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THE SENATE

THIRTEENTH PARLIAMENT

17/04/2025

REPORT OF THE STANDING COMMITTEE ON FINANCE AND BUDGET

ON

THE FOURTH BASIS FOR ALLOCATING THE SHARE OF NATIONAL REVENUE AMONG THE COUNTIES

17/04/25

APPROVED
RT. HON. SEN
AMASON J. KINGI

Clerk's Chamber
The Senate
Parliament of Kenya
NAIROBI

April 2025

Table of Contents

PREFACE

ESTABLISHMENT AND MANDATE OF THE COMMITTEE

Article 124(1) of the Constitution of Kenya provides that each House of Parliament may establish committees and shall make Standing Orders for the orderly conduct of its proceedings, including the proceedings of its committees.

Parliamentary committees consider policy issues, scrutinize the workings and expenditures of the National and County Governments, and examine proposals for legislation. The result of any process in Committees is a report, which is tabled in the House for consideration.

The Standing Committee on Finance and Budget is established pursuant to section 8(1) of the Public Finance Management (PFM) Act, Cap 412A and standing order 228 of the Senate Standing Orders and is mandated to-

a) investigate, inquire into, and report on all matters relating to coordination, control, and monitoring of the county budgets and examine-
   (i) the Budget Policy Statement presented to the Senate;
   (ii) the report on the budget allocated to constitutional Commissions and independent offices;
   (iii) the Division of Revenue Bill, County Allocation of Revenue Bill, County Governments Additional Allocations Bill, and cash disbursement schedules for county governments;
   (iv) all matters related to resolutions and Bills for appropriations, the share of national revenue amongst the counties, matters concerning the national budget, including public finance and monetary policies and public debt, planning, and development policy; and
b) Pursuant to Article 228 (6) of the Constitution, to examine the report of the Controller of Budget on the implementation of the budgets of county governments.

MEMBERSHIP OF THE COMMITTEE

The Standing Committee on Finance and Budget was constituted by the Senate of the Thirteenth (13th) Parliament on Thursday, 13th October, 2022 during the First Session. The Committee was later reconstituted on Wednesday, 12th February, 2025, during the Fourth Session. The Committee as currently constituted is comprised of the following Members-

1) **Sen. (Capt.) Ali Ibrahim Roba, EGH, MP** - **Chairperson**
2) **Sen. Maureen Tabitha Mutinda, MP** - **Vice-Chairperson**
3) Sen. (Dr.) Boni Khalwale, CBS, MP - Member
4) Sen. Mohamed Faki Mwinyihaji, MP - Member
5) Sen. Richard Momoima Onyonka, MP - Member
6) Sen. Shakila Abdalla Mohamed, MP - Member
7) Sen. Eddy Gicheru Oketch, MP - Member
8) Sen. Mariam Sheikh Omar, MP - Member
9) Sen. Esther Okenyuri, MP - Member

CHAIRPERSON'S FOREWORD

Article 217 (1) of the Constitution of Kenya provides that once every five (5) years, the Senate shall, by resolution, determine the basis for allocating among the counties the share of national revenue that is annually allocated to the county level of government.

Article 216 (1) of the Constitution provides that the principal function of the Commission on Revenue Allocation (CRA) is to make recommendations concerning the basis for equitable sharing of revenue raised by the national government between the national and county governments, and among the county governments. The recommendations are then forwarded to Parliament for consideration and approval. Pursuant to this Article, the CRA submitted their recommendations on the fourth basis to the Senate for consideration. The proposed criteria was tabled in the Senate on 12th February, 2025 and was committed to the Standing Committee on Finance and Budget. Pursuant to Articles 118(1)(b) and 217(2) of the Constitution, the Committee is required to facilitate public participation, consult Cabinet Secretary responsible for finance, Council of Governors and professional bodies.

The first basis was approved by the 10th Parliament in November 2012 and was used to share revenue for financial years 2013/14; 2014/15 and 2015/16, 2016/17. The second basis was approved by 11th Parliament in 2016 and was used to share revenue for financial years 2017/18 and 2018/2019, 2019/20. The third basis was approved by 12th Parliament in September 2020 and used to share revenue for financial years 2020/21, 2021/22, 2022/23, 2023/24 and 2024/25.

Pursuant to Articles 217(2) and 118(1)(b), the Committee in reviewing the proposed fourth basis received submissions from-

a) the National Treasury and Economic Planning;
b) the Commission on Revenue Allocation (CRA);
c) the Kenya National Bureau of Statistics (KNBS);
d) the Council of Governors (CoG);
e) the Institute of Certified Public Accountants of Kenya (ICPAK);

f) the Bajeti Hub;
g) the County Assembly of Bomet Budget Office On behalf Mr. Benard Ronoh, Stella Chemutai and Nickson Kirui;
h) the Budget Talk Global;
i) the Institute of Public Finance (IPF);
j) Achievers Kenya;
k) Coastal People's Forum; and
l) Mr. John Kangani.

The Committee held a total of six (6) meetings (*Annex 1- Minutes of the Committee*) to deliberate on the fourth basis as well as deliberative meetings with stakeholders. Having considered the CRA's Recommendation, and submissions from Stakeholders, the Committee made the following observations-

a) That, the fourth basis as proposed by CRA had incorporated a new parameter called the stabilization factor. According to the CRA, this factor has been introduced to ensure that all counties are held harmless and their allocations under the new basis are not less than prior year allocations. However, it would be prudent to address transition effects from one basis to another using a scientifically generated deviation parameter.

b) That, the data used to generate the Income Distance index (GCP) is not directly derived from each county. The KNBS applies a Top-Down Approach to determine each county's contribution to GDP. Further, the approach used by CRA to determine the index is similar to the level of poverty gap in a particular county when compared to Nairobi City County. Additionally, using Nairobi City County as a reference point makes it difficult to assign an index to the county.

c) That, the population parameter, is based on data from the 2019 Kenya Population and Housing Census (KPHC). However, the population of Wajir County, Mandera County and Garissa County must be adjusted in accordance with the judgment in

Constitutional Petition No. 4 of 2020, that annulled the 2019 population data for constituencies in the aforementioned counties.

d) That, the proposed Fourth Basis for revenue sharing presents a significant shift in approach from the third basis which had more expansive and sector-specific parameters. This raises the concern on the balance between simplicity, precision, and inclusivity in the allocation model.

e) That, a number of stakeholders proposed that while transitioning from the Third to Fourth Basis, the Senate should ensure that no county government should receive an allocation less than the respective allocation in FY 2024/25 allocation.

f) That whereas most of the stakeholders proposed the inclusion of additional parameters in the Fourth Basis, it was limited in its considerations of these proposed variables as there is no readily available, credible and verifiable data. This issue is further compounded by the fact that the KNBS submitted that they lacked adequate funding to enable the collection, collation, analysis and dissemination of up-to-date data on crucial areas of devolved functions such as health.

g) That Article 217(2)(a) of the Constitution as read together with Article 203(1)(i) and proposals received from various stakeholders to include a parameter relating to fiscal effort to reward counties that improved OSR collection. However, the application of this parameter would result in unpredictability in allocations to counties because while the basis applies for five years, data on OSR may vary from one financial year to another. Thus, the application of this parameter would result in volatility of allocations to counties.

h) The Fourth Basis will be used to share funds in the context of the devolved functions assigned to counties under Part 2 of the Fourth Schedule to the Constitution. However, there is no data on the status of the delivery of services in these devolved functions and the costing of devolved functions remains an unaddressed matter

The Committee considered the views submitted by stakeholders and recommends that the Senate approves the fourth basis for sharing national revenue among the county governments guided by the following principles-

(a) no county shall receive less than the equitable share allocated to it in FY 2024/25; and

(b) in addition to the allocation received in FY 2024/25, each respective county government shall have a marginal increase in its equitable share;

Thus, the Committee recommends that the fourth basis for allocation of revenue under Article 217(1) of the Constitution for FY 2025/26 to 2029/30 be approved as follows-

a) the first Ksh.387.425 billion (being county equitable share for FY 2024/25) be shared among counties based on the baseline allocation factor derived from each county's allocation for FY 2024/25; and

b) the balance be shared using the following criteria-

Parameter	**Weights (%)**
Basic Equal Share	35%
Poverty	12%
Geographical Size	8% capped at 10%
Population	45%
TOTAL	**100**

Thus, the formula be as follows- County Allocation = (Baseline Allocation Ratio*Ksh.387.425 billion) + {[(0.45*Population Index) + (0.35*Equal Share Index) + (0.12*Poverty Index) + (0.08*Geographical Size Index)] **Additional County Equal Share above the baseline*}.

