	1,522,015,757	98,662,186	515,242,554	1,010,638,298	80,851,064	3,227,409,859
11	KAKAMEGA	3,677,423,046	1,609,840,164	136,758,186	1,010,638,298	80,851,064	6,515,510,758

County Allocation of Revenue 931

Table 1: Revenue Sharing Formula

No	Parameter	Current Formula	CRA Revised Recommendation
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

EXTRA READINGS

- i. Jason Lakin, "Revising the county allocation formula," Sunday, July 27 2014
<http://www.nation.co.ke/oped/Opinion/Revising-the-county-allocation-formula/-/440808/2399192/-/150f9rt/-/index.html>
- ii. Jason Lakin and John Kinuthia, "Effective, Fair, and Transparent Sharing of County Revenues," September 2014 <http://internationalbudget.org/wp-content/uploads/Kenya-County-Revenue-Sharing.pdf> (Simplified version)

- iii. Submission by IBPK: Issues And Recommendations Related to the Second Formula For Revenue Sharing Among Counties In Kenya <http://www.internationalbudget.org/wp-content/uploads/CRA-Submission.pdf>
- iv. IBPK/ LightBox movie, “A Measure of Fairness” <https://www.youtube.com/watch?v=0L-SRYKWTmA>
- v. CRA, “Brief on the CRA Recommendation on the Basis Concerning Equitable Sharing of Revenue among the County Governments: Senate Committee on Finance Commerce and Economic Affairs,” November 19th 2015
- vi. <http://www.crakenya.org/wp-content/uploads/2015/11/CRA-Second-Submission-on-Second-Formula-Senate-committee-on-Finance-Nov-19th-2015.pdf>

KEY TAKEAWAYS

- ✓ **SHARING OF REVENUE SHOULD BE BASED ON PRINCIPLES OF FAIRNESS SUCH AS NEED, EFFORT AND CAPACITY.**
- ✓ **THE COMMISSION ON REVENUE ALLOCATION (CRA) IS MANDATED TO RECOMMEND HOW NATIONAL REVENUES WILL BE SHARED AMONG THE COUNTIES.**
- ✓ **THE CRA FORMULA 2012 TOOK INTO CONSIDERATION THE NEEDS OF COUNTIES BUT DID NOT MEASURE EFFORT OR CAPACITY.**
- ✓ **THE CRA FORMULA 2016 ATTEMPTS TO LOOK AT NEED IN A NEW WAY BY INTRODUCING ONE NEW PARAMETER: THE DEVELOPMENT FACTOR.**
- ✓ **THE CRA FORMULA 2016 ATTEMPTS TO MEASURE FISCAL RESPONSIBILITY BY LOOKING AT THE ABILITY OF A COUNTY TO GENERATE ITS OWN REVENUE. THIS IS EXPLAINED AS A MEASURE OF EFFORT, BUT MAY ACTUALLY BE MORE OF A MEASURE OF CAPACITY.**