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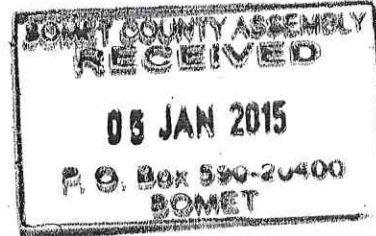
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COMMISSION ON REVENUE ALLOCATION

Mr. J. M. Nyegenye
Clerk of the Senate
Clerk's Chambers
Parliament Buildings
NAIROBI



DATE: 10th November 2014



Dear Mr. Nyegenye

RE: RECOMMENDATION ON THE BASIS OF EQUITABLE SHARING OF REVENUE AMONG COUNTY GOVERNMENTS

In accordance with to Article 216 (5) The Commission on Revenue Allocation hereby submits to the Senate the recommended basis for sharing revenue among county governments for the three financial years commencing 2015/2016.

The submission is made in accordance with the following provisions of the Constitution:-

Article 216 (1)(b), which stipulates that one of the principal mandates of the Commission on Revenue Allocation is to make recommendations concerning the basis for the equitable sharing of revenue raised by the national government among the county governments;

Article 217 (2)(b) which stipulates that in determining the basis of revenue sharing, the Senate shall request and consider recommendations from the Commission on Revenue Allocation; and

Schedule 6 (16) which stipulates that despite the provisions of Article 217(1), the first and second determinations of the basis of division of revenue among the counties shall be made at three year intervals, rather than every five years as provided in that Article.

The Commission stands ready to appear before the appropriate Senate Committee to clarify any issues on this recommendation.

Yours Faithfully

Micah Cheserem
CHAIRMAN

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EXECUTIVE SUMMARY

In accordance with the provisions of Article 216 (1)(b), read together with Article 217 (2)(b) and Schedule 6 (16), the Commission on Revenue Allocation recommends a new basis for sharing revenue among county governments for three financial years commencing 2015/2016. The recommended basis has seven parameters. A comparison of the first and second revenue sharing formulas is presented in Table 1

Table1: Summary on Parameters and Weights

No.	Parameter	Current Weights (First Revenue Sharing Formula)	Recommended Weights (Second Revenue Sharing Formula)
1	Population	45	45
2	Equal Share	25	25
3	Poverty	20	18
4	Land Area	8	8
5	Fiscal Responsibility	2	1
6	Development Factor	-	1
7	Personnel Emoluments Factor	-	2
	Total	100	100

The weights on the parameter on Population, Equal share and Land Area have been retained at 45 percent, 25 per cent and 8 per cent, respectively in second revenue sharing formula. This is because no substantial change, in terms of economic disparities among counties, has occurred in the last one and a half years to warrant a radical overhaul of the formula. However, to address the challenge of over-redistribution in the first generation revenue sharing formula and to cushion counties experiencing huge personnel emolument costs, the weight on the parameter on poverty and Fiscal responsibility have been reduced from 20 per cent and 2 per cent to 18 per cent and one per cent, respectively. Two new parameters, namely: development factor and personnel emolument factor have been introduced with weights of one per cent and two per cent, respectively. The development factor addresses economic disparities among counties. The personnel emolument parameter is introduced to cushion counties with huge personnel emoluments.

For purposes of the simulations below, the Commission has used the figures which were recommended by CRA for financial year 2013/14; and those approved by parliament for the same year.

Table 2: Indicative Allocations Based on the Second Revenue Formula

No.	County	Actual allocations 2014/2015(Kshs. 226,660 Million)	Simulation of Formula	
			Kshs. 226,660 Million	Kshs. 279,162 Million
1	Mombasa	4,535	5,402	6,653
2	Kwale	4,472	5,471	6,739
3	Kilifi	6,493	7,556	9,306
4	Tana-River	3,477	3,900	4,803
5	Lamu	1,790	1,840	2,266
6	Taita-Taveta	2,888	2,899	3,570
7	Garissa	5,036	4,956	6,104
8	Wajir	6,311	5,963	7,344
9	Mandera	7,814	7,285	8,973
10	Marsabit	4,528	4,288	5,281
11	Isiolo	2,667	2,782	3,426
12	Meru	5,666	5,878	7,240
13	Tharaka-Nithi	2,738	2,744	3,380
14	Embu	3,349	3,254	4,008
15	Kitui	6,341	6,264	7,715
16	Machakos	5,906	5,675	6,990
17	Makueni	5,209	5,161	6,356
18	Nyandarua	3,758	3,562	4,388
19	Nyeri	3,882	3,829	4,716
20	Kirinyaga	3,087	3,153	3,883
21	Murang'a	4,673	4,678	5,762
22	Kiambu	6,512	7,131	8,782
23	Turkana	9,143	7,106	8,752
24	West Pokot	3,764	3,568	4,395

No.	County	Actual allocations 2014/2015(Kshs. 226,660 Million)	Simulation of Formula	
			Kshs. 226,660 Million	Kshs. 279,162 Million
25	Samburu	3,099	2,795	3,443
26	Trans-Nzoia	4,450	4,242	5,224
27	Uasin-Gishu	4,529	4,453	5,484
28	Elgeyo- Marakwet	2,854	2,841	3,499
29	Nandi	4,149	3,964	4,882
30	Baringo	3,875	3,666	4,515
31	Laikipia	3,010	2,998	3,692
32	Nakuru	7,082	7,094	8,737
33	Narok	4,614	4,643	5,718
34	Kajiado	3,850	4,325	5,327
35	Kericho	3,931	4,063	5,004
36	Bomet	4,107	4,013	4,942
37	Kakamega	7,773	7,692	9,474
38	Vihiga	3,378	3,389	4,173
39	Bungoma	6,697	6,569	8,091
40	Busia	4,747	4,508	5,552
41	Siaya	4,359	4,287	5,280
42	Kisumu	4,957	5,158	6,353
43	Homa-Bay	4,917	4,970	6,121
44	Migori	5,093	4,975	6,127
45	Kisii	6,189	5,799	7,143
46	Nyamira	3,625	3,617	4,455
47	Nairobi City	11,340	12,254	15,093
		226,660	226,660	279,162

Source: Commission on Revenue Allocation/County Allocation of Revenue Acts, 2013 & 2014

1.0. INTRODUCTION

The Kenyan devolved system of government consists of one national government and 47 county governments. The governments at the national and county levels are distinct and inter-dependent, (Article 6). Though Article 209 empowers both county and national governments to impose taxes and charges, Article 203(2) provides for equitable sharing of revenues raised nationally to county governments. The Commission prepared the first recommendation concerning the basis for equitable sharing of revenue among county governments in 2012. The formula was approved by the National Assembly in November 2012. This formula has been used for sharing revenue among county governments for financial year 2012/2013; 2013/2014 and 2014/2015. This recommendation specifies the second basis for determining the sharing of revenues among county governments for financial years 2015/2016; 2016/2017 and 2017/2018.

The choice of specific arrangements for a transfer system is guided by the ultimate objective of the transfer program. Transfers serve various purposes: closing the vertical fiscal imbalance, equalizing fiscal conditions, or promoting a specific policy objective.

To the extent that the determination of the basis for revenue sharing aims to ensure that all county governments have the fiscal means to provide a comparable level of public services, it should include some indicators capturing the differences in the costs of county government services. The choice of and relative weight attached to each of the indicators depend on the specific range of functions assigned to county governments. However, it is yet to be determined what constitutes a comparable level of public services in the various counties based on acceptable levels of norms and standards. In the absence of this information, historical budget data on devolved services provides a good guide on how the cost of delivering services varied across county governments and in particular how these costs are responsive to variations in socio-economic characteristics of counties that need to be remedied.

Partly, county government services are funded by locally raised revenues. Locally-raised revenues provide key information on existing disparities among county government services levels. To achieve equitable levels of services, the transfer formula should therefore take into account some indicators of revenue capacity in the revenue allocation formula.

1.1 Legal Framework for Preparation of the Revenue Formula

Article 216 (1) mandates the Commission on Revenue Allocation to make recommendations concerning the basis for the equitable sharing of revenue raised by the National Government between the national and county governments; and among the county governments. Further, Article 216 (2) mandates the Commission to make recommendations on other matters relating to financing of, and financial management by county governments; and to encourage fiscal responsibility.

Article 217(1) stipulates that every five years, the Senate shall determine the basis for allocating revenues among counties. The Sixth Schedule, Section 16 further specifies that the first and second determinations of the basis of the division of revenue among the counties shall be made at three year intervals. Article 217(2) provides that the criteria in article 203(1) should be taken into account in determining the basis of revenue sharing.

Article 203 (1) (d) to (k) provides for the criteria to be taken into account in determining the equitable shares among the national and county governments and in all national legislation concerning county government. The basis for the revenue sharing formula shall take into account the following:

- d) Ability of the county governments to perform the functions allocated to them;
- e) The fiscal capacity and efficiency of county governments;
- f) The developmental and other needs of counties;
- g) The 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 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.

Article 201 provides for openness, accountability and public participation in financial matters. In accordance with this provision, the Commission issued public notices on review of the first revenue sharing formula and submission of memoranda on the second revenue sharing formula by various stakeholders. The Commission held consultations on the formula with county governments; county stakeholders; the public; the academic community; the Council of Governors; the Senate and Professional bodies.

Article 201 requires the public finance system to promote an equitable society, ensure public money is used in a prudent and responsible way; the burdens and benefits of use of the resources and public borrowing are shared equitably between present and future generations; revenue raised nationally is shared equitably among the national and county governments; and expenditures promote equitable development in the country, including by making special provision for marginalised groups and areas; and the financial management be responsible and fiscal reporting be clear.

1.2. Objectives of Transfers

International literature reveals that intergovernmental transfers are meant to achieve the following objectives, among others:

- a) Improve the fiscal balance of the system of intergovernmental relations based on assigned functions;

- b) Improve the fiscal balance of the system of intergovernmental relations;
- c) Compensate for the presence of economic disparities between jurisdictions in the provision of services;
- d) Provide for adequate funding of national priorities; and
- e) Improve tax administration efficiency at both level of government.

Often, there is an imbalance between expenditure responsibilities of county governments and their revenue raising powers. This fiscal gap (Vertical balance) needs to be filled either by giving county governments more revenue raising powers or by revenue transfers from the central government. As shown in Appendix VI, collections of own revenues by county governments in Kenya comprise a small component of county government budgets.

The Kenyan transfer system is driven by the vertical balance objective. The key challenge is how to measure the vertical fiscal balance objectively. To know how much transfer is necessary, one must estimate the difference between the revenues available to county governments as a whole, and the expenditure needs of each level of government. This is a subjective matter because expenditure needs are almost limitless. Most countries that use the vertical balance approach determine a “minimum service level”, and fill the gap with transfers. In some cases, the amount of transfers is determined by a central budget constraint rather than “minimum requirements” approach. Alternatively, historical spending levels are used to determine county government needs. The Kenyan transfer system uses the historical spending levels to determine the amount of transfers due to county governments.

1.3. Features of a Good Transfer System

Though the manner in which a transfer program is structured and the method used to divide its funds among eligible county governments is a political process, the design of the mechanism should be guided by sound principles. Transfer systems should therefore obey the following principles:

- a) Provide adequate revenues to county governments to undertake their assigned functions;
- b) Preserve budget autonomy at the county government level. While there are sound policy arguments for conditional (targeted) transfers, general purpose transfers and equalization, funding should be lump-sum in nature and unconditional. Benefits from decentralization arise due to increased flexibility and spending discretion at the county government;
- c) Support a fair allocation system. More resources should be given to counties with low tax capacity and greater fiscal needs. While fairness is a subjective social concept, a transfer system that provides disproportionately more resources to wealthier county governments are often considered unfair.