Acknowledgement

The Committee acknowledges and appreciates the cooperation shown by all stakeholders who made submissions or appeared before the Committee to deliberate on the matter. In addition, the Committee appreciates the Offices of the Speaker and Clerk of the Senate for the support extended to the Committee in execution of its mandate.

This report is hereby submitted to the Senate for its consideration and adoption pursuant to standing order 223 of the Senate Standing Orders.

It is now my pleasant duty and privilege, on behalf of the Standing Committee on Finance and Budget, to present to the Senate, the Report of the Committee on the Fourth Basis for allocating national revenue among county governments.

Signature..................................**Date**..15/04/2025...

SEN. (CAPT.) ALI IBRAHIM ROBA, EGH, MP.

CHAIRPERSON,

STANDING COMMITTEE ON FINANCE AND BUDGET)

ADOPTION OF THE REPORT OF THE STANDING COMMITTEE ON FINANCE AND BUDGET ON THE FOURTH BASIS FOR SHARING NATIONAL REVENUE AMONG COUNTIES

We, the undersigned Members of the Senate Standing Committee on Finance and Budget, do hereby append our signatures to adopt this Report-

	Name	Designation	Signature
1.	**Sen. Capt. Ali Ibrahim Roba, EGH, MP**	**Chairperson**	
2.	**Sen. Maureen Tabitha Mutinda, MP**	**Vice-Chairperson**	
3.	Sen. (Dr.) Boni Khalwale, CBS, MP	Member	
4.	Sen. Mohamed Faki Mwinyihaji, CBS, MP	Member	
5.	Sen. Richard Momoima Onyonka, MP	Member	
6.	Sen. Shakila Abdalla Mohamed, MP	Member	
7.	Sen. Eddy Gicheru Oketch, MP	Member	
8.	Sen. Mariam Sheikh Omar, MP	Member	
9.	Sen. Esther Okenyuri, MP	Member	

CHAPTER ONE

1.0 Introduction

1. Article 216(1) of the Constitution of Kenya mandates the Commission on Revenue Allocation (CRA) to make recommendations concerning the equitable sharing of revenue raised nationally, both between the national and county governments (vertical share), and among the county governments (horizontal share). Article 202 further reinforces this framework by providing for the equitable sharing of national revenue between the two levels of government, ensuring counties are allocated adequate resources to perform their functions.
2. In determining the basis of revenue sharing, the CRA is guided by Article 203(1) of the Constitution which provides for the criteria to be taken into account in determining the equitable share for the county governments. The criteria provided include among others the fiscal capacity and efficiency of counties, national interest, the need for economic optimization of each county, development and other needs of counties, and the desirability of stable and predictable allocation of revenue.
3. Article 217 outlines the procedure for developing an agreed-upon basis for allocating revenue among the counties, and it requires the Senate to play a central role in this process.
4. Specifically, the Constitution stipulates that every five (5) years, the Senate shall, by resolution, determine the basis for allocating among the counties the share of national revenue that is annually allocated to the county level of government. This resolution must be made in accordance with the principles and procedures set out in the Constitution, and it involves both the Senate and the National Assembly.
5. The CRA supports this process by submitting to the Senate an evidence-based recommendations, ensuring that the revenue-sharing formula reflects equity, efficiency, and the diverse needs and capacities of counties. These constitutional provisions aim to uphold the spirit of devolution by promoting fair and balanced development across the country.

6. Since the promulgation of the 2010 Constitution, there have been three revenue-sharing bases. The first basis for sharing revenue among counties was approved by the 10th Parliament in November 2012. The second basis was approved by the 11th Parliament in June 2016, while the third basis was approved by the 12th Parliament in September 2020.

1.1 Review of Previous Revenue Sharing Bases.

7. In line with Article 216(1)(b) of the Constitution, the CRA, has been preparing and submitting to Parliament recommendations on basis to the Senate for consideration since the inception of devolution.

i) The First Basis for Sharing Revenue

8. The first basis for sharing revenue among county governments in Kenya was approved by the National Assembly in November 2012. This framework was applied during the financial years 2012/13 to 2016/17, and facilitated the equitable distribution of a total of Ksh. 966.52 billion to the counties over the five-year period. The revenue allocation under this basis was guided by five key parameters, which were designed to ensure fairness and to reflect the diverse developmental needs and capacities of the different counties.
9. These parameters were: Population (45%) to ensure allocations reflected service delivery demands; Equal Share (25%) to guarantee a baseline level of funding for all counties; Poverty Index (20%) to address historical economic marginalization; Land Area (8%) to account for service delivery costs in expansive regions; and Fiscal Responsibility (2%) to encourage prudent financial management. Together, these parameters formed the foundation for implementing Kenya's devolution through fair and needs-based resource allocation.

ii) The Second basis for Sharing Revenue

10. The second basis for sharing revenue among county governments was approved by the 11th Parliament in November 2016 and applied over three financial years, from

FY 2017/18 to 2019/20. Under this framework, a total of Ksh. 932.5 billion was equitably allocated to the counties. This basis retained all five parameters from the first revenue-sharing formula- Population (45%), Basic Equal Share (26%), Land Area (8%), Poverty (18%), and Fiscal Effort (2%)—and introduced a new sixth parameter: the Development Factor, which was assigned a weight of 1%.

11. The inclusion of the Development Factor was intended to account for disparities in development across counties. Additionally, two major technical changes were introduced under this basis: updated poverty data based on the 2005/06 to 2009 period and the removal of the land area cap. These adjustments significantly influenced the distribution outcomes, resulting in 18 counties benefiting from increased allocations, while 29 counties experienced a decline. The second basis aimed to refine the equity considerations of the first, ensuring a more responsive and development-focused allocation mechanism.

iii) ***The Third Basis for Sharing Revenue***

12. The third basis for sharing revenue among county governments was approved by Parliament in September 2020. This basis introduced a more advanced and sector-driven approach to revenue allocation, aligning more closely with county functions outlined in the Fourth Schedule of the Constitution.

13. The basis covered FY 2020/21 to FY 2024/25, was used to allocate a total of Ksh.1,829.4 billion among counties. The formula applied eight parameters: Population Index (18%), Health Index (17%), Basic Share Index (20%), Poverty Headcount Index (14%), Land Area Index (8%), Agricultural Index (10%), Urban Services Index (5%), and Rural Access Index (8%).

14. This basis also marked a shift in data references, using the 2019 population census and updated poverty data from the 2015/16 survey, replacing earlier datasets. A transitional mechanism was employed, where 50% of the FY 2019/20 allocation (i.e., Ksh.158.25 billion of the Ksh. 316.5 billion) continued to be shared using the second basis, while the remaining balance was distributed using the third basis. The third basis design, including the addition of parameters such as agriculture, urban

services, and rural access, aimed to better reflect service delivery needs across key devolved functions. In ensuring that none of the counties would receive less than FY 2019/20 allocation, the equitable share allocation had to be increased from Ksh.316.5 billion to Ksh.370 billion.

1.2 The proposed Fourth Basis by the Commission on Revenue Allocation

15. The proposed Fourth Basis for Revenue Sharing among county governments was developed by the CRA in line with Article 216 of the Constitution. It was submitted to Parliament in January 2025 and is set to guide revenue allocation among counties for the financial years 2025/26 to 2029/30.
16. This proposed fourth basis is anchored on two primary objectives- to ensure equitable sharing of revenue to support efficient service delivery, and to address economic disparities among counties in order to promote balanced regional development. The formula comprises five key parameters- Population, Equal Share, Geographical Size, Poverty, and Income Distance.
17. In the fourth basis, the **population parameter** is the most significant, with a weight of **42%.** It uses data from the 2019 Kenya Population and Housing Census (KPHC) and is calculated by dividing a county's population by the total population across all 47 counties. This parameter reflects the assumption that most services provided by counties—such as health, agriculture, water, and ECDE education—are population-driven. Therefore, counties with larger populations are expected to require more resources to meet service delivery demands.
18. The **Equal Share parameter**, assigned a weight of **22%**, ensures that every county receives a minimum allocation, regardless of its size. This is aimed at promoting fairness and supports the basic administrative and governance functions that are common across all counties. It is particularly important for smaller or less populous counties, serving as an affirmative action tool to help level the playing field and enable effective public participation and local governance.

19. The **Geographical Size parameter**, weighted at **9%**, recognizes that counties with larger land areas may face higher service delivery and administrative costs. For instance, it cost more to build and maintain infrastructure or deliver public services in vast, remote areas. The index is calculated by dividing a county's land area (in square kilometers) by the total land area of all 47 counties. To manage distortions, the formula caps this parameter at a maximum of 10% of the total land area, ensuring that extremely large counties do not receive disproportionate allocations.
20. The **Poverty parameter**, given a weight of **14%**, is based on the 2022 Kenya Poverty Report by the Kenya National Bureau of Statistics (KNBS). It uses the Poverty Head Count- the number of poor people in a county divided by the total number of poor people across the 47 counties. This parameter is aimed at addressing economic inequality by directing more funds to counties with higher poverty levels, enabling them to invest in development and uplift marginalized populations.
21. Lastly, the **Income Distance parameter**, weighted at **13%**, introduces a measure of economic disparity among counties. It is based on per capita **Gross County Product (GCP)**, using the average of data from 2020, 2021, and 2022. The income distance index is calculated by subtracting a county's per capita GCP from that of Nairobi—the highest in the country—and dividing the result by the sum of all such differences across counties. This parameter assesses a county's capacity to generate income and is intended to provide more resources to those with lower economic output, compensating for limited revenue-generating abilities.
22. To implement the Fourth Basis, the CRA incorporated a stabilization factor to ensure that no county government would receive less than its allocation in the 2024/25 financial year. The CRA recommended an equitable share allocation to county governments of Ksh.417.4 billion for the financial year 2025/26, with allocations for each county based on the formula- County Allocation = (0.42 * Population Index + 0.22 * Equal Share Index + 0.14 * Poverty Index + 0.09 * Geographical Size Index + 0.13 * Income Distance Index) * Stabilization factor.

CHAPTER TWO

OVERVIEW OF PUBLIC PARTICIPATION ON THE FOURTH BASIS

2.0 Introduction

23. The Committee, pursuant to the provisions of Articles 118(1)(b) and 217(2) of the Constitution and section 8(2) of the Public Finance Management Act, Cap.412A, proceeded to undertake public participation on the Fourth Basis Formula. In this regard, the Committee published an advertisement in the *Daily Nation* and *Standard* newspapers on 20th March, 2025 inviting members of the public to submit written memoranda on the Bill. The advertisement was also posted on the Parliament website and social media platforms. A copy of the advertisement is attached (*Annex 2- Published Public Advert*).

24. The Committee held meetings with some of the listed stakeholders and received submissions (*Annex3- stakeholders' submissions*) from the following stakeholders–
    a) the National Treasury and Economic Planning;
    b) the Kenya National Bureau of Statistics (KNBS);
    c) the Council of Governors (CoG);
    d) the Institute of Certified Public Accountants of Kenya (ICPAK);
    e) the Bajeti Hub;
    f) the County Assembly of Bomet Budget Office On behalf Mr. Benard Ronoh, Stella Chemutai and Nickson Kirui;
    g) the Budget Talk Global;
    h) the Institute of Public Finance (IPF);
    i) the Achievers Kenya;
    j) the Coast People's Forum; and
    k) Mr. John Kangani.

2.1 The National Treasury and Economic Planning

25. The National Treasury and Economic Planning submitted as follows-

a) That the First and Second Bases were designed to ensure adequate funding for counties, correct economic disparities, and stimulate revenue generation. The Third Basis on the other hand aimed to enhance equitable service delivery and promote balanced development. The proposed Fourth Basis is said to focus on equitable revenue sharing to facilitate service delivery and address economic disparities, using parameters such as population (42%), basic share (22%), land area (9%), poverty (14%), and per capita income distance (13%).

b) That the proposed Fourth Basis marked a shift from a sectoral to an equity-focused approach. A detailed analysis of the simulated allocations under the new formula, was provided noting the inclusion of a stabilization factor to prevent any county from receiving less than its allocation in the prior year. However, the National Treasury observed that the method of determining the stabilization factor was unclear.

c) proposed incorporating fiscal prudence and fiscal effort as parameters to encourage counties to increase their own source revenue and improve efficiency. Further suggested that the basic share weight should be increased to ensure minimum service delivery across all counties, including counties performing poorly in other indices.

d) That while poverty weight remained unchanged at 14%, there was no accompanying analysis to justify the consistency or to reflect spatial changes in poverty levels. They proposed a shift towards outcome-based allocations and proposed a development index encompassing all constitutionally assigned county functions.

e) That increasing the weight for land area parameter, could disadvantage densely populated counties with smaller land sizes.

f) That the use of per capita income distance would counterintuitively reward low-GDP-contributing counties at the expense of more productive ones. The National Treasury further questioned the formula's assumptions and data sources—particularly the use of Nairobi's GCP as a reference.

g) Recommended that impact studies of previous revenue-sharing bases should be undertaken to inform future proposals and to justify the introduction or removal of parameters.

2.2 The Council of Governors (CoG)

26. The Council of Governors submitted as follows–

a) That while the Fourth Basis retained parameters similar to the first and second bases, it marked a shift from the third basis which had incorporated sectoral indicators such as health, agriculture, and roads. This move might weaken the alignment between revenue and devolved functions.

b) That the population parameter had the highest weight but its application would not be uniform as a result of the judgment in ***Sheikh & 24 Others vs Kenya National Bureau of Statistics & 4 Others (HCP No. 4 of 2020)*** affecting the applicable population and housing census data for Garissa, Mandera and Wajir counties.

c) That the weight for Equal Share Parameter was not increased as much as they had recommended during stakeholder engagements. They had proposed a minimum of 28%, but only a slight increase from the third basis was adopted.

d) That there were inconsistencies between 2009 and 2019 land area data, which affected county allocations without clear explanation from CRA.

e) That regarding poverty parameters, a headcount index was overly population-based and risked penalizing counties that had made progress in poverty reduction. The use of volatile poverty data could lead to instability in resource distribution.

f) That per capita income distance parameter was introduced after stakeholder consultations had concluded and lacked sufficient explanation or scrutiny. Its rationale and applicability was not explained.

g) that the stabilization factor was a useful transitional measure to ensure no county receives less than in FY 2024/25, but stressed the importance of sustained and predictable growth in revenue allocation.

h) That application of the Fourth Basis to the current allocation of Ksh.387.425 billion, would lead to 31 counties losing their allocations, a total of Ksh.12.1 billion. Recommended that the total allocation be increased to at least Ksh.399.53 billion to ensure no county loses its previous allocations.

i) there was need for a transparent, fair, and stable revenue-sharing model that promotes equitable development, supports service delivery, and reflects the true needs of all counties. They reiterated their willingness to collaborate with the Senate to refine the formula to serve all regions effectively.

2.3 The Kenya National Bureau of Statistics (KNBS)

27. The Kenya National Bureau of Statistics (KNBS) appeared before the Committee and submitted the following-

a) The Bureau reported that the publication of the 2019 Census results had led to seven petitions challenging the figures for various sub-counties in Mandera, Wajir, and Garissa. These petitions were consolidated into one case heard in Garissa. In ***Sheikh & 24 Others vs Kenya National Bureau of Statistics & 4 Others (HCP No. 4 of 2020)*** the court found that KNBS had failed to comply with scrutiny orders regarding census data. The court ruled that the 2019 census results for affected regions were incorrect and illegitimate, ordering their cancellation and mandating a fresh mini-census within one year. KNBS stated that it had filed an appeal against the judgment and sought a stay of execution to allow reliance on the 2019 census data pending appeal.

b) The Bureau expressed its justification for appealing the judgment, arguing that the High Court had erred in several ways. It contended that the petitions lacked precision in identifying constitutional violations, relied on unofficial census data deemed inadmissible and imposed obligations not grounded in law. Additionally, The Bureau criticized the issuance of structural interdicts without sufficient legal basis and claimed that the court had misinterpreted evidence regarding compliance with scrutiny orders.

c) The Bureau highlighted significant implications of the judgment. It noted that reverting to 2009 population data for contested areas would disrupt government planning processes, such as resource allocation and boundary delimitation. KNBS warned that implementing different population datasets for specific constituencies would lead to unequal treatment under Article 27 of the Constitution, permanently affecting parts of the population. Furthermore, mixing population values from 2019 and subsequent years would compromise Kenya's national census data integrity. KNBS also emphasized that canceling census results for specific counties would invalidate national figures, undermining its credibility as a statistical agency and causing constitutional violations.

Measurement of Monetary Poverty in Kenya

d) The Bureau presented its methodology for measuring monetary poverty in Kenya, emphasizing its reliance on household surveys to determine poverty rates. The Bureau explained that poverty measurement involves assessing household consumption against established poverty lines. It noted challenges such as regional disparities, inflation adjustments, and variations in household spending patterns. KNBS stressed its commitment to providing accurate poverty statistics to inform policy decisions aimed at reducing poverty levels nationwide.

Measurement of Gross County Product (GCP)

e) The Bureau also addressed its approach to measuring Gross County Product (GCP), which captures economic activity at the county level. The Bureau explained that GCP measurement is based on national accounts data disaggregated by county using sectoral indicators such as agriculture, manufacturing, and services. KNBS highlighted challenges such as data availability, regional disparities, and methodological complexities in estimating economic output at sub-national levels. It underscored the importance of GCP statistics for guiding county-level development planning and resource allocation.