- d) Provide predictable resources and *be dynamic*. *The formula should be stable over a period of years to promote multi-year planning and overall budget certainty;*
- e) Be simple and transparent. Simple in terms of clarity of objective it is addressing and transparent in terms of the formula being understandable to all stakeholders, and not being subject to political manipulation or negotiation in any of its aspects;
- f) Avoid negative incentives for revenue mobilization by county governments, and inefficient expenditure choices. For example, negative incentive to revenue mobilization would be created if the amount of transfer is reduced every time a county government made a greater effort to increase their own revenues. Similar negative inducements to expenditure choices are present if the amount to be received from the intergovernmental transfer is increased when governments hire more employees or hoard excess physical capacity in the form of half empty hospitals or idle classrooms, or when the national government provides 'deficit grants' to cover county governments deficits at the end of the year. This gives governments an incentive to incur budget deficits.
- g) Avoid sudden large changes in funding for county governments. It takes time for government to build additional capacity to absorb an increase in funding and similarly to dispose of idle capacity in case of a funding cut. Therefore, changes in the funding formula should strive to hold county governments 'harmless; during the transition to a new allocation formula

2.0. THE FIRST REVENUE SHARING FORMULA

In accordance with the provisions of Article 216 (1)(a) (b) the Commission prepared the first revenue sharing formula which was approved by the National Assembly in November 2012. The formula is based on five parameters, namely: population, poverty, land area, basic equal share and fiscal responsibility. This is summarized in Table 3 below.

Table 3: The First Revenue Sharing Formula

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

Source: Commission on Revenue Allocation

The formula sought to achieve two objectives: service delivery and redistribution. To achieve the service delivery objective, the Commission used population, equal share, land area, and fiscal responsibility parameters. The poverty gap parameter was used to achieve the redistribution objective.

Population was used as a measure of the expenditure needs of counties. On the basis of a county's share of population, counties shared 45 per cent of revenues. To enable counties meet the fixed costs of setting up and running the government machinery, 25 per cent of the revenues were allocated equally among all the counties.

The Constitution requires county governments to exercise fiscal discipline (Article 201(d)). To incentivize counties to optimize their fiscal capacity and efficiency to raise revenues (Article 203 (1)(e) and (i)), the Commission incorporated in the formula, a fiscal responsibility parameter that allocated all counties equal amounts to enable them set up credible financial systems. The county governments were formed after the general elections of 3rd March 2013, long after the approval of the formula in November 2012.

The Commission observed in its first revenue sharing formula that counties with large land area incur additional costs to provide a comparable level of service. This is because the cost of providing services increases with the geographic size of a county but at a decreasing rate. However, beyond a certain point, incremental costs of larger distances become negligible. The formula used Land area as a proxy for costs of service delivery. The Commission also observed that some counties with small areas have to incur certain minimum costs in establishing the framework of government machinery. In specific instance, the costs of providing services in some small counties may be

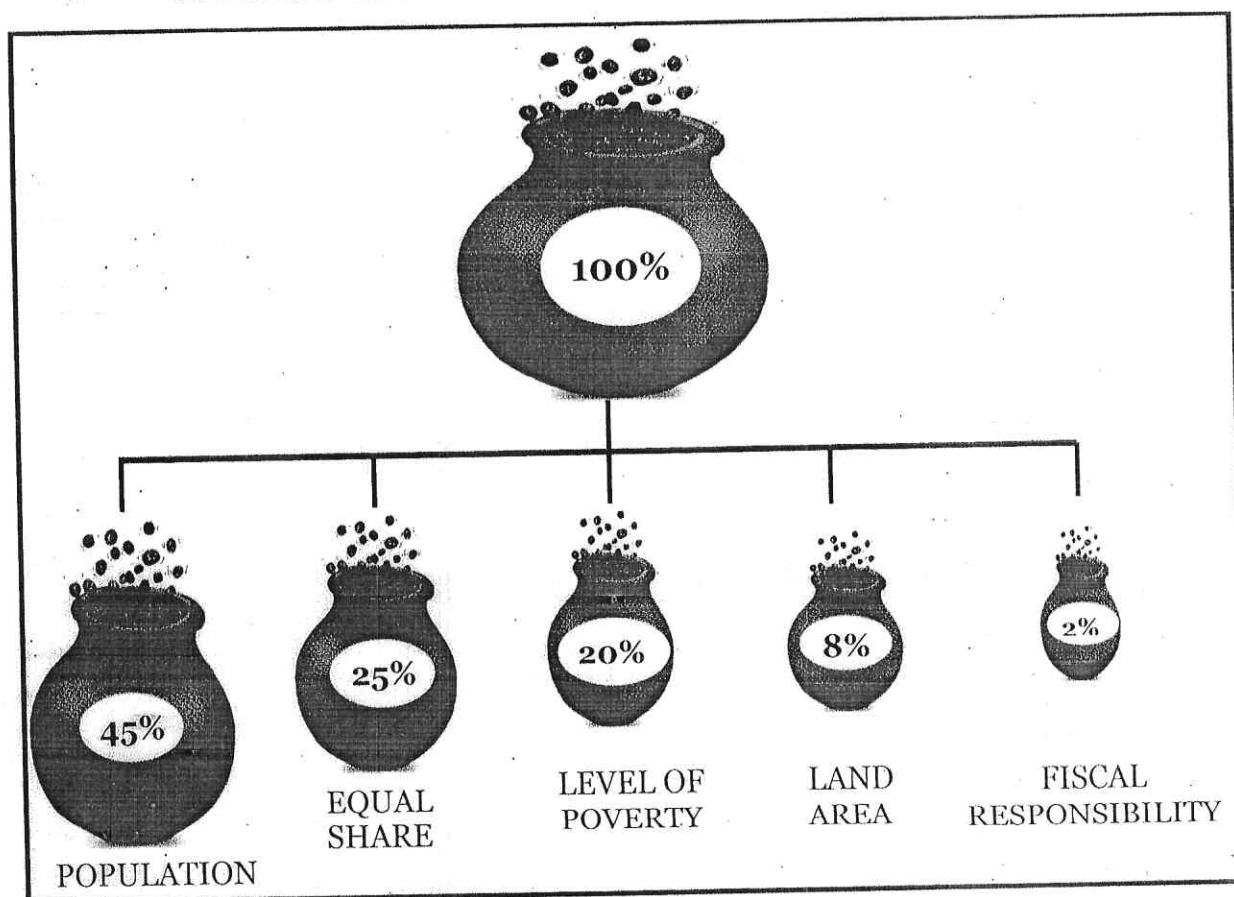
higher because of terrain. The formula shared 8 per cent of the revenues based on the size of a county as measured by the county's land area. The use of the land area parameter was capped between one percent and ten per cent of the total land areas for small and big counties respectively to ensure allocations take into account the costs associated with terrain.

To achieve the redistributive objective, the Commission used poverty gap as a measure of deprivations across counties. On the basis of a county's share of poverty gap, 20 per cent of revenues was shared among the counties.

Revenues allocated to county governments for the financial years 2012/13; 2013/14; and 2014/15 using the first revenue sharing formula is shown in Appendix I.

In accordance with the legislative provisions in Article 216 (1); Article 217 (1) and the sixth schedule section 16, the second determination of the basis of the division of revenue among counties (the second revenue sharing formula) need to be in place for the sharing of revenues among counties for financial years 2015/16; 2016/17 and 2017/18.

FIGURE 1: THE FIRST REVENUE SHARING FORMULA



3.0. THE SECOND REVENUE SHARING FORMULA

3.1. Methodology for Preparation of the Second Revenue Sharing Formula

In exercising the principle of openness and public participation in financial matters (Article 201(a)), the Commission has used a participatory approach in the preparation of the second revenue sharing formula. This involves triangulation of information collected from review of the first revenue sharing formula; review of international literature on intergovernmental transfers; submissions of memoranda by various independent institutions and county governments; focus group discussions with county governments and experts, and analysis of information collected from online questionnaires and questionnaires administered at county level.

3.2. Consultations with County Stakeholders

The Commission held discussions with the county executive, County Assembly Budget and Appropriations Committee members and other county stakeholders composed of the public, religious organization, civil society organization, youth organization, academia, professional bodies, and trade unions, among others, in 45 counties. A total of 2,880 participants attended the various forums. A total of 1,993 questionnaires were administered and analysed. The analysed data revealed that 25 percent of the respondents recommended that the first revenue sharing formula be used as is for the next three financial years. A total of 66 per cent recommended review of the formula. The aggregate responses on individual parameter weights are summarized in Table 4.

Table 4: Summary of Aggregate Responses from Counties

County Recommendation	Population		Poverty		Land Area		Fiscal Responsibility		Basic Equal Share	
	No.	%	No.	%	No.	%	No.	%	No.	%
Increase	8	18	41	91	27	60	35	78	22	49
Retain	1	2	2	5	7	16	10	22	6	3
Decrease	36	80	2	4	11	24	0	0	17	38
Total Counties	45	100	45	100	45	100	45	100	45	100

Source: Commission on Revenue Allocation Survey Data, 2014

The county governments and stakeholders recommended retention of the five parameters used in the first revenue sharing formula. They nonetheless, recommended for review of the weights assigned to all the five parameters. In addition, they recommended that additional parameters be considered for inclusion into the second revenue sharing formula. The proposed parameters include: infrastructure; terrain; population density; urbanisation; absorption capacity of counties; dependency ratio; county contribution to gross domestic product; land productivity, fiscal gap, level of

marginalisation, and aridity, among others. Given that it is not possible to consider inclusion of all these parameters in one formula, a rationale for the choice of the parameters in the second revenue sharing formula is provided in section 3.6 below.

3.3. Literature review on Intergovernmental Transfers

The approach used for intergovernmental transfers is largely guided by the general purpose of the transfer. Generally, most transfers are aimed at achieving two objectives, the service delivery and redistribution objectives. The devolved system of governance in Kenya is at the nascent stages and therefore the need to learn from the experiences of both the developed and developing countries which have implemented intergovernmental transfers over a period of time. Experiences of four different countries are summarized below.

3.3.1. South Africa

South Africa has three levels of government; national, provincial and local authorities. The three levels of government have different tax assignment responsibilities. The revenue sharing has been reviewed three times, with each review having different objectives. Overall the revenue sharing formula in South Africa uses a sector wide approach in determining the revenue allocated to the three levels of government.

The provinces in South Africa depend on the equitable revenue transfers from national revenue as their own revenue is not sufficient. The formula used is based on a sectoral model and the weights assigned to each parameter depend on the level of needs. The needs for each province is calculated and summed to arrive at the share of the transfer.

The Country's model has three components: (i) Basic grant to enable sub national governments to establish and maintain the institutions necessary for the fulfillment of their constitutional obligations according to their own priorities; (ii) The national standards grant to enable the sub national government specifically to provide primary and secondary education and primary health-care to their residents; and (iii) tax capacity equalization grant to encourage provinces to take responsibility for raising their own revenue. This component of the formula is an essential element in developing provincial accountability for expenditures. In addition, the training hospitals get separate conditional grants to supplement the funds they receive from the equitable share.