28. Following a meeting held on 1st April 2025 between the Bureau and the Committee, several pertinent issues of concern were raised by the Committee, to which the Bureau provided formal responses as follows–

a) The Bureau affirmed that the data it produces is credible, verifiable, and reliable. They reported that all data collection, processing, and dissemination is conducted in line with the fundamental principles of official statistics as stipulated in Schedule IV of the Statistics Act, Cap. 112. KNBS emphasized that it is the only legally mandated agency in Kenya responsible for official statistics and as such its data serves as the most authoritative source.

b) In response to whether its data is susceptible to political manipulation, the Bureau stated unequivocally that its processes are free from political interference. They insisted that all statistical work is guided by scientific methodologies and professional standards, thereby ensuring objectivity and impartiality.

c) On whether Parliament could direct the conduct of a fresh population census across the country, the Bureau clarified that, under both international (UN) guidelines and the Statistics Act, a national census should be conducted every ten years. They further noted that any deviation from the schedule would require a legal amendment to the Act.

d) The Committee also questioned why the census figures for the affected counties were lower in 2019 despite no major disasters occurring in the period. The Bureau explained that the matter had already been presented in court and was under appeal. They added that the 2019 results were significantly lower because the 2009 numbers in the same regions had been inflated. The apparent drop therefore reflected a correction of past inaccuracies rather than an actual population decline.

e) Lastly, regarding the Court's judgement which had not yet been stayed, the Bureau stated that it had already prepared a Cabinet Memorandum through the State Department for Economic Planning. The memo detailed the requirements, including budget estimates, for carrying out the ordered mini-census. They noted that they're awaiting Cabinet review and guidance to proceed with implementation.

2.4 The Institute of Certified Public Accountants of Kenya (ICPAK)

29. The ICPAK submitted the following-

a) That the current CRA proposal allocated 42% weight to population, this proposal emphasized on populous counties while neglecting the logistical and infrastructural challenges faced by sparsely populated but geographically vast regions. They recommended reduction of weight to 29% and reallocating the difference to a reintroduced Urban Service Index (5%) and Rural Access Index (8%). They indicated that this would better align with Article 203(1)(g) of the Constitution, which calls for consideration of economic disparities and infrastructural challenges in counties.

b) That the income distance parameter, weighted at 13%, could discourage counties from improving their own-source revenue if not properly applied. Suggested a reduction to 11% and reintroducing the fiscal effort parameter at 2%, thereby encouraging counties to enhance fiscal discipline and improve revenue generation.

c) That basic equal share, weight be reduced to 21%. The freed-up 1% to be allocated to a development factor to promote capital investment. this would assist in improving development fund absorption rates which has been a major hindrance to effective devolution. Cited the COB reports which indicated declining absorption rates from 61.0% in 2022/23 to 57.5% in 2023/24.

d) That stabilization factor did not have any scientific grounding. It risked reducing the fairness and predictability of allocations.

e) That fluctuating weight of the population parameter over past bases could incentivize data manipulation in the 2029 census. Additionally, they highlighted the need to account for social safety nets and demographic variations, particularly the youth bulge and rural-urban migration trends.

f) That abrupt changes in parameters had negatively impacted counties- especially under the third basis. They advised CRA to adopt a fixed set of parameters across all bases to ensure stability and only adjust weights as necessary to reflect emerging needs.

g) Recommended adoption of performance-based indicators in the formula, suggesting service delivery be measured through population density, cost of service provision, and time efficiency. These would better reflect the true needs and capacities of counties and enhance accountability in the use of public funds.

2.5 The Bajeti Hub

30. The Bajeti Hub submitted the following-

a) That the CRA had introduced a new revenue-sharing proposal comprising five parameters, marking a notable departure from the 3rd generation formula approved by the Senate in 2020. The CRA's proposal indicated a shift back to the use of proxy indicators of need and expenditure, a method that had been central to the first two formulas following the onset of devolution.

b) That this shift was driven by two key arguments. Firstly, the CRA had cited data challenges, although paradoxically, the same proposal acknowledged the availability of credible data that had previously enabled the inclusion of service-level parameters in the 3rd formula. Secondly, the CRA highlighted discrepancies between actual county spending and the weighting of parameters in the previous formula as a reason for revising the approach.

c) That the 3rd generation formula had not been fully applied over the past five years. Instead, revenue sharing had relied on a blend of the 2nd and 3rd formulas, making comparisons potentially misleading. Additionally, emphasized that county spending was influenced not only by equitable share allocations but also by own-source revenue (OSR) and conditional grants.

d) that the CRA had rightly identified the risks of negative incentives arising from data on population and poverty, the Budget Hub argued that the solution lay in using direct and credible indicators of need, such as disease prevalence and the demand for agricultural extension services. Ultimately, it asserted that counties should retain discretion in resource allocation, while the formula should aim to reflect service needs using the most accurate and verifiable data available.

e) That there was heavy reliance on population (42% weight) as a proxy for service needs, arguing it overlooks the diverse nature of demand across counties. They recommended using direct measures of need—like disease prevalence or health facility usage—supported by credible data sources such as KDHS, to better reflect actual service requirements.

f) That while supporting Basic Equal Share parameter and retaining it in the fourth basis, the increase from 20% to 22% was not explained. Further noted there was no targeted strategy for supporting smaller counties and suggested a more focused approach instead of a general weight increase.

g) That Poverty and Land Area parameters were seen as useful in highlighting marginalization and service delivery costs in expansive regions. However, they are still proxies, and their weight should be reduced gradually as more accurate service-level data becomes available.

h) That Income Distance parameter was poorly justified in the Kenyan context where counties don't control major revenue sources. That mirroring the Indian model is inappropriate and recommended reconsidering its inclusion or seeking better alternatives for assessing counties' fiscal capacity.

i) That the Senate should consider a fourth-generation formula that builds on the third formula and incorporates more direct measure of service needs. A formula that allocates resources based on the needs for key basic services across the counties provides a better chance that resources can be used to meet the actual need for those services.

j) A proposal for introduction of-
   - education parameter with a 3.5% weight, focused on Early Childhood Development. This would reflect the recurrent nature of the service and help address gaps in teacher access and enrollment.
   - water parameter with a weight of 3% to measure the need for access to water, especially in rural areas. They noted that using KDHS data on water point access would be more reliable than previous classifications.
   - fiscal prudence with a weight of 2%, this would incentivize accountability using simple, verifiable indicators like budget transparency and audit outcomes. They suggested that this be funded by deducting from the Basic Equal Share.

k) That the Senate should progressively reduce the weight of proxy indicators like population and poverty, arguing that the new service-based parameters already captured population-driven needs and marginalization.

2.6 The Institute of Economic Affairs

31. The Institute of Economic Affairs submitted the following;

a) That there was a need for a more equitable and performance-oriented allocation of national revenue among county governments. While the existing formula considered key factors such as population, equal share, land area, and poverty levels, it still lacked incentives for improved financial management at the county level.

b) That the income distance component should be deleted. This is because the use of Gross County Product (GCP) as a proxy for county income was misleading, as it did not differentiate between county and national government contributions to economic output.

c) Recommended increasing the weight assigned to the population parameter from 42% to between 45% and 50%. This is because population size was directly linked to the demand for basic public services, such as health, education, and infrastructure. Larger populations, they argued, placed more strain on county services and resources, and thus deserved a proportionally larger share of national revenue. further that aligning allocations with population needs would support equitable development and strengthen inclusive service delivery across counties.

d) Proposed the introduction of a "prudence component" in the formula to reward counties demonstrating sound financial practices. They suggested that counties with clean audit reports from the Auditor General, effective fund absorption rates, and active citizen participation in budgeting should receive a performance-based incentive. This would promote transparency, accountability, and public participation in governance, citing the potential use of reports from bodies like the National Cohesion and Integration Commission (NCIC) as supporting evidence.

2.7 The Budget Talk Global

32. The Budget Talk Global submitted the following;

a) That while previous bases had achieved some success in resource distribution, disparities in development still exist across counties. The Fourth Basis needs to go beyond population size and land area to include factors such as poverty levels, fiscal effort, and development needs. They stressed the importance of aligning the formula with Article 203(1) of the Constitution, which provides key criteria for equitable sharing.

b) Recommended that population size continue to be weighted significantly but not dominate the formula. Proposed increased emphasis on poverty rates and service delivery costs to account for the unique challenges faced by marginalized and underdeveloped counties. The group believed that this would promote balanced development and ensure that no region is left behind.

c) That the basis should incentivize county-level revenue generation by introducing a fiscal responsibility parameter. Counties that demonstrated accountability and innovative revenue mobilization should be rewarded to promote self-sufficiency and reduce over-reliance on national transfers.

d) That there was a need to uphold transparency in the development and implementation of the Fourth Basis. The Commission should publish its methodologies, engage widely with stakeholders, and ensure that the adopted formula reflects the aspirations of all Kenyans.

2.8 The County Assembly of Bomet Budget Office

33. The County Assembly of Bomet Budget Office on behalf Mr. Benard Ronoh, Stella Chemutai and Nickson Kirui submitted the following-

a) Expressed significant reservations about the CRA proposed Fourth Basis for revenue sharing. They argued that the new formula heavily emphasized a limited set of indicators—particularly population, basic share, poverty, and Gross County Product (GCP) per capita—while disregarding other essential economic, social, and infrastructural factors critical to equitable development.

b) That the Fourth Basis represented a drastic departure from the broader and more inclusive Third Basis. In particular, they pointed out that important parameters like rural access, urban services, agriculture, and health—previously weighted in the Third Basis—had been entirely removed. The Office criticized this shift, warning that it risked neglecting counties with substantial development challenges in favor of populous counties, which may not necessarily have the greatest need.

c) That use of GCP per capita through the income distance parameter, failed to reflect the true revenue-generating capacities of counties. They emphasized that counties with high GCP per capita, like Nairobi and Mombasa, often required significant investment in infrastructure and public services, yet were unfairly penalized under this model. They also highlighted that the model ignored latent variables—such as informal economies, governance quality, and local development trends—that significantly affect county needs.
d) That modulating factor introduced to cushion changes in allocation was unsustainable and could lead to instability in county funding, especially in the event of national revenue shortfalls.
e) Proposed the County Development Index (CDI)—a holistic model that incorporates economic, social, infrastructural, and governance indicators. They explained that CDI used principal component analysis to capture both observed and latent factors, offering a more accurate reflection of each county's development status. The model also included fiscal effort and prudence to incentivize responsible financial management and self-reliance at the county level.
f) In a comparative case study, they showed that the CDI provided a more equitable distribution of resources, giving higher allocations to both underdeveloped and developing counties based on real needs, while still supporting counties with strong performance to sustain momentum. They also proposed that this model be used in conjunction with an Equalization Fund to further support historically marginalized regions.
g) The Senate should reject the proposed Fourth Basis formula for FY 2025/26 and revert to the Third Basis while CRA undertakes a comprehensive review. They urged the Senate to direct CRA to study the feasibility of integrating the CDI and to revise the revenue-sharing formula to include more meaningful

socioeconomic and infrastructural indicators. They also called for the phasing out of the modulating factor in favor of a more flexible and sustainable approach.

2.9 The Achievers Kenya

34. The Achievers Kenya submitted the following-

a) That the use of population as the primary parameter (42%) disproportionately benefits densely populated counties while marginalizing vast, sparsely populated ones that require more resources for infrastructure and administration. They recommended introducing a balancing factor that considered both population density and geographical size for equitable distribution.

b) That the equal share allocation (22%) is inadequate in addressing disparities in economic capacity, infrastructure, and governance needs. They proposed modifying the weight by incorporating a performance-based component to reward counties with prudent financial management and efficient service delivery.

c) That the 9% allocation for geographic size is insufficient for addressing the higher costs of service delivery in vast ASAL counties. Achievers recommended increasing this parameter to 12% to ensure counties with large areas receive adequate resource for infrastructure development and administration cost.

d) That the poverty parameter (14%) do not adequately address deep-rooted economic disparities. They proposed raising it to 18% to better support counties with higher poverty levels.

e) Although income distance aims to address economic disparities, the use of Gross County Product (GCP) as the sole measure may not fully reflect counties' actual financial needs and potential. Achievers recommended supplementing it with other economic indicators such as unemployment rates, business activity levels, and revenue collection capacity to create a more comprehensive economic disparity index.

f) That while stabilization factor ensures that no county receives less than its previous allocation, it may limit flexibility in responding to changing county needs. That there was a need for a periodic review mechanism within the five – year cycle to adjust all allocations based on demographic and economic changes.

2.10 The Institute of Public Finance (IPF).

35. The Institute of Public Finance submitted the following:

a) That while the fourth recommendation framework seeks to promote equitable development particularly in the 34 marginalized counties, counties like Homabay, Machakos, Mandera and Turkana had consistent declines in their share despite the broader goal of reducing inequalities.

b) That the Commission on Revenue Allocation (CRA) should consider implementing a Hold Harmless Clause to ensure no county receives less funding in absolute terms than it did under the previous formula.

c) That CRA should rectify weighting of parameters, placing greater emphasis on service delivery gaps rather than over-relying on population or poverty metrics, which can disproportionately affect some counties.

d) That the inconsistencies in revenue formula revisions had created unpredictability in county funding, especially for devolved services. They cited the removal of crucial parameters like health and agriculture in the Fourth Basis as a weakening of the link between allocations and service needs. IPF recommended that future formulas build on existing indices rather than eliminating them abruptly.

e) That while the population parameter served as a stable proxy for service demand, it had weaknesses, including misalignment with actual service needs and failure to account for demographic differences. IPF proposed breaking it into four subcomponents, incorporating geographic size and factoring in service needs, economic sustainability, and population density.

f) Regarding the poverty parameter, relying on outdated data led to inaccurate allocations. They criticized the Equalization Fund's ineffectiveness due to poor targeting and outdated indicators. To address this, they recommended splitting the poverty parameter into needs-based and performance-based components, along with frequent data updates and mid-term adjustment mechanisms.

g) That the Income Distance Index was meant to reduce economic inequality, however, it lacked incentives for counties to improve local revenue. They recommended adding a progressive incentive structure to encourage economic self-reliance.

h) That the stabilization factor was an arbitrary nature factor and required to be replaced with a scientifically derived deviation parameter to ensure fairness and predictability.

i) That earlier formula had included fiscal responsibility indicators, but these were later dropped. Thus, recommended reinstating incentives for own-source revenue collection and prudent spending. Further, called for adoption of expenditure metrics and capacity-building to help counties manage resources better and reduce dependence on national transfers.

2.11 The Coast People's Forum

36. The Coast People's Forum (CPF) submitted as follows–

a) That the formula did not fully address historical injustices, structural inequality, and the unique needs of coastal counties.

b) That overemphasis on population parameter disadvantaged sparsely populated but high-cost regions. They proposed reduction of its weight to 35% and reallocating the difference to a proposed County Needs Index and the equal share allocation.

c) That the stabilization factor was opaque and legally unanchored. Thus, proposed that it be formally included in legislation and based on a rolling average of past allocations, ensuring predictability and fairness in future disbursements.

d) Proposed for introduction of a County Needs Index weighted at 5%, which would capture vulnerabilities such as infrastructure gaps, disaster risks, and remoteness. This index would help address non-population-related development challenges, especially those affecting coastal communities.

e) That there was omission of coastal and marine functions in the formula. Thus, proposed the creation of a Blue Economy Conditional Grant or a new parameter to support port infrastructure, fisheries, and climate resilience efforts in counties like Mombasa, Lamu, and Kilifi.

f) Recommended reintroduction of sectoral indices such as health and agriculture as a way to align funding with devolved services and improve performance-based allocation.

g) That the Income Distance parameter, overlooked informal economies and overstated coastal counties' fiscal capacity. They recommended revising the calculation method, including a vulnerability score, and raising its weight to 15% to better reflect actual economic disparities.

2.12 Mr. John Kangani

37. Mr. John Kangani submitted the following-

a) Proposed an optimization-based model for the Fourth Basis of Revenue Sharing. That the model aligned with Article 203 of the Constitution, which emphasizes equity, affirmative action, local revenue incentives, and predictable allocations. His goal is to design a fairer and simpler method while keeping allocations close to the current distribution.

b) He employed a modified version of ridge regression, shifting the penalty from the model's coefficients to the data itself. This approach generated optimized values for five parameters: population, economic disparity (poverty), land area, fiscal incentive, and equal share. He used 2009 census data for Mandera, Wajir, and Garissa following the annulment of the 2019 census results.

c) The model assigned new weights to each parameter: 62% for population, 22% for economic disparity, 7% for land area, 3% for fiscal incentive, and 6% for equal share. These weights were determined through Sequential Least Squares

Programming to ensure minimal deviation from the 2024/2025 County Allocation of Revenue Act index.

d) That the impact of the optimized model on county allocations is negligible. The largest loss, recorded by Lamu, was just Ksh. 995, while the highest gain, in Nairobi, was only Ksh. 3,269. This minimal variance, he argued, demonstrates the model's ability to uphold fairness without disrupting existing funding patterns.

e) That the Senate should consider incorporating data-driven optimization techniques in future revenue-sharing frameworks. He believes this approach would better reflect constitutional priorities and improve the equity and effectiveness of resource distribution across counties.