Education is fully devolved in South Africa and assigned the highest weight in all the reviews of the formula. Over time the weight on the parameter has increased from 38% in financial year 1997/98 to 41% in 1999/2000 to 48% in 2011/12. The health parameter has also been used in all the reviews. A weight of 18% was assigned to the health parameter in 1997/98, 19% in 1999/2000 and 27% in 2011/12. The social development parameter was assigned a weight of 18% in 1999/2000 and the basic services parameter

was used in 2011/12 formula. The social development parameter, which gives an allocation for every poor household, was assigned a weight of 16%.

3.3.2. Ethiopia

Ethiopia is a federal republic composed of 10 regional states and Addis Ababa, which is a city administration. The Federal and Regional governments share the expenditure and revenue tax base. In order to address the vertical and horizontal fiscal imbalances, Ethiopia introduced Federal subsidy grants based on the regional fiscal gaps. Fiscal gap is measured by Fiscal capacity (revenue capacity) and the Fiscal needs (expenditure needs) of the regional states. Addis Ababa being the capital city is not included in the federal grant allocation formula.

A block budget subsidy allocation formula is used to allocate revenues to states depending on the expenditure needs and revenue raising capacities. The allocation formula is adjusted for disability factors, price differences, dispersion factors, slope, poverty, unemployment and economies of scale.

The main parameters used in the revenue allocation formulae include Population, distance from highest per capita income, poverty, own revenue to budget ratio, land area, expenditure needs, revenue raising effort and sectoral output performance. The population parameter is a key parameter and has been used in all the revenue allocation formulas. The weight assigned to the parameter increased substantially from 33% in 1995/96 to 60% in 1997/98 before reducing slightly to 50% in 2001/02. The level of expenditure needs which measures the fiscal gap was assigned 33% in 1995/96, 25% in 1997/98 and 20% in 2001/02. To encourage the sub national governments collect their own revenue, the country used a parameter of own revenue to budget ratio and assigned it a weight of 20% in 1995/96, 33% in 1997/98 and 15% in 2001/02. The third review of 2001/02 introduced a parameter on poverty with a weight of 10%.

3.3.3. Philippines

Philippines has four levels of government, namely; provinces, cities, municipalities and the village-level barangays. The revenue sharing criteria is incorporated in the legislation and therefore is not reviewed periodically although they have pre and post 1991 legislations. The sharing of revenue for Philippines is based on the Government Code Acts which was enacted in 1991. The formula uses three parameters namely population, land area and equal share to address both service delivery and redistributive objectives of equitable sharing of revenue.

The population parameter was assigned a weight of 70% pre 1991, land area 20% and equal share 10%. Post 1991 law reviewed the weights of the parameters and assigned population 50%, land area 25% and equal share 25%.

3.3.4. India

Devolution in India is in two levels, the national and states. The Finance Commission which is responsible for revenue sharing is appointed every five years to review the formula. The main parameters that were used in the 11th, 12th and 13th commissions are population, land area, fiscal capacity distance, fiscal discipline, revenue effort, per capita income, index of decentralization and index of deprivation (poverty).

Population is one of the key parameters that has been used consistently over the years and was assigned weights of 40%; 40%; and 25% in the 11th, 12th and 13th commissions, respectively. The parameter of geographical land area was used to cater for additional cost that the large areas incur to provide a comparable standard of service in the states and was assigned a weight of 10% in the three reviews. The fiscal responsibility is used to incentivize the states to collect their own revenue. India mainly uses revenue effort, fiscal discipline and fiscal distance to measure fiscal responsibility. The weight assigned to fiscal effort was 10% in the 11th and 20% in the 12th commissions. The fiscal capacity distance and fiscal discipline were assigned weights of 47.5% and 17.5%, respectively in the 13th review commission. Table 5 provides a summary on Parameters used by different countries.

Table 5: Summary of Parameters used by Various Countries in Sharing Revenues

No.	Parameter	Name of Country Using the Parameter
1	Population	Philippines; India; Ethiopia
2	Poverty	India; Ethiopia; South Africa
3	Land Area	Philippines; India; Ethiopia
4	Equal Share	Philippines; South Africa
5	Fiscal Responsibility / Revenue Raising Effort; Fiscal Capacity Distance	Philippines; India; Ethiopia
6	Level of Development/ Expenditure Needs	Ethiopia
8	Distance from the per Capita Income	Ethiopia
9	Index of Decentralization	Ethiopia
10	Sectoral Model (Education; Health; Social Development; Backlog; & Economic Activity; Institutional capacity	South Africa

Source: Various Country Policy Documents

From the experience of the various countries reviewed, intergovernmental transfers generally address two key objectives, namely; service delivery and redistribution. Intergovernmental transfers gradually move away from redistribution objective to service delivery objective in the subsequent reviews. This is based on the fact that as the county governments develop, more resources are needed for maintenance and service

delivery. The key parameters used to proxy needs for most countries are population, land area and equal share. Because of differences in levels of development of county governments, poverty and other social-economic measures have been used as proxies for developmental needs and therefore measures of economic disparities to achieve the redistribution objective. Finally, on fiscal prudence, most countries have used capacity of county governments to raise own revenue and fiscal discipline as measures to incentivize county governments to optimize capacity to raise revenue.

3.4. Consultations with Experts

A report on the consultations with the county governments, submissions of memoranda and review of international literature on intergovernmental transfers were subjected to further discussion with experts from different institutions. This included representatives of county governments (Chief Executive Committee Members of Finance and the Chairmen of the County Assembly Budget and Appropriations Committee); Kenya Institute of Public Policy Research Analysis (KIPPRA), Kenya National Bureau of Statistics (KNBS), public and private universities, National Treasury, Committee on Implementation of the Constitution, Law Society of Kenya, Kenya Tax Payers Association, Kenya Association of Manufacturers, and Development Partners, among others.

The experts agreed with the county government recommendation on the retention of the five parameters used in the first formula with different weighting to accommodate inclusion of two additional parameters, namely; infrastructure and social development. To open up counties and reduce the cost of service delivery, counties should be given revenues for construction and maintenance of roads and for provision of electricity. Further, to address social economic disparities across counties, another parameter which captures the social economic disparities among counties apart from poverty should also be included in the second revenue sharing formula. It was agreed that a social development index be constructed based on education, health, and urban settlement.

3.5. Consultations with Council of Governors

A draft formula based on seven parameters, namely population, equal share, poverty, land area, fiscal responsibility, infrastructure and social development factors was presented to the Governors for further consultations. Whereas the Governors were in agreement with the use of the five parameters used in the first revenue sharing formula, they recommended that infrastructure and the social development factors be combined into one parameter, the development factor. In addition, a recommendation was made for inclusion of a new parameter to cushion counties with high personnel emolument costs for a limited period as both the national and county governments address the challenge of staff rationalization.

4.0. THE SECOND RECOMMENDATION ON REVENUE SHARING

4.1. The Rationale for Choice of the Parameters

The Commission recommends the use of seven parameters in the second revenue sharing formula. These are: **Population, Basic Equal Share, Poverty, Land Area, Fiscal Responsibility, Development Factor and Personnel Emolument Factor.**

The broad rationale for the choice of parameters is as summarised below:

- i. **Constitutional and legislative stipulations:** as outlined in Article 203(1) of the Constitution, the parameters used give effect to the revenue sharing criteria.
- ii. **Causal connection:** These parameters are measures of the factors that have the greatest impact on cost differentials between counties;
- iii. **Measurability:** The data is either available at the Kenya National Bureau of Statistics, or the relevant national ministries;
- iv. **Susceptibility to data manipulation:** These parameters are generally less susceptible to distortionary gaming behavior that may seek to increase revenue allocation by altering data;
- v. **International experiences:** These parameters have been used by various countries, which have implemented intergovernmental transfers, such as: South Africa, Nigeria, India, Philippines, and Ethiopia.

In addition to the broad rationale, the specific rationale for the choice of each individual parameter is discussed below.

4.2. Population

Population is a good measure of the expenditure needs of a County. It is a simple, objective and transparent measure that ensures predictability. Article 203 (1)(j) provides for stable and predictable allocations of revenues to counties. The Population parameter guarantees this predictability and also ensures equal per capita transfers to all counties. The use of this parameter also ensures that people are treated equally, irrespective of which county they belong to. The allocation to counties based on this parameter is therefore intended to ensure that County governments are able to perform the functions allocated to them in accordance with Article 203(d).

The highly populated Counties, namely: Nairobi; Kakamega; Kiambu; Nakuru; Bungoma; Meru, Murang'a and Kilifi recommended that the weight assigned to the population parameter on population be increased above 45 per cent to enable counties with high population be able to get adequate resources to be able to perform functions

allocated to them. However, 36 other counties with average to low population densities recommended a reduction of the weight on this Parameter on account that those counties with high population also happened to be the former provincial headquarters. These Counties enjoy pull factors such as good infrastructure and security, by virtue of having benefitted from centralised allocation of resources perpetuated by the former centralized system of government. These Counties also have good potential of revenue collection from both property taxes, entertainment taxes and fees from services offered to their vast populations. In addition, given that their populations are concentrated in small areas, the costs of providing services in these counties are also low compared to expensive counties which are sparsely populated due to economies of scale.

The Commission recommends that the weight of the parameter on population be retained at 45 per cent in the second revenue sharing formula.

4.3. Basic Equal Share

Provision of a basic equal share in a transfer system is meant to guarantee a minimum funding for certain key functions, such as administrative costs of setting up and running a government. This is based on the assumption that a number of expenditures are similar for all county governments. Transfers in South Africa, and the Philippines provide for a basic equal share.

However, use of the basic equal share is not without challenges. An exaggerated use of equal shares (high criteria weight) may lead to bad incentives and inefficiency in allocation as various county governments do not have the same expenditure needs due to differences in size as defined by population size, land area and geographical location.

Secondly, and more importantly, the use of equal shares as a factor in the allocation formula raises a question of basic fairness. If the equal share system is used as an allocation principle, regions with fewer residents would receive much larger transfers per person. This violates a basic principle of fairness in a democratic system of county government governance and may lead to pressure to establish new and non-viable county government units.

Although 22 county governments, mainly comprising counties with low population were of the opinion that the weight on equal share be increased, 17 counties with medium to high population recommended for a reduction of the weight on this parameter. The experts also observed that the weight in this parameter needs to be maintained at a lower level and should be based on actual expenditure needs that are similar across counties.

The Commission recommends that the weight of the parameter on basic equal share be retained at 25 per cent in the second revenue sharing formula.

4.4. Poverty

A poverty index provides a measure of welfare of the citizens. It is therefore a good proxy of developmental needs and economic disparities among counties. Use of this parameter in the formula guarantees allocations of revenue to disadvantaged areas which also happen to be the counties with the greatest need. This is in line with Article 203 (1)(f)(g)(i). More resources need to be given to counties with the greatest need.

There are several measures of poverty. Poverty head count measures the proportion of the population that is poor based on both the basic minimum food calorific intake and ability to afford essential non-food needs. The poverty head count does not measure the depth of poverty thereby treating all poor people as a homogeneous group; when in actual sense the intensity of poverty varies from one county to another. The poor are confronted with the different challenges and opportunities with varying outcomes.

Poverty Gap measures the extent to which individuals or households fall below the poverty line. It measures depth of poverty. Therefore the index gives the resources required to lift the poor out of poverty.

Poverty Severity is the square of the poverty gap. This measures the inequality among the poor. The index is used to target resources to the poorest of the poor.

The poverty measures used in the first revenue sharing formula are based on the Kenya Integrated Household Budget Survey conducted in 2005/06 by the Kenya National Bureau of Statistics. The poverty measurements were estimated from very detailed data on individuals and households. The survey covered 13,158 households with 55,263 individuals sampled from 1,339 clusters. A cluster is equivalent to a village/several villages or part of a village. The data on poverty for 2005/06 and 2009 is presented in Appendix VII.