CHAPTER 4

COMMITTEE OBSERVATIONS

38. Having considered the CRA's Recommendation, and submissions from Stakeholders, the Committee made the following observations–

a) That, the fourth basis as proposed by CRA had incorporated a new parameter called the *stabilization factor*. According to the CRA, this factor has been introduced to ensure that all counties are held harmless and their allocations under the new basis are not less than prior year allocations. However, it would be prudent to address transition effects from one basis to another using a scientifically generated deviation parameter.

b) That, the data used to generate the Income Distance index (GCP) is not directly derived from each county. The KNBS applies a Top-Down Approach to determine each county's contribution to GDP. Further, the approach used by CRA to determine the index is similar to the level of poverty gap in a particular county when compared to Nairobi City County. Additionally, using Nairobi City County as a reference point makes it difficult to assign an index to the county.

c) That, the population parameter, weighted at 42%, in the Fourth Basis is based on data from the 2019 Kenya Population and Housing Census (KPHC). However, the population of Wajir County, Mandera County and Garissa County must be adjusted in accordance with the judgment in Constitutional Petition No. 4 of 2020, that annulled the 2019 population data for constituencies in the aforementioned counties. The Committee is concerned that using 2009 population data for the affected counties may result in inequitable resource allocation and undermine the legitimacy of the revenue-sharing process.

d) That, the proposed Fourth Basis for revenue sharing presents a significant shift in approach from the third basis which had more expansive and sector-specific parameters. This raises the question of the balance between simplicity, precision, and inclusivity in the allocation model.

e) That while the proposed equal share parameter, assigned a weight of 22% in the CRA recommendation intends to ensure a foundational level of funding across all counties, the uniform application of this weight may not sufficiently address administrative burdens or capacity constraints in less populous or under-resourced counties. A more nuanced calibration is necessary to maintain both fairness and functionality in basic service provision across the board.

f) That, a number of stakeholders proposed that while transitioning from the Third to Fourth Basis, the Senate should ensure that no county government should receive an allocation less than the respective allocation in FY 2024/25 allocation.

g) That whereas most of the stakeholders proposed the inclusion of additional parameters in the Fourth Basis, it was limited in its considerations of these proposed variables as there is no readily available, credible and verifiable data. This issue is further compounded by the fact that the KNBS submitted that they lack adequate funding to enable the collection, collation, analysis and dissemination of up to date data on crucial areas of devolved functions such as health.

h) That Article 217(2)(a) of the Constitution as read together with Article 203(1)(i) requires that the revenue sharing basis takes into account the need for economic optimisation of each county and to provide incentives for each county to optimise its capacity to raise revenue. In this respect, the Committee received various proposals to include a parameter relating to fiscal effort to reward counties that improved OSR collection. However, the application of this parameter would result in unpredictability in allocations to counties because while the basis applies for five years, data on OSR may vary from one financial year to another. the application of this parameter would result in volatility of allocations to counties.

i) That the Fourth Basis will be used to share funds in the context of the devolved functions assigned to counties under Part 2 of the Fourth Schedule to the Constitution. Indeed, Article 217(2)(a) of the Constitution as read together with Article 203(1)(d) requires that in the development of this basis, the Senate shall have regard to the need to ensure that county governments are able to perform the functions allocated to them. However, there is no data on the status of the delivery of services in these devolved functions and the costing of devolved functions remains an unaddressed matter.

CHAPTER 5

COMMITTEE RECOMMENDATIONS

39. Having considered the CRA recommendation, stakeholders' submissions and while upholding the principle that-

(a) no county shall receive less than the equitable share allocated to it in FY 2024/25; and

(b) in addition to the allocation received in FY 2024/25, each respective county government shall have a marginal increase in its equitable share;

40. The Committee recommends that the fourth basis for allocation of revenue under Article 217(1) of the Constitution for FY 2025/26 to 2029/30 be approved as follows-

a) the first Ksh.387.425 billion (being county equitable share for FY 2024/25) be shared among counties based on the baseline allocation factor derived from each county's allocation for FY 2024/25; and

b) the balance be shared using the following criteria-

Parameter	**Weights (%)**	
Basic Equal Share	35%	
Poverty	12%	2022 Poverty Report by KNBS
Geographical Size	8% capped at 10%	2019 Population and Housing Census
Population	45%	2019 Population and Housing Census
TOTAL	**100**	

Thus, the formula be as follows- County Allocation = (Baseline Allocation Ratio*Ksh.387.425 billion) + {[(0.45*Population Index) + (0.35*Equal Share Index) + (0.12*Poverty Index) + (0.08*Geographical Size Index)] **Additional County Equal Share above the baseline*}.

Annexes

Annex 1- Minutes

Annex 2 – Public Advertisement

Annex 3- Stakeholders' Submissions

Annex 4- CRA Recommendations

ANNEX 1- MINUTES OF THE COMMITTEE

MINUTES OF THE TWO HUNDRED AND SIXTH (206TH) MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON TUESDAY, 15TH APRIL, 2025 IN COUNTY HALL, GROUND FLOOR BOARDROOM, PARLIAMENT BUILDINGS AT 9.00 A.M.

PRESENT

1. Sen. (Capt.) Ali Ibrahim Roba, EGH, MP	-	**Chairperson**
2. Sen. Maureen Tabitha Mutinda, MP	-	**Vice-Chairperson**
3. Sen. (Dr.) Boni Khalwale, CBS, MP	-	Member
4. Sen. Mohamed Faki Mwinyihaji, CBS, MP	-	Member
5. Sen. Richard Momoima Onyonka, MP	-	Member
6. Sen. Mariam Sheikh Omar, MP	-	Member
7. Sen. Esther Okenyuri, MP	-	Member
8. Sen. Eddy Oketch Gicheru, MP	-	Member

ABSENT WITH APOLOGY

1. Sen. Shakila Abdalla Mohamed, MP	-	Member

SECRETARIAT

1. Mr. Christopher Gitonga	-	Clerk Assistant
2. Ms. Beverlyne Chivadika	-	Clerk Assistant
3. Ms. Lucy Radoli	-	Legal Counsel
4. Mr. Solomon Alubala	-	Fiscal Analyst
5. Mr. Kiminza Kioko	-	Fiscal Analyst
6. Mr. Stanley Gikore	-	Media Relations Officer
7. Ms. Rose Ometere	-	Audio Officer
8. Mr. James Ngusya	-	Sergeant-At-Arms
9. Mr. Enock Chelal	-	Intern

MIN/SEN/SCF&B/1191/2025 PRELIMINARIES

The Chairperson called the meeting to order at 9:30 a.m. This was followed by a word of prayer and followed by a round of introduction.

MIN/SEN/SCF&B/1192/2025 ADOPTION OF THE AGENDA

The agenda was adopted after being proposed by Sen. Esther Okenyuri, MP, and seconded by Sen. Mariam Sheikh Omar, MP, as listed below-

1. Prayer;
2. Introduction;
3. Adoption of the Agenda;
4. Confirmation of Minutes of 205th Sitting;
5. Matters arising from the minutes of the previous sittings;
6. Meeting with the Senate Majority Leader, Sen. Aaron Cheruiyot, EGH, MP, to deliberate on the Public Finance Management (Amendment) (No.2) Bill (National Assembly Bills No.26 of 2024)-*Committee Paper No. 132;*
7. Consideration of the draft report on the Fourth Basis for Sharing Revenue among County Governments -*Committee Paper No.129E*;
8. Any Other Business; and
9. Adjournment and Date of the Next Meeting.

MIN/SEN/SCF&B/1193/2025 CONFIRMATION OF MINUTES OF THE PREVIOUS SITTING

The Minutes of the Two Hundred and Fifth (205th) meeting held on Thursday, 10th April, 2025 at 9:00 a.m. were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. Maureen Tabitha Mutinda, MP, and seconded by Sen. Mariam Sheikh Omar, MP.

MIN/SEN/SCF&B/1194/2025 MATTERS ARISING FROM THE PREVIOUS MEETING

Min/Sen/SCF&B/1189/2025 Any Other Business

a) The Chairperson informed the meeting that the Committee will hold joint sittings with the National Assembly Departmental Committee on Finance and National Planning to conduct the approval hearing or vetting of the four (4) nominees submitted by His Excellency the President for appointment as members of the Board of the Central Bank of Kenya on 24th April, 2025. Thereafter, retreat to write the report on 25th April, 2025. Members were requested to avail themselves for the approval hearing process and report writing.
b) Regarding the proposed engagement with East African Legislative Assembly, the Committee resolved to schedule the meetings from 28th April to 4th May, 2025.