The poverty estimates used in the second revenue sharing formula were calculated using the Kenya Integrated Household Budget Survey 2005/06 and the 2009 Kenya Population and Housing Census through small area estimation model. The model uses survey data and census data to calculate per person consumption expenditure to each 8.7 million census households. Accordingly, they represent the 2009 situation, but at 2006 prices. The estimated numbers of poor is obtained based on the rural or urban poverty line. The poverty estimate is derived using total population as opposed to sample population.

A large number of counties (41) recommended for the increase of the weight on the poverty parameter. International experience has shown that this parameter has been used at a maximum weight of 10 percent and below in India, Ethiopia and South Africa. The experts recommended that the use of this parameter should be reduced gradually with the intention of dropping it from the formula because of its negative incentive to address poverty comprehensively and susceptibility to data manipulation.

The Commission recommends that the weight of the parameter on poverty gap be reduced slightly from 20 per cent to 18 per cent in the second revenue sharing formula.

4.5. Land Area

Article 260 defines land to include the surface of water on or under the surface; marine waters in the territorial sea and exclusive economic zone; natural resources completely contained on or under the surface; and the air space above the surface. In total, Kenya covers an area of 581,313 km². The area is shared among the 47 county governments as shown in Appendix VI.

The use of the size of a county (Land Area) as a parameter in the formula for sharing of revenues is informed by the fact that a county with a larger area has to incur additional administrative costs to deliver a comparable standard of service to its citizens. However, it is important to note that the differences in the costs of providing services may increase with the size of a county, but only at a decreasing rate and that beyond a certain point, incremental costs may become negligible.

Further, it is important to note that even counties with small land areas, also have to incur certain minimum costs in establishing government machinery and the costs of providing services in some of these small counties may be higher because of the terrain. In this regard, the Commission in the first revenue sharing capped the maximum share on land at 10 percent and the minimum at one percent.

The allocation of revenues to counties based on the land parameter in the first revenue sharing formula was meant to provide counties with adequate resources to cater for costs related to service delivery and infrastructure development. Given that the land area of a county is fixed, it is not possible to assess the impact of the funds allocated to Counties based on this parameter meant for infrastructure. In effect, this parameter makes the first revenue sharing formula a static formula. A formula needs to be dynamic to enable periodic reviews to assess its impact in terms of achieving its specified objectives.

More than 50 per cent of the counties (27) recommended that the weight on the parameter on land area be increased above 8 per cent. Philippines, India and Ethiopia

have used land area as measure of cost of service delivery. Experts recommended for the reduction of the weight on the parameter on land areas on grounds that the allocation of revenues to counties on land area should be complemented with the allocations to counties based on infrastructure. Inclusion of a parameter on Infrastructure was recommended by both the county stakeholders and the experts.

The Commission recommends that the weight of the parameter on land area be retained at 8 per cent in the second revenue sharing formula.

4.6. Fiscal Responsibility

County governments receive transfers, collect and utilize public resources. Public officers are required to ensure public finances entrusted to them are not only used for the purposes they were meant for, but also used prudently. Fiscal responsibility entails implementation of sound economic and budgetary practices to ensure citizens get value for money. Achieving fiscal responsibility requires deliberate measures to: strengthen the legal framework for anti-corruption, ethics and integrity; promotion of results-based management within the public service; allowing the public access to information and data; introducing civilian oversight around the key legal, justice and security institutions; and strengthening Parliament's legislative oversight capacity.

By incorporating the fiscal responsibility parameter in the second revenue sharing formula, the Commission seeks to encourage fiscal prudence, Article 216 (3) (c). A recommendation on fiscal responsibility requires reliable information on the performance of Public Finance Management systems, processes and institutions over time. This information besides being used to share resources among county governments, will also inform the government reform process by determining the extent to which reforms are yielding improved performance and by increasing the ability to identify and learn from reform success.

County governments are required to exercise fiscal prudence. The Public Finance Management Act, 2012 sets out fiscal responsibility principles to both levels of government. Section 107 (2) sets out the following fiscal responsibility principles to be enforced by the County treasury:

- a) The County government's recurrent expenditure shall not exceed the county government's total revenue;
- b) Over the medium term a minimum of thirty per cent of the county government's budget shall be allocated to the development expenditure;
- c) The county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly;

- d) Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
- e) The County debt shall be maintained at a sustainable level as approved by County Assembly;
- f) The fiscal risks be managed prudently; and
- g) A reasonable degree of predictability with respect to the level of tax rates and tax bases be maintained, taking into account any tax reforms that may be made in the future.

It is on the basis of the foregoing constitutional and legislative provisions that the Commission recommends that county governments need to be held responsible on the use of public finances. An objective formula should in addition to determining a basis for equitable sharing of resources contain a check mechanism on fiscal responsibility by county governments. Although some national and county stakeholders were of the view that this parameter be dropped from the formula, there is adequate support for the retention of the parameter in the formula. This parameter ensures that county governments take responsibility to ensure that public resources are used prudently. The parameter will institute timely preparation of budgets, withdrawals and absorption of funds. It also promotes transparency, accountability and financial probity, and is an incentive for counties to grow. The fiscal responsibility parameter should provide an incentive to counties to optimize their capacity to raise revenue, Article 203(1)(e) and (i).

Unlike in the first revenue sharing formula which used the parameter to allocate equal revenues to all counties to set up financial management systems, the Commission recommends that allocation to counties based on the fiscal responsibility parameters be varied depending on a county's fiscal discipline, with an equal component to enable counties to maintain proper financial management systems.

Fiscal discipline is calculated based on a county's own revenue receipts as a proportion of a county's total expenditure receipts to average ratios across all counties. The calculation of the fiscal discipline factor is presented in Appendix II.

The Commission recommends that the weight on the fiscal responsibility parameter in the second revenue sharing formula be retained at one per cent.

4.7. Development Factor

This is one of the parameters suggested for inclusion by a large number of stakeholders during CRA's extensive country-wide consultations. Ordinarily, social economic development indicators as used in comparator countries such as South Africa, Nigeria, Ethiopia, Philippines and India, include five key components of ; poverty, demographic dynamics, education, health and human settlement.

However, since poverty (in money metric terms) is a stand-alone parameter in this formula and demographic dynamics such as population growth rates and density, total fertility and migration, are captured under population and land area parameters, this social-economic development factor in the second revenue sharing formula considers education, health, water and infrastructure, to capture the respective dimensions of social deprivation among the Kenyan Counties.

Pre-primary education is a devolved function. Education, public awareness and training constitute an important catalyst of progress in the society. Deprivation in these components is captured by pre-primary school attendance and adult literacy.

Adult literacy is measured by the percentage of the adult population aged 15 years and above that can read and write. A shortfall in literacy provides an indication of efforts required to extend literacy to the remaining adult illiterate population.

Pre-primary school enrolment rate captures total enrolment in pre-primary education as a percentage of the population of the pre-primary-school age population. As an indicator of the level of participation in primary school, it also indicates the availability and utilization of school places to satisfy the educational needs of the eligible school age population. Enrolment of less than 100% identifies situations in which there is need for more school places to respond to unsatisfied educational needs. Where the indicator has value in excess of 100%, the incidence of under-aged and/or over-aged enrolment and repeating are highlighted. Where enrolment is compulsory, deviation from full enrolment implies existence of the other societal problems that require attention.

Immunization against infectious childhood diseases is measured by the percentage of the eligible population that are immunized according to national immunisation policies before their first birthday, those immunized against yellow fever (in affected areas), and the proportion of women of child bearing age immunized against tetanus. Lack of immunization can lead to severe health problems at the primary health care level. Particularly relevant is the provision of preventive programs aimed at controlling communicable diseases and protecting vulnerable groups. Immunization reduces morbidity and mortality and is good preventive health service.

Delivery in hospitals is related to maternal mortality rate which estimates the proportion of pregnant women who die from causes related to or aggravated by pregnancy or its management. It reflects the risk to mothers during pregnancy and child birth associated with socio-economic conditions, unsatisfactory health conditions preceding pregnancy, incidence of complications of pregnancy and childbirth, and availability and utilization of health facilities.

Basic sanitation measures accessibility of the population to adequate sanitation facilities (including pit latrines, flush toilets, septic tanks etc.) in terms of the percentage of

population with access to a sanitary facility in a dwelling or related diseases that affect the quality of life. It is assumed that the availability of facilities translates into their utilization.

Good infrastructure is a prerequisite for any county to realise meaningful development. The parameter gives effect to the revenue sharing criteria as articulated in Article 203 (1)(h) and (g), which requires county developmental needs and economic disparities among counties be considered in revenue allocation. Infrastructural disparities among counties include infrastructure for roads, water, health and electricity.

Use of an index on infrastructure as part of the basis for sharing of revenues among county governments will realize the twin objectives of service delivery and redistribution. The measures selected to develop a factor on county infrastructure have been based on key devolved functions of county governments, namely water, roads and electricity. The Commission developed a factor on infrastructure based on a county's share of unpaved roads under category D, E, F, G, H, J, K, M, N, P; and proportion of households without access to electricity and water.

A county development factor is constructed with an allocation of a weight of 50 percent on health indicators; 25 percent of education indicators; and 25 per cent on infrastructure. The construction of the social economic factor is detailed in Appendix II.

The Commission recommends for inclusion of this new parameter in the second revenue sharing formula as a redistributive parameter with a weight of one percent.

4.8. Personnel Emolument Factor

The staff from the national government who were performing functions transferred under the devolved system of governance were transferred to county governments. Over the first revenue period, a number of county governments have raised concerns based on the amount of resources they have spent on personnel emoluments. It has been observed that a number of county governments, especially those within the former provincial headquarters, spent a large percentage of the transferred revenues on personnel emoluments. For example, Nairobi County spent 103 percent of the transfer on personnel emoluments. The counties with huge personnel costs observed that the first revenue sharing formula was highly redistributive. This was achieved at the expense of service delivery. To ensure counties are able to perform the functions allocated to them, the Commission needs to strike a balance between service delivery and redistribution objectives in the second revenue sharing formula.

The annual report by the Controller of Budget reveals that on average, counties paid 61 per cent of their actual recurrent expenditure during the financial year 2013/14 on personnel emoluments. Though some county governments have expressed concern on

over staffing, the employment Act protects permanent and pensionable staff from unstructured layoffs. Though the national government in collaboration with the county governments has commenced a comprehensive process on staff rationalization, county governments need to be cushioned in the meantime.

As a short term stop gap measure, the Commission recommends that 2 per cent of the revenue allocated to counties be shared among county governments on the basis of a county's expenditure on personnel emoluments for the devolved staff. The total remuneration for staff on devolved functions for financial year 2013/14 amounts to Kshs. 47,069 million. The details for each county are in appendix VI (b). The commission therefore recommends inclusion of the personnel emoluments factor as a parameter in the second revenue sharing formula to cushion counties against high expenses on salaries.

4.9. Recommended Basis for Sharing Revenue

In accordance with the provisions of Article 216 (1)(b), read together with 217 (2)(b) and Sixth Schedule (16), the Commission on Revenue Allocation recommends a new basis for sharing revenue among county governments. The recommended basis has seven parameters weighted as shown below.