MIN/SEN/SCF&B/1195/2025 MEETING WITH SENATE MAJORITY LEADER SEN. AARON CHERUIYOT, EGH, TO DELIBERATE ON BILLS REFERRED TO THE COMMITTEE FROM THE NATIONAL ASSEMBLY

The Committee was informed that the Senate Majority Leader was unable to attend the meeting and therefore, the Committee resolved to reschedule the meeting to a later date.

MIN/SEN/SCF&B/1196/2025 CONSIDERATION OF THE DRAFT REPORT ON FOURTH BASIS FOR SHARING REVENUE AMONG COUNTY GOVERNMENTS

a) The Committee considered the draft report on the Fourth Basis for revenue sharing among county governments.

b) The Committee considered submissions from stakeholders and observed-

   i. That most stakeholders recommended the Income Distance parameter should be dropped for its was similar to poverty parameter. Secondly, using Nairobi city county per Capital GCP as reference point was not justified;

   ii. and noted the proposals to introduce additional parameters such as development index, fiscal prudence, fiscal effort, rural access, health access among others. However, noted the volatility and unreliability of available data to be applied in determination of indexes.

   iii. there were challenges of obtaining readily available, credible, and verifiable data for utilisation in developing indexes for parameters such as water, county government functions and blue economy.

   iv. The need for the Fourth Basis to have stable parameters which would be applied to ensure predictability of resources that would be allocated to a particular county government within the given period of the application of the Basis.

c) The Committee thereafter considered the possible options of the Fourth Basis for sharing revenue among county governments and simulations using Ksh.405 billion, Ksh.417 billion, and Ksh.465 billion.

d) Following deliberations, and ensuring no county shall receive an allocation less than the equitable share allocated to it in FY 2024/25, the Committee unanimously adopted the report on Fourth Basis for Sharing Revenue among County Governments after having been proposed by Sen. (Dr.) Boni Khalwale, CBS, MP, and seconded by Sen. Esther Okenyuri, MP with the following recommendation-

   i. Each county should retain the allocations for FY 2024/25 as the baseline allocation;

   ii. The additional amount above Ksh.387.425 billion to be shared using allocation ratios generated from the following parameters: Population-45%, Basic Equal share-35%, Poverty-12%, and Geographical size-8% capped at 10%.

iii. Thus, county allocation = (Baseline Allocation Ratio*Ksh.387.425) + {[(0.45*Population Index) + (0.35*Equal Share Index) + (0.12*Poverty Index) + (0.08*Geographical Size Index)] **Additional County Equal Share above the baseline*}.

<u>MIN/SEN/SCF&B/1197/2025</u> **<u>ANY OTHER BUSINESS</u>**

There being no other business, the meeting was adjourned at 12.37 p.m.

SIGNATURE: .... **DATE:** ....

SEN.(CAPT.) ALI IBRAHIM ROBA, EGH, MP

(CHAIRPERSON)

MINUTES OF THE TWO HUNDRED AND FIFTH (205TH) HYBRID MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON THURSDAY, 10TH APRIL, 2025 IN COUNTY HALL, GROUND FLOOR BOARDROOM, PARLIAMENT BUILDINGS AT 9.00 A.M.

PRESENT

1. Sen. (Capt.) Ali Ibrahim Roba, EGH, MP - **Chairperson (Virtual)**
2. Sen. Maureen Tabitha Mutinda, MP - **Vice-Chairperson**
3. Sen. Mohamed Faki Mwinyihaji, CBS, MP - Member **(Virtual)**
4. Sen. Richard Momoima Onyonka, MP - Member
5. Sen. Mariam Sheikh Omar, MP - Member
6. Sen. Shakila Abdalla Mohamed, MP - Member
7. Sen. Eddy Oketch Gicheru, MP - Member

ABSENT WITH APOLOGY

8. Sen. (Dr.) Boni Khalwale, CBS, MP - Member
9. Sen. Esther Okenyuri, MP - Member

SECRETARIAT

1. Mr. Christopher Gitonga - Clerk Assistant
2. Ms. Beverlyne Chivadika - Clerk Assistant
3. Ms. Lucy Radoli - Legal Counsel
4. Mr. Constant Wamayuyi - Fiscal Analyst
5. Mr. Kiminza Kioko - Fiscal Analyst
6. Mr. Stanley Gikore - Media Relations Officer
7. Ms. Rose Ometere - Audio Officer
8. Mr. James Ngusya - Sergeant-At-Arms
9. Mr. Enock Chelal - Intern

MIN/SEN/SCF&B/1183/2025 PRELIMINARIES

The Chairperson called the meeting to order at 9:30 a.m. This was followed by a word of prayer and followed by a round of introduction.

MIN/SEN/SCF&B/1184/2025 ADOPTION OF THE AGENDA

The agenda was adopted after being proposed by Sen. Mohamed Faki Mwinyihaji, CBS, MP, and seconded by Sen. Shakila Abdalla Mohamed, MP, as listed below-

1. Prayer;
2. Introduction;
3. Adoption of the Agenda;
4. Confirmation of Minutes of 204th Sitting;
5. Matters arising from the minutes of the previous sittings;
6. Consideration of the Public Audit (Amendment) Bill (National Assembly Bills No.4 of 2024) -*(Committee Paper No.131);*
7. Meeting with the National Treasury and Economic Planning to deliberate on recommendation on the Fourth Basis for Revenue Sharing among County Governments for Financial Years 2025/2026 to 2029/2030-*(Committee Paper 129C);*
8. Consideration of way forward on consideration of proposed fourth basis for Sharing among County Governments for Financial Years 2025/2026 - 2029/2030-*(Committee Paper 129D);*
9. Any Other Business; and
10. Adjournment and Date of the Next Meeting.

MIN/SEN/SCF&B/1185/2025 CONFIRMATION OF MINUTES OF THE PREVIOUS SITTING

The Minutes of Two Hundred and Fourth (204th) meeting held on Tuesday, 8th April, 2025 at 9:00 a.m. were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. Mohamed Faki Mwinyihaji, CBS, MP, and seconded by Sen. (Capt.) Ali Ibrahim Roba, EGH, MP.

MIN/SEN/SCF&B/1186/2025 CONSIDERATION OF THE PUBLIC AUDIT (AMENDMENT) BILL (NATIONAL ASSEMBLY BILLS NO.4 OF 2024) -*(COMMITTEE PAPER NO.131)*

The Committee was briefed that the primary purpose of the Bill is to amend various sections of the Public Audit Act, Cap. 412B whose effect is as follows-

(a) to provide that in addition to the qualifications set out in the Constitution and the Act, that a person shall be eligible for appointment as the Auditor-General if he or she is a practicing member of good standing of a professional body of accountants recognized by the Accountants Act;

(b) to provide for the administrative functions of the Auditor-General, which include the development of an organizational structure and staff establishment for the Office; recruiting and promoting qualified and competent staff to perform the Office's functions; establishing and abolishing offices in the Office; appointing persons to hold or act in those offices and to confirm appointments; and determining, in consultation with Salaries and Remuneration Commission, the remuneration and benefits of each member of staff and to develop and maintain a code of ethics;

(c) to establish the Public Service Human Resource Audit Directorate in the office of the Auditor-General, which shall be responsible for conducting and preparing audits on human resource in the public service;

(d) to provide that one of the instances where the Office of the Auditor-General shall fall vacant is upon expiry of the Auditor-General's term of office. Presently, the Act only provides for a vacancy in the Office of the Auditor-General where the holder of the office dies, resigns by a notice in writing to the President or is removed under Article 251 or Chapter 6 of the Constitution;

(e) to provide that the Senior Deputy Auditor-General shall be recruited and appointed by the Auditor-General. This is a departure from the present provision of the law that requires the Senior Deputy Auditor-General to be recruited by the Audit Advisory Board and appointed by the Auditor-General.

(f) The Bill further clarifies the role of the Senior Deputy Auditor-General as the principal assistant to the Auditor-General who deputizes the Auditor-General in the execution of his or her powers save for the powers set out in the Constitution;

(g) to delete provisions related to the secondment of officers from a state organ or public entity to the Office of the Auditor-General;

(h) to provide that the Auditor-General shall not have the power to confirm, vary or revoke any decision taken by a member of staff in consequence of a delegation or instruction by the Auditor-General;

(i) to require the Auditor-General to submit the budget estimates of revenue and expenditure both to the Cabinet Secretary for Finance and the National Assembly. Further, to require that, where the in the opinion of the Auditor-General the estimates of expenditure are insufficient, the Auditor-General shall submit to Parliament a special report to be presented to the Committee responsible for budget and appropriation;

(j) to provide that where in exercise of the powers conferred by the law, the Auditor-General seeks to obtain information from a private entity or person, the Auditor-General shall be required to make an application to a court to obtain such information;

(k) to provide for a revision in the composition of the Audit Advisory Board. In this respect, the Bill provides that the Board shall comprise the Auditor-General, the Attorney-General, a nominee of the Institute of Certified Public Accountants of Kenya, a nominee of the Institute of Human Resource Management and a nominee of the Institute of Internal Auditors of Kenya.