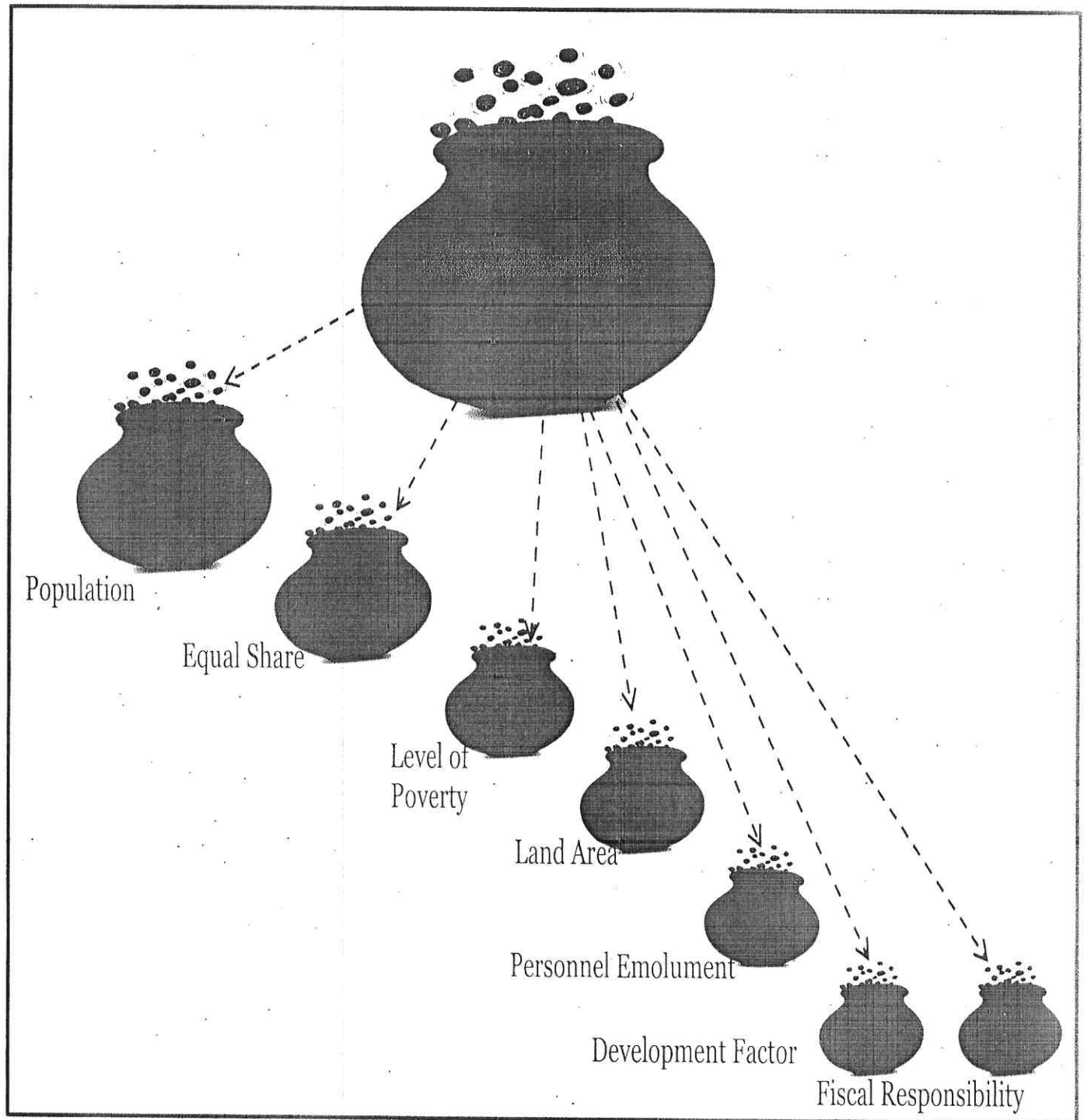
$$CA_i = 0.45PN_i + 0.25ES_i + 0.18PI_i + 0.08LA_i + 0.01FR_i + 0.02PE_i + 0.01DF_i$$

Where:

CA_i is revenue allocation of the i^{th} County; PN_i is Population Factor; ES_i is Equal Share Factor; PI_i is Poverty Index; LA_i is Land Area Factor; FR_i is Fiscal Responsibility Factor; PE_i is Personnel Emolument Factor; and DF_i is Development Factor. The details of the formula are presented in Appendix II

The weights on the parameter on Population, Equal Share and Land Area have been retained at 45 percent, 25 per cent and 8 per cent, respectively in second revenue sharing formula. This is because no substantial change, in terms of economic disparities among counties, has occurred in the last one and a half years to warrant a radical overhaul of the formula. However, to address the challenge of over-redistribution in the first generation revenue sharing formula and cushion counties experiencing huge personnel emolument costs, the weight on the parameter on poverty and Fiscal responsibility have been reduced from 20 per cent and 2 per cent to 18 per cent and one per cent, respectively. Two new parameters, namely: development factor and personnel emolument factor have been introduced with weights of one per cent and two per cent, respectively. The development factor addresses economic disparities among counties. The personnel emolument parameter is introduced to cushion counties with huge personnel emoluments.

FIGURE 2: THE SECOND REVENUE SHARING FORMULA



4.10. Other Parameters Considered but not Selected

During the stakeholder consultations several new parameters were proposed for inclusion in the second revenue sharing formula. However, the inclusion of all the proposed parameters was not possible. The reasons behind these are as follows:

Population density: This is a measure of population per Kilometers square of land area. Population density combines two measures currently used in the First Revenue Sharing Formula, namely: population and land area. Use of population density in any formula will negate the use of population and land area in the same formula. The use of population and land area parameters in the first revenue sharing formula was meant to achieve two objectives: One, population as a proxy for County needs to ensure Counties are able to perform functions allocated to them and two, land area was used as a proxy for County infrastructure.

Use of population density will only benefit counties with high populations that are concentrated in small areas thereby relegating the need to redistribute resources to less developed counties which also happen to be the sparsely populated areas.

Dependency ratio measures the proportion of the population under fifteen and over sixty five as a proportion of the active population (between 15 and 65 years). The active population is not necessarily equivalent to the working population, given the high unemployment rate among the youth. For this reason, dependency ratio is not a good measure of a population's purchasing power. An analysis of the 2009 population census reveals that the age structure across counties is almost uniform. Therefore, there is no much variability between the Counties.

Sector Based Approach: Both the county stakeholders and the experts recommended for a sectoral approach to the sharing of revenues among counties. The sectoral approach to sharing revenues among counties should be based on devolved functions as defined in the Constitution under fourth schedule and as unbundled by the Transition Authority in Gazette notice 16 and 116 of 2013.

The devolved functions can be broadly grouped into the following key sectors: health, infrastructure, agriculture, education and tourism. The use of a sector based approach to revenue sharing requires the establishment of unit cost of different services in different counties based on acceptable norms and standards. The Commission on Revenue Allocation together with the Transition Authority has commenced the process of commissioning a comprehensive study to establish unit costs of key devolved functions in different counties based on acceptable standards and norms in each sector.. The Kenya National Bureau of Statistics is also in the process of commencing collection of data and information using county integrated household and budget surveys to

measures various outcome indicators. These processes of generating new information will take some time to complete.

The alternative to the unit cost approach is the use of outcomes indicators in the various sectors based on the 2009 census data. A service delivery index based on outcome indicators in key sectors will see more resources going to the least developed counties. This will make the approach to revenue allocation highly redistributive which will compromise service delivery in most of the counties. This is because the 47 counties are at different levels of development. Whereas some counties enjoy good climatic conditions, roads, schools, hospitals, and security, a number of counties are very remote with bad roads, ill equipped schools and hospitals. Attracting qualified workers to this kind of latter counties will cost the county governments more revenues due to harsh climatic conditions and insecurity challenges. Therefore, even where a service delivery index is used as a basis for sharing revenues, this should be used in addition to a parameter on population to ensure the basis for the sharing of revenue is equitable.

It is important to note that the redistribution of revenues is a progressive process which, the Constitution envisages will be achieved over a period of years. The resources being redistributed are being collected from a few counties which enjoy pull factors such as good security, infrastructure and markets. Majority of the industries are also located in these counties and they also need provision of services to be maintained. The Constitution provides that all counties should be able to perform the functions allocated to them. Equity does not mean making some counties better off by making others worse off. Therefore, the basis for revenue sharing should strike a balance between service delivery and redistribution. Due to lack of data on what should constitute acceptable levels of service delivery, it is not possible to use the sector approach to revenue sharing

A multidimensional poverty Index: This measure encompasses a range of deprivations that a household may suffer. The poor suffer from lack of good health, education, housing, empowerment, and employment, among others. Therefore, no one indicator such as income or consumption can uniquely capture the multiple aspects that contribute to poverty.

The Kenya National Bureau of Statistics is in the process of domesticating a new methodology to measure the multidimensional aspect of poverty referred to as Multidimensional Poverty Index. The index identifies the poor based on the intensity of deprivations they suffer. The current global Multidimensional Poverty Index uses three dimensions with corresponding indicators as shown in the Table 6 below.

Table 6: Measures of the Multidimensional Poverty Index

Dimensions of poverty	Indicator	Deprived if...
Education	Years of Schooling	No household member has completed five years of schooling
	Child School Attendance	Any school-aged child is not attending school up to class 8+
Health	Child Mortality	Any child has died in the family
	Nutrition	Any adult or child for whom there is nutritional information is malnourished
Living Standard	Electricity	The household has no electricity
	Improved Sanitation	The household's sanitation facility is not improved (according to MDG guidelines), or it is improved but shared with other household
	Improved Drinking Water	The household does not have access to improved drinking water (according to MDG guidelines) or safe drinking water is more than a 30-minute walk from home, round trip
	Flooring	The household has a dirt, sand or dung floor
	Cooking Fuel	The household cooks with dung, wood or charcoal
	Assets ownership	The household does not own more than one radio, TV, telephone, bike, motorbike or refrigerator and does not own a car or truck

Source: Kenya National Bureau of Statistic, 2014

The index needs to be domesticated by adding more dimensions of poverty to suit the need the parameter is intended to address in Kenya. The main objective of poverty index parameter in the revenue sharing formula is to redistribute resources with the aim of addressing the issue of inequality and welfare improvement of the citizens. Article 203 (1)(g) and (h) specifies the need to address economic disparities within and among Counties and the need to remedy them; through affirmative action in respect of disadvantaged areas and groups. The Commission together with Kenya National Bureau of Statistics and other development partners are working together to have the index ready for consideration in the third revenue sharing formula.

5.0. THE APPLICATION OF CRITERIA OF ARTICLE 203

Article 217 (2) provides that in determining the basis of revenue sharing among counties, the criteria specified in Article 203 should be taken into account. The Commission wishes to submit that the criteria in Article 203(1) can be divided into two. The criteria specified in Article 203 (1) (a) to (c) are applicable in determining the equitable shares between the national government and the county governments and the criteria specified in Article 203 (1) (d) to (k) are applicable in determining the equitable shares among the county governments. The section below explains how the parameters selected for the second revenue sharing formula meets the requirements of Article 203 (1) (d) to (k).

5.1. How CRA's Revenue Sharing Formula Applies to Article 203.

Article 203 (1) (d) Ability of county governments to perform functions allocated to them: This is well catered for by the constitutional principle of 'resources follow function' under Article 187(2)(a) "*If a function or power is transferred from a government at one level to a government at the other level – 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*". The allocations recommended by the Commission uses population, the basic equal share and personnel emolument factor to ensure that each county receives adequate revenues to be able to offer service delivery to its citizenry.

Article 203 (1) (e) and (i) Fiscal capacity and efficiency of county governments and the need to incentivize counties to optimize capacity to raise revenue

The formula uses poverty gap, development factor and personnel emolument factor to allocate more revenues to counties with low tax capacity and greater fiscal needs. The formula also takes into account the potential of counties in raising their own revenue. The fiscal responsibility parameter uses measures of fiscal discipline to allocate more revenues to those counties that have put in more effort to collect revenues due to them and those that have spent resources prudently. Besides, the parameter maintains an equal share to all counties for maintenance and upgrading of financial management systems.

Article 203 (1) (f) (g) and (h): Developmental needs and Economic disparities within and among counties and the need to remedy them through affirmative action

Three parameters in the second revenue sharing formula, namely; land area, poverty gap and development factor are used to redistribute revenue to counties so as to address development needs and economic disparities among counties. The Land area parameter

ensures that large counties which incur high administrative costs in providing a comparable service are given more resources. The poverty gap allocates more revenues to the disadvantaged counties which exhibit higher levels of deprivation. The development factor provides more resources to counties with low water and electricity connectivity, and low road coverage.

Article 203 (1) (j): Desirability of stable and predictable allocations of revenue

The recommended formula once approved will be used for a period of three financial years before the next review. Therefore, revenues will remain stable and predictable over this period of years to promote multi-year planning and overall budget certainty.

Article 203 (1) (k): The need for flexibility in responding to emergencies and other temporary needs, based on similar objective criteria

The formula allocates a lump sum amount to various counties thereby preserving budget autonomy at the county level. While there are sound policy arguments for conditional or targeted transfers, the formula allocates a general purpose transfers to be used in line with counties specific priorities. Therefore, county governments have increased flexibility and spending discretion including flexibility in responding to emergencies and other temporary needs.

Appendix I: Aggregate Annual Allocations Based on the First Revenue Sharing Formula (Ksh. Millions).

NO.	County	FINANCIAL YEARS		
		2012/2013 ¹	2013/2014	2014/2015
1	Mombasa	196	3,802	4,535
2	Kwale	193	3,749	4,472
3	Kilifi	280	5,443	6,493
4	Tana-River	150	2,914	3,477
5	Lamu	77	1,501	1,790
6	Taita-Taveta	125	2,421	2,888
7	Garissa	217	4,221	5,036
8	Wajir	272	5,290	6,311
9	Mandera	337	6,550	7,814
10	Marsabit	195	3,796	4,528
11	Isiolo	115	2,236	2,667
12	Meru	245	4,750	5,666
13	Tharaka-Nithi	118	2,295	2,738
14	Embu	145	2,807	3,349
15	Kitui	274	5,315	6,341
16	Machakos	255	4,951	5,906
17	Makueni	225	4,366	5,209
18	Nyandarua	162	3,150	3,758
19	Nyeri	168	3,254	3,882
20	Kirinyaga	133	2,588	3,087
21	Murang'a	202	3,917	4,673
22	Kiambu	281	5,459	6,512
23	Turkana	395	7,664	9,143
24	West Pokot	162	3,155	3,764

¹ The Allocation for financial year 2012/2013 only covered three months (March to June 2013)

NO.	County	FINANCIAL YEARS		
		2012/2013 ¹	2013/2014	2014/2015
25	Samburu	134	2,598	3,099
26	Trans-Nzoia	192	3,730	4,450
27	Uasin-Gishu	195	3,797	4,529
28	Elgeyo-Marakwet	123	2,392	2,854
29	Nandi	179	3,478	4,149
30	Baringo	167	3,248	3,875
31	Laikipia	130	2,523	3,010
32	Nakuru	306	5,936	7,082
33	Narok	199	3,868	4,614
34	Kajiado	166	3,227	3,850
35	Kericho	170	3,295	3,931
36	Bomet	177	3,443	4,107
37	Kakamega	335	6,516	7,773
38	Vihiga	146	2,832	3,378
39	Bungoma	289	5,614	6,697
40	Busia	205	3,979	4,747
41	Siaya	188	3,654	4,359
42	Kisumu	214	4,155	4,957
43	Homa-Bay	212	4,121	4,917
44	Migori	220	4,269	5,093
45	Kisii	267	5,188	6,189
46	Nyamira	156	3,039	3,625
47	Nairobi City	489	9,506	11,340
	Totals	9,784	190,000	226,660

Source: Commission on Revenue Allocation/County Allocation of Revenue Acts, 2013; 2014

Appendix II: The Second Revenue Sharing Formula

$$CA_i = 0.45PN_i + 0.25ES_i + 0.18PI_i + 0.08LA_i + 0.01FR_i + 0.02PE_i + 0.01DF_i$$

Where:

CA_i is revenue allocation of the i^{th} County; PN_i is Population Factor; ES_i is Basic Equal Share Factor; PI_i is Poverty Index; LA_i is Land Area Factor; FR_i is Fiscal Responsibility Factor; PE_i is Personnel Emolument Factor; and DF_i is Development Factor. The details of the formula are presented in Appendix II

Where,

Population (PN_i)

$$PN_i = \frac{\text{Population of } i^{th} \text{ County}}{\text{Total Population}}$$

Basic Equal Share (ES_i)

$$ES_i = \frac{\text{Total Equal share}}{47}$$

Poverty Index (PI_i)

$$PI_i = \frac{\text{Poverty Resources of } i^{th} \text{ County}}{\text{Total Poverty Resources}}$$

Land Area (LA_i)

$$LA_i = \frac{\text{Land Area (Sq. Kms.) of } i^{th} \text{ County}}{\text{Total Land Area}}$$

Fiscal Responsibility (FR_i)

$$FR_i = 0.5 * \frac{1}{47} + 0.5 * N_i f_i / \sum_{i=1}^{47} (N_i f_i)$$

Where, $f_i = \left(\frac{x}{y}\right)$

$$x = \left(\frac{\text{County's own revenue}}{\text{County's total expenditure}} \right)_i$$

$$y = \frac{\sum_{i=1}^{47} (\text{County's own revenue})}{\sum_{i=1}^{47} (\text{County's Total expenditure})}$$

N_i = 2009 population of the i^{th} County

Personnel Emolument Factor (PE_i)

$$PE_i = \frac{\text{Total Personnel Emoluments of } i^{th} \text{ County}}{\text{Total Personnel Emoluments of all counties}}$$

Development Factor (DF_i)

$$DF_i = E_i + IF_i + H_i$$

Where

$$E_i = 0.125 \frac{I_i * N_i}{\sum_i (I_i * N_i)} + 0.125 \frac{PE_i * N_i}{\sum_i (PE_i * N_i)}$$

I_i - Illiteracy levels of i^{th} County

SE_i - Proportion of children (3-5 yrs.) not attending pre-primary schools

$$H_i = 0.1667 \frac{IM_i * N_i}{\sum_i (IM_i * N_i)} + 0.1667 \frac{IS_i * N_i}{\sum_i (IS_i * N_i)} + 0.1667 \frac{HD_i * N_i}{\sum_i (HD_i * N_i)}$$

IM_i - Proportion of children (<1 yr.) full immunized of the i^{th} County

IS_i - Proportion of household with un-improved sanitation i^{th} County

HD_i - Proportion of children delivered at home of i^{th} County

$$IF_i = 0.08 \frac{E_i * N_i}{\sum_i (E_i * N_i)} + 0.08 \frac{W_i * N_i}{\sum_i (W_i * N_i)} + 0.045 \left(\frac{URN_i}{\sum_i URN_i} \right) + 0.045 \left(\frac{LA_i / TRN_i}{\sum_i LA_i / \sum_i TRN_i} \right)$$

E_i - Proportion of household with access to electricity of the i^{th} County

W_i - Proportion of household without access to improved water of the i^{th} County

URN_i - Un-paved road network of class D, E, F, G, H, J, K, M, N & P of the i^{th} County

LA_i - Land Area of the i^{th} County

TRN_i - Total Road Network of classes D, E, F, G, H, J, K, M, N & P of the i^{th} County

Appendix III: Revenue Sharing Formula Allocation Factors (%)

No	County	Population	Basic Equal share	Poverty Gap	Land Area	Fiscal Responsibility	P.E Factor	Development Factor	Combined Factor
1	Mombasa	2.43	2.13	3.15	0.90	3.85	3.26	1.41	2.38
2	Kwale	1.68	2.13	5.34	1.28	1.48	1.23	2.12	2.41
3	Kilifi	2.87	2.13	6.98	1.95	2.21	2.14	3.09	3.33
4	Tana-River	0.62	2.13	2.19	5.95	1.12	0.69	1.30	1.72
5	Lamu	0.26	2.13	0.31	0.97	1.11	0.63	0.50	0.81
6	Taita-Taveta	0.74	2.13	0.87	2.64	1.23	1.26	0.90	1.28
7	Garissa	1.61	2.13	1.74	6.84	1.16	1.48	2.78	2.19
8	Wajir	1.71	2.13	3.18	8.77	1.15	0.68	2.86	2.63
9	Mandera	2.66	2.13	6.12	4.02	1.30	0.51	3.95	3.21
10	Marsabit	0.75	2.13	1.41	9.00	1.11	0.95	1.63	1.89
11	Isiolo	0.37	2.13	0.97	3.92	1.14	1.02	0.75	1.23
12	Meru	3.51	2.13	1.56	1.07	2.16	3.07	3.12	2.59
13	Tharaka-Nithi	0.95	2.13	0.72	0.90	1.19	1.43	1.07	1.21
14	Embu	1.34	2.13	0.81	0.90	1.35	2.82	1.45	1.44
15	Kitui	2.62	2.13	3.23	4.72	1.74	2.12	3.21	2.76
16	Machakos	2.85	2.13	2.74	0.96	2.98	3.06	3.02	2.50
17	Makueni	2.29	2.13	2.95	1.24	1.54	2.11	2.70	2.28
18	Nyandarua	1.54	2.13	1.14	0.90	1.32	2.09	1.22	1.57
19	Nyeri	1.80	2.13	0.94	0.90	1.70	3.86	1.46	1.69
20	Kirinyaga	1.37	2.13	0.60	0.90	1.59	1.83	1.06	1.39
21	Murang'a	2.44	2.13	1.50	0.90	1.99	2.34	2.45	2.06
22	Kiambu	4.20	2.13	2.63	0.90	3.79	5.58	2.71	3.15
23	Turkana	2.22	2.13	4.53	9.00	1.36	0.83	4.05	3.14
24	West Pokot	1.33	2.13	1.54	1.42	1.16	1.09	2.03	1.57

No	County	Population	Basic Equal share	Poverty Gap	Land Area	Fiscal Responsibility	P.E Factor	Development Factor	Combined Factor
25	Samburu	0.58	2.13	0.79	3.25	1.26	0.69	1.14	1.23
26	Trans-Nzoia	2.12	2.13	1.31	0.90	1.56	1.95	2.26	1.87
27	Uasin-Gishu	2.32	2.13	1.28	0.90	2.73	2.20	1.74	1.96
28	Elgeyo-Marakwet	0.96	2.13	0.90	0.90	1.18	1.68	0.99	1.25
29	Nandi	1.95	2.13	1.12	0.90	1.43	1.69	1.73	1.75
30	Baringo	1.44	2.13	1.23	1.70	1.42	2.27	2.00	1.62
31	Laikipia	1.03	2.13	0.85	1.46	1.54	1.46	1.10	1.32
32	Nakuru	4.15	2.13	2.41	1.16	5.54	5.67	3.36	3.13
33	Narok	2.20	2.13	1.15	2.78	3.85	1.40	2.93	2.05
34	Kajiado	1.78	2.13	1.28	3.39	2.06	1.55	2.30	1.91
35	Kericho	1.96	2.13	1.25	0.90	1.97	2.20	1.61	1.79
36	Bomet	1.88	2.13	1.51	0.90	1.43	0.84	2.03	1.77
37	Kakamega	4.30	2.13	4.03	0.90	2.00	3.71	3.53	3.39
38	Vihiga	1.44	2.13	1.10	0.90	1.31	1.12	1.19	1.49
39	Bungoma	3.56	2.13	3.27	0.90	1.61	2.89	2.88	2.90
40	Busia	1.93	2.13	2.45	0.90	1.96	1.85	1.98	1.99
41	Siaya	2.18	2.13	1.34	0.90	1.37	1.52	2.09	1.89
42	Kisumu	2.51	2.13	2.36	0.90	2.26	3.56	2.35	2.28
43	Homa-Bay	2.50	2.13	2.14	0.90	1.35	2.05	2.65	2.19
44	Migori	2.38	2.13	2.52	0.90	1.53	1.49	2.29	2.19
45	Kisii	2.98	2.13	2.86	0.90	1.61	2.94	2.20	2.56
46	Nyamira	1.55	2.13	1.36	0.90	1.27	1.16	1.40	1.60
47	Nairobi City	8.13	2.13	4.33	0.90	17.02	8.06	3.39	5.41
	Totals	100	100	100	100	100	100	100	100

Commission on Revenue Allocation, 2014

Appendix IV: Simulation Formula at Kshs. 279,162 Million

No.	COUNTY	Population (45%)	Basic Equal share (25%)	Poverty Gap (18%)	Land Area (8%)	Fiscal Respon sibility (1%)	P.E Cushion (2%)	Develo pment Factor (1%)	Total (100%)
1	Mombasa	3,056	1,485	1,582	201	108	182	39	6,653
2	Kwale	2,115	1,485	2,684	286	41	69	59	6,739
3	Kilifi	3,611	1,485	3,507	436	62	119	86	9,306
4	Tana-River	781	1,485	1,103	1,329	31	38	36	4,803
5	Lamu	330	1,485	154	217	31	35	14	2,266
6	Taita- Taveta	926	1,485	439	591	34	70	25	3,570
7	Garissa	2,027	1,485	873	1,527	32	82	78	6,104
8	Wajir	2,154	1,485	1,596	1,959	32	38	80	7,344
9	Mandera	3,337	1,485	3,077	898	36	28	110	8,973
10	Marsabit	947	1,485	710	2,009	31	53	46	5,281
11	Isiolo	466	1,485	489	876	32	57	21	3,426
12	Meru	4,413	1,485	784	240	60	171	87	7,240
13	Tharaka- Nithi	1,189	1,485	362	201	33	80	30	3,380
14	Embu	1,680	1,485	407	201	38	158	40	4,008
15	Kitui	3,295	1,485	1,624	1,054	49	118	90	7,715
16	Machakos	3,574	1,485	1,377	215	83	171	84	6,990
17	Makueni	2,878	1,485	1,480	277	43	118	75	6,356
18	Nyandarua	1,940	1,485	574	201	37	116	34	4,388
19	Nyeri	2,257	1,485	470	201	47	216	41	4,716
20	Kirinyaga	1,718	1,485	303	201	44	102	30	3,883
21	Murang'a	3,067	1,485	755	201	56	130	69	5,762
22	Kiambu	5,282	1,485	1,321	201	106	312	76	8,782
23	Turkana	2,783	1,485	2,277	2,009	38	46	113	8,752
24	West Pokot	1,668	1,485	775	317	32	61	57	4,395

No.	COUNTY	Population (45%)	Basic Equal share (25%)	Poverty Gap (18%)	Land Area (8%)	Fiscal Respon- sibility (1%)	P.E Cushion (2%)	Develo- pment Factor (1%)	Total (100%)
25	Samburu	729	1,485	397	727	35	39	32	3,443
26	Trans- Nzoia	2,664	1,485	659	201	43	109	63	5,224
27	Uasin- Gishu	2,909	1,485	642	201	76	123	49	5,484
28	Elgeyo- Marakwet	1,204	1,485	455	201	33	94	28	3,499
29	Nandi	2,450	1,485	564	201	40	94	48	4,882
30	Baringo	1,808	1,485	619	381	40	127	56	4,515
31	Laikipia	1,299	1,485	426	327	43	81	31	3,692
32	Nakuru	5,217	1,485	1,212	259	155	316	94	8,737
33	Narok	2,769	1,485	577	620	108	78	82	5,718
34	Kajiado	2,236	1,485	641	757	57	86	64	5,327
35	Kericho	2,467	1,485	628	201	55	123	45	5,004
36	Bomet	2,356	1,485	756	201	40	47	57	4,942
37	Kakamega	5,403	1,485	2,024	201	56	207	98	9,474
38	Vihiga	1,805	1,485	551	201	37	62	33	4,173
39	Bungoma	4,474	1,485	1,645	201	45	161	80	8,091
40	Busia	2,421	1,485	1,233	201	55	103	55	5,552
41	Siaya	2,741	1,485	672	201	38	85	58	5,280
42	Kisumu	3,152	1,485	1,187	201	63	199	66	6,353
43	Homa-Bay	3,136	1,485	1,073	201	38	114	74	6,121
44	Migori	2,984	1,485	1,267	201	43	83	64	6,127
45	Kisii	3,749	1,485	1,437	201	45	164	62	7,143
46	Nyamira	1,946	1,485	684	201	36	65	39	4,455
47	Nairobi City	10,211	1,485	2,176	201	475	450	95	15,093
	Totals	125,623	69,791	50,249	22,333	2,792	5,583	2,792	279,162

Source Commission on Revenue Allocation, 2014

Appendix V: Summary of Simulation at Ksh. 279,162 Million

No.	County	Population	Total Allocation (Ksh. Millions)	Revenue Allocation Factor
1	Mombasa	939,370	6,653	2.38
2	Kwale	649,931	6,739	2.41
3	Kilifi	1,109,735	9,306	3.33
4	Tana-River	240,075	4,803	1.72
5	Lamu	101,539	2,266	0.81
6	Taita-Taveta	284,657	3,570	1.28
7	Garissa	623,060	6,104	2.19
8	Wajir	661,941	7,344	2.63
9	Mandera	1,025,756	8,973	3.21
10	Marsabit	291,166	5,281	1.89
11	Isiolo	143,294	3,426	1.23
12	Meru	1,356,301	7,240	2.59
13	Tharaka-Nithi	365,330	3,380	1.21
14	Embu	516,212	4,008	1.44
15	Kitui	1,012,709	7,715	2.76
16	Machakos	1,098,584	6,990	2.50
17	Makueni	884,527	6,356	2.28
18	Nyandarua	596,268	4,388	1.57
19	Nyeri	693,558	4,716	1.69
20	Kirinyaga	528,054	3,883	1.39
21	Murang'a	942,581	5,762	2.06
22	Kiambu	1,623,282	8,782	3.15
23	Turkana	855,399	8,752	3.14
24	West Pokot	512,690	4,395	1.57

No.	County	Population	Total Allocation (Ksh. Millions)	Revenue Allocation Factor
25	Samburu	223,947	3,443	1.23
26	Trans-Nzoia	818,757	5,224	1.87
27	Uasin-Gishu	894,179	5,484	1.96
28	Elgeyo- Marakwet	369,998	3,499	1.25
29	Nandi	752,965	4,882	1.75
30	Baringo	555,561	4,515	1.62
31	Laikipia	399,227	3,692	1.32
32	Nakuru	1,603,325	8,737	3.13
33	Narok	850,920	5,718	2.05
34	Kajiado	687,312	5,327	1.91
35	Kericho	758,339	5,004	1.79
36	Bomet	724,186	4,942	1.77
37	Kakamega	1,660,651	9,474	3.39
38	Vihiga	554,622	4,173	1.49
39	Bungoma	1,375,063	8,091	2.90
40	Busia	743,946	5,552	1.99
41	Siaya	842,304	5,280	1.89
42	Kisumu	968,909	6,353	2.28
43	Homa-Bay	963,794	6,121	2.19
44	Migori	917,170	6,127	2.19
45	Kisii	1,152,282	7,143	2.56
46	Nyamira	598,252	4,455	1.60
47	Nairobi City	3,138,369	15,093	5.41
	Totals	38,610,097	279,162	100

Source Commission on Revenue Allocation, 2014

Appendix VI (a): Data for the Second Revenue Sharing Formula

No.	County	Population	Poverty Gap	Land Area (Square Kms.)	Actual Expenditure (2013/2014) -Millions	Actual own Revenue (2013/2014) -Millions
1	Mombasa	939,370	10.0	219	5,210	1,716
2	Kwale	649,931	41.8	8,270	2,929	208
3	Kilifi	1,109,735	31.4	12,610	4,013	460
4	Tana-River	240,075	46.1	38,437	1,325	32
5	Lamu	101,539	15.6	6,273	729	36
6	Taita-Taveta	284,657	15.6	17,084	2,011	127
7	Garissa	623,060	18.7	44,175	2,169	36
8	Wajir	661,941	31.9	56,686	4,429	61
9	Mandera	1,025,756	32.4	25,992	3,464	90
10	Marsabit	291,166	22.9	70,961	2,508	46
11	Isiolo	143,294	19.0	25,336	2,068	125
12	Meru	1,356,301	6.0	6,936	3,823	344
13	Tharaka-Nithi	365,330	9.5	2,639	2,198	85
14	Embu	516,212	7.7	2,818	2,745	168
15	Kitui	1,012,709	16.8	30,497	3,442	255
16	Machakos	1,098,584	9.7	6,208	6,069	1,175
17	Makueni	884,527	16.8	8,009	3,140	189
18	Nyandarua	596,268	9.4	3,245	2,890	138
19	Nyeri	693,558	6.2	3,337	4,275	432
20	Kirinyaga	528,054	5.7	1,479	1,802	200
21	Murang'a	942,581	7.7	2,559	3,855	420
22	Kiambu	1,623,282	5.9	2,543	6,683	1,247
23	Turkana	855,399	29.0	68,680	3,409	133

No.	County	Population	Poverty Gap	Land Area (Square Kms.)	Actual Expenditure (2013/2014) -Millions	Actual own Revenue (2013/2014) -Millions
24	West Pokot	512,690	16.2	9,169	2,898	59
25	Samburu	223,947	17.4	21,022	2,091	201
26	Trans-Nzoia	818,757	7.7	2,496	3,022	202
27	Uasin-Gishu	894,179	6.0	3,345	2,733	564
28	Elgeyo-Marakwet	369,998	12.2	3,030	1,714	61
29	Nandi	752,965	7.5	2,884	2,424	131
30	Baringo	555,561	11.4	11,015	2,811	202
31	Laikipia	399,227	10.5	9,462	2,629	347
32	Nakuru	1,603,325	6.1	7,495	5,864	1,817
33	Narok	850,920	7.1	17,933	4,233	1,539
34	Kajiado	687,312	7.8	21,901	2,826	453
35	Kericho	758,339	7.6	2,479	2,811	371
36	Bomet	724,186	10.4	2,471	3,553	201
37	Kakamega	1,660,651	12.0	3,051	5,219	325
38	Vihiga	554,622	8.8	531	2,487	123
39	Bungoma	1,375,063	11.7	3,593	4,161	183
40	Busia	743,946	16.8	1,134	2,473	329
41	Siaya	842,304	7.6	2,530	2,463	100
42	Kisumu	968,909	9.0	2,086	4,526	622
43	Homa-Bay	963,794	10.5	3,183	4,033	135
44	Migori	917,170	12.1	2,596	4,247	239
45	Kisii	1,152,282	11.7	1,318	4,769	250
46	Nyamira	598,252	11.3	899	2,407	94
47	Nairobi City	3,138,369	4.1	695	17,775	10,026

Source: Kenya National Bureau of Statistics/ Office of Controller of Budget

Appendix VI (b): Data for the Second Revenue Sharing Formula

No	County	Personnel Emoluments (Devolved staff)-Millions	Total Unpaved Roads (D, E, F, G, H, J, K, M, N, P)	Percentage of Households with access to Electricity	Percentage of Households with access to improved water	Percentage of Households who cannot read & write
1	Mombasa	1,533	481	59.0	75.0	16.9
2	Kwale	579	3,153	10.6	65.8	38.6
3	Kilifi	1,006	3,335	16.7	75.9	35.6
4	Tana-River	324	2,789	2.5	55.5	56.2
5	Lamu	297	754	17.0	89.3	32.8
6	Taita-Taveta	593	3,489	15.0	70.0	18.4
7	Garissa	695	2,504	11.6	75.8	74.4
8	Wajir	321	4,608	3.4	73.5	76.4
9	Mandera	239	2,831	2.5	51.9	70.2
10	Marsabit	447	3,968	7.5	77.6	68.2
11	Isiolo	482	2,555	18.5	84.6	51.1
12	Meru	1,445	4,317	13.1	65.0	20.7
13	Tharaka-Nithi	672	1,788	3.0	40.4	17.4
14	Embu	1,328	2,961	14.9	62.1	15.3
15	Kitui	997	7,942	4.8	50.8	24.7
16	Machakos	1,442	5,272	17.0	58.1	14.9
17	Makueni	996	7,375	5.9	56.9	17.2
18	Nyandarua	982	3,333	10.5	68.0	15.6
19	Nyeri	1,817	3,513	26.3	69.3	12.2
20	Kirinyaga	864	2,154	16.4	56.8	13.5
21	Murang'a	1,099	3,471	14.0	51.0	13.6
22	Kiambu	2,628	4,358	53.0	78.1	12.0
23	Turkana	390	4,189	2.4	74.3	82.1
24	West Pokot	515	1,842	2.6	37.2	55.4

No	County	Personnel Emoluments (Devolved staff)- Millions	Total Unpaved Roads (D, E, F, G, H, J, K, M, N, P)	Percentage of Households with access to Electricity	Percentage of Households with access to improved water	Percentage of Households who cannot read & write
25	Samburu	326	2,039	6.2	67.8	68.1
26	Trans-Nzoia	916	1,668	8.9	76.7	20.2
27	Uasin-Gishu	1,036	3,742	27.9	88.9	16.6
28	Elgeyo-Marakwet	789	1,566	7.2	44.2	20.2
29	Nandi	796	2,323	6.4	56.2	18.7
30	Baringo	1,070	2,559	9.6	35.1	35.7
31	Laikipia	687	2,821	17.7	62.7	24.2
32	Nakuru	2,667	9,137	34.0	66.4	17.3
33	Narok	661	4,034	5.9	33.6	37.8
34	Kajiado	728	5,235	39.8	72.3	30.7
35	Kericho	1,037	1,568	11.8	56.1	15.9
36	Bomet	397	1,934	4.3	40.8	17.1
37	Kakamega	1,744	3,508	5.6	76.1	20.6
38	Vihiga	527	664	7.0	76.4	17.6
39	Bungoma	1,358	2,661	4.5	88.9	17.9
40	Busia	871	1,401	6.0	82.9	22.7
41	Siaya	713	1,858	4.3	46.7	20.5
42	Kisumu	1,677	2,433	18.3	60.1	17.1
43	Homa-Bay	964	2,415	3.3	38.6	19.8
44	Migori	700	2,095	5.3	47.8	20.3
45	Kisii	1,382	2,188	7.8	67.9	17.1
46	Nyamira	544	961	6.4	68.6	16.1
47	Nairobi City	3,792	1,356	72.4	83.1	11.1
	Totals	47,069	143,149			

Source: Source: National Treasury, 2014; Ministry of Roads, 2014; Kenya National Bureau of Statistic, 2009

Appendix VI (c): Data for the Second Revenue Sharing Formula

No	County	Percentage Not attending Pre-primary	Percentage of Households without access to improved sanitation	Percentage of Households delivering at Home	Percentage of Households not immunized
1	Mombasa	34.6	18.3	26.8	27.5
2	Kwale	61.6	70.3	78.0	31.9
3	Kilifi	53.7	58.3	86.6	22.0
4	Tana-River	67.8	78.3	79.6	37.3
5	Lamu	52.1	43.3	72.8	33.4
6	Taita-Taveta	42.9	32.8	56.8	48.8
7	Garissa	92.3	78.3	76.1	44.2
8	Wajir	94.1	93.3	94.6	31.2
9	Mandera	92.6	83.9	88.7	45.7
10	Marsabit	73.8	73.1	82.6	33.7
11	Isiolo	54.2	59.9	72.1	22.2
12	Meru	59.6	21.7	30.6	53.1
13	Tharaka-Nithi	60.1	39.8	71.1	46.7
14	Embu	60.4	35.4	37.5	66.6
15	Kitui	64.7	47.6	75.6	40.2
16	Machakos	53.7	39.0	68.0	45.7
17	Makueni	63.4	44.1	77.9	48.7
18	Nyandarua	38.3	26.2	33.6	29.7
19	Nyeri	28.8	25.8	16.0	53.7
20	Kirinyaga	40.2	17.0	12.6	49.0
21	Murang'a	52.8	32.1	45.3	53.4
22	Kiambu	31.7	20.0	31.6	35.2
23	Turkana	79.2	91.5	93.1	69.1
24	West Pokot	68.0	73.0	83.1	46.0

No	County	Percentage Not attending Pre-primary school	Percentage of Households without access to improved sanitation	Percentage of Households delivering at Home	Percentage of Households not immunized
26	Trans-Nzoia	54.6	25.6	79.3	64.3
25	Samburu	55.1	80.3	81.0	26.9
27	Uasin-Gishu	40.6	22.1	69.5	23.8
28	Elgeyo-Marakwet	43.3	48.8	64.6	29.2
29	Nandi	43.4	27.7	51.4	37.6
30	Baringo	49.7	60.7	66.4	67.3
31	Laikipia	42.5	31.6	70.2	24.7
32	Nakuru	39.3	24.2	49.5	27.5
33	Narok	66.3	65.0	81.1	28.4
34	Kajiado	52.9	44.5	60.2	69.1
35	Kericho	43.2	36.9	54.4	40.9
36	Bomet	49.2	32.1	61.5	46.8
37	Kakamega	58.7	16.0	68.0	23.2
38	Vihiga	51.8	13.5	74.2	35.0
39	Bungoma	60.1	28.1	85.3	7.6
40	Busia	58.4	38.7	74.9	41.9
41	Siaya	48.2	51.4	48.0	18.4
42	Kisumu	32.2	43.1	53.9	43.0
43	Homa-Bay	33.3	58.5	63.0	49.3
44	Migori	38.8	47.8	64.9	22.0
45	Kisii	41.3	36.0	44.7	15.4
46	Nyamira	40.8	33.4	45.4	50.2
47	Nairobi City	32.2	12.1	28.3	13.2

Source: Kenya National Bureau of Statistics, 2009

Appendix VII: County Data on Poverty for 2005/2006 and 2009

No.	County	Poverty Head Count		Difference	Poverty Gap		Difference
		2005/06	2009		2005/06	2009	
		A	B		C	D	
1	Mombasa	37.6	34.8	2.8	8.7	10.0	(1.3)
2	Kwale	74.9	70.7	4.2	28.4	41.8	(13.4)
3	Kilifi	71.4	58.4	13.0	25.8	31.4	(5.6)
4	Tana River	76.9	75.6	1.3	29.9	46.1	(16.2)
5	Lamu	32.7	32.3	0.4	6.3	15.6	(9.3)
6	Taita-Taveta	54.8	50.4	4.4	17.6	15.6	2.0
7	Garissa	49.2	58.9	(9.7)	20.3	18.7	1.6
8	Wajir	84.0	84.2	(0.2)	38.1	31.9	6.2
9	Mandera	87.8	85.8	2.0	45.7	32.4	13.3
10	Marsabit	83.2	75.8	7.4	42.2	22.9	19.3
11	Isiolo	72.6	65.3	7.3	28.4	19.0	9.4
12	Meru	28.3	31.0	(2.7)	6.2	6.0	0.2
13	Tharaka Nithi	48.7	41.0	7.7	12.0	9.5	2.5
14	Embu	42.0	35.3	6.7	14.2	7.7	6.5
15	Kitui	63.5	60.4	3.1	22.2	16.8	5.4
16	Machakos	59.6	42.6	17.0	19.8	9.7	10.1
17	Makueni	64.1	60.6	3.5	22.2	16.8	5.4
18	Nyandarua	46.3	38.8	7.5	17.5	9.4	8.1
19	Nyeri	32.7	27.6	5.1	11.6	6.2	5.4
20	Kirinyaga	25.2	25.9	(0.7)	5.9	5.7	0.2
21	Muranga	29.9	33.2	(3.3)	10.7	7.7	3.0
22	Kiambu	27.2	24.2	3.0	6.5	5.9	0.6
23	Turkana	94.3	87.5	6.8	67.5	29.0	38.5
24	West Pokot	69.8	66.3	3.5	25.8	16.2	9.6

No.	County	Poverty Head Count		Difference	Poverty Gap		Difference
		2005/06	2009		2005/06	2009	
		A	B		C	D	
25	Samburu	73.0	71.4	1.6	42.4	17.4	25.0
26	Trans-Nzoia	50.2	41.2	9.0	15.1	7.7	7.4
27	Uasin-Gishu	51.3	33.8	17.5	11.4	6.0	5.4
28	Elgeyo-Marakwet	55.5	52.7	2.8	16.6	12.2	4.4
29	Nandi	47.4	40.0	7.4	13.7	7.5	6.2
30	Baringo	57.4	52.2	5.2	21.6	11.4	10.2
31	Laikipia	50.5	47.9	2.6	14.1	10.5	3.6
32	Nakuru	40.1	33.5	6.6	12.1	6.1	6.0
33	Narok	33.8	41.0	(7.2)	10.2	7.1	3.1
34	Kajiado	11.6	38.0	(26.4)	2.5	7.8	(5.3)
35	Kericho	44.2	39.3	4.9	11.5	7.6	3.9
36	Bomet	46.5	51.3	(4.8)	12.2	10.4	1.8
37	Kakamega	53.0	49.2	3.8	17.4	12.0	5.4
38	Vihiga	41.8	38.9	2.9	11.9	8.8	3.1
39	Bungoma	52.9	47.3	5.6	17.7	11.7	6.0
40	Busia	66.7	60.4	6.3	26.8	16.8	10.0
41	Siaya	35.3	38.2	(2.9)	11.8	7.6	4.2
42	Kisumu	47.8	39.9	7.9	14.2	9.0	5.2
43	Homa Bay	44.1	48.4	(4.3)	15.2	10.5	4.7
44	Migori	46.7	49.6	(2.9)	19.0	12.1	6.9
45	Kisii	60.7	51.4	9.3	21.7	11.7	10.0
46	Nyamira	48.1	50.7	(2.6)	14.3	11.3	3.0
47	Nairobi	22.5	21.8	0.7	6.9	4.1	2.8

Source: Kenya National Bureau of Statistics, 2014

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