(l) the Bill also sets out the minimum qualifications for persons eligible to be appointed as members of the Board and functions of the Board;

(m) to provide for clear steps in the audit process including informing an accounting officer before the commencement of an audit and the accounting officer submitting a report on remedial steps taken to rectify issues identified by the Auditor-General failure to which the officer may be liable to disciplinary action;

(n) to require that reports prepared by an internal auditor which have been deliberated on and adopted by an audit committee of an entity shall be submitted by the accounting officer to the Auditor-General. The duty to submit this report is mandatory and not discretionary;

(o) to provide that the Auditor-General may on his or her own initiative or upon request conduct forensic or investigative audits. This is a departure from the present provision of the law which requires forensic audits to be carried out only on the request of Parliament;

(p) to provide that the Auditor-General may undertake citizen accountability audits to ensure public participation in the audit process. Further, the Auditor-General may carry out compliance audits to examine whether a public entity has complied with relevant laws, regulations and policies in the management of public resources;

(q) to provide that upon the submission of an audit report to Parliament or a County Assembly, the respective Speaker shall invite the Auditor-General to present the report. Further, within month of debate and consideration of an audit report by the legislature, an accounting officer shall submit a report on how the recommendations of the Auditor-General have been addressed.

(r) Additionally, within six months of consideration of an audit report the accounting officer shall submit a report on how the recommendations of the Auditor-General have been addressed;

(s) to establish a Public Audit Fund to meet the expenditure of the audit mandate of the Office of the Auditor-General as set out in Article 229(4) of the Constitution;

(t) to provide for the procedure in the event of a conflict of interest of a staff of the Office of the Auditor-General;

(u) to provide that the Auditor-General may bring to the attention of other agencies any information relating to the imprudent use of public funds. These agencies may be investigative agencies or regulatory agencies with the power to take further appropriate action based on the information shared by the Auditor-General.

(v) The Bill proposes that the Auditor-General may recommend that the Public Procurement Administrative Review Board debar a person from any future public procurement and asset disposal process of a public entity.

The Committee noted that-

a) the Bill proposes to amend the Public Audit Act to align the functions of the Auditor-General to the provisions of the Article 229 of the Constitution, and clarify on the membership of the Audit Advisory Board.

b) The establishment of the Public Audit Fund will ensure that the functions of the Office of the Auditor-General is adequately financed and hence, able to perform its functions effectively.
c) The Bill proposes to assign the Auditor-General additional powers especially with regards to the staff of the Office. These include the power to recruit and appoint a Deputy Auditor-General, develop an organization structure for the Office and establish and abolish offices.
d) The proposed amendments are aimed to improve the efficiency and effectiveness of the Office of the Auditor-General to discharge its functions. Consequently, this will promote greater accountability for expenditure of public resources.
e) The Bill ought to be amended to-
    i. require the Auditor-General to also submit the budget estimates of revenue and expenditure to the Senate in addition to Cabinet Secretary and the National Assembly.
    ii. provide penalties for administrative offences committed by officers serving in the office of the Auditor-General.
    iii. allow legislatures to recommend prosecution for violation of the law based on the Auditor-General's findings.

Following deliberations, Committee resolved to subject Public Audit (Amendment) Bill (National Assembly Bills No.4 of 2024) to public participation and propose necessary amendments to the Bill.

MIN/SEN/SCF&B/1187/2025 **MEETING WITH THE NATIONAL TREASURY AND ECONOMIC PLANNING TO DELIBERATE ON RECOMMENDATION ON THE FOURTH BASIS FOR REVENUE SHARING AMONG COUNTY GOVERNMENTS FOR FINANCIAL YEARS 2025/2026 TO 2029/2030-*(COMMITTEE PAPER 129C)***

The meeting was informed that the Committee had received a letter from the Cabinet Secretary stating that he would be unable to attend the meeting due to other pre-arranged official engagements, and requested that the meeting be rescheduled to a later date. Furthermore, the National Treasury provided written submissions on the Fourth Basis for revenue sharing among county governments for Committee's consideration.

MIN/SEN/SCF&B/1188/2025 **CONSIDERATION OF WAY FORWARD ON CONSIDERATION OF PROPOSED FOURTH BASIS FOR SHARING AMONG COUNTY GOVERNMENTS FOR FINANCIAL YEARS 2025/2026 - 2029/2030-*(COMMITTEE PAPER 129D)***

The Committee was informed that-

a) An advert was published inviting members of the public to submit views on the proposal Fourth Basis for revenue sharing among county governments by 3rd April, 2025.
b) The Committee had received submissions from ICPAK, Achievers Kenya, IPF, IEA, Bajeti Hub, County Assembly of Bomet Budget office, Budget Talk, and the National Treasury and Economic Planning.
c) The Committee also held meetings with CRA, CoG, and KNBS.
d) The Fourth Basis is required for the County Allocation of Revenue Bill (CARB), 2025 which will allocate equitable share among counties for FY 2025/26.
e) Pursuant to Article 218 of the Constitution, CARB, 2025 is supposed to be introduced in the Senate by 30th April, 2025. The Committee is required to conclude on the matter (Basis) and table a report in the Senate for debate and approval.

Noting the need to expedite consideration and approval of the Fourth Basis, the Committee resolved as follows -

a) secretariat to develop alternative proposals to the proposed Fourth Basis for revenue sharing among county governments and simulate the alternatives with Ksh.405 billion, Ksh.417 billion and Ksh.465 billion by ensuring -
    i. no county receives less than the FY 2024/25 allocation using the baseline of Ksh.387.425 billion; and
    ii. any additional amount above the baseline of Ksh.387.425 billion is shared equitably among counties, with each receiving a marginal increment.
b) Following submissions from various stakeholders, the Income Distance Parameter in the recommendations for the Fourth Basis, submitted by CRA, should be dropped;
c) Committee to consider various alternative recommendations/proposals on Tuesday, 15th April, 2025.

MIN/SEN/SCF&B/1189/2025 ANY OTHER BUSINESS

a) The Committee was informed that His Excellency the President submitted the names of nominees for appointment as members of the Board of the Central Bank of Kenya to Parliament for approval hearing or vetting- FCPA Sophie Moturi, CPA Abdullahi Mohamed Abdi, Ms. Beatrice Kosgei, and Mr. David Simpson Osawa Owour. The Committee will undertake the approval hearing of the nominees with the National Assembly Departmental Committee on Finance and National Planning.
b) Committee received an invitation from the National Taxpayers Association to launch of the dissemination of the illicit financial flows and domestic revenue mobilization report scheduled to be held on 29th April, 2025 at Sarova Stanley Hotel, Nairobi. The organisation requested for a representative from the Senate Finance

and Budget Committee to attend meeting. The Committee resolved to re-consider the invitation in the subsequent meeting.

c) The Chairperson informed the meeting that following approval of Supplementary Budget II for the FY 2024/25, Committees have been allocated an additional funding for operations. The Liaison Committee will consider the matter and provide guidelines on additional allocations per Committee. Once the actual amount is ascertained, the Committee would deliberate on the way forward regarding its programmes.

MIN/SEN/SCF&B/1190/2025 ADJOURNMENT AND THE DATE OF THE NEXT MEETING

The meeting adjourned at 11.00 a.m. Next meeting shall be by notice.

SIGNATURE............................ **DATE:** 15/04/2025

SEN.(CAPT.) ALI IBRAHIM ROBA, EGH, MP

(CHAIRPERSON)

MINUTES OF THE TWO HUNDRED AND THIRD (203RD) MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON THURSDAY, 3rd APRIL, 2025 IN GROUND FLOOR BOARDROOM, COUNTY HALL, PARLIAMENT BUILDINGS AT 9.00 A.M.

PRESENT

1. Sen. (Capt.) Ali Ibrahim Roba, EGH, MP - **Chairperson**
2. Sen. Maureen Tabitha Mutinda, MP - **Vice-Chairperson**
3. Sen. (Dr.) Boni Khalwale, CBS, MP - Member
4. Sen. Mohamed Faki Mwinyihaji, CBS, MP - Member
5. Sen. Mariam Sheikh Omar, MP - Member
6. Sen. Esther Okenyuri, MP - Member

ABSENT WITH APOLOGY

1. Sen. Richard Momoima Onyonka, MP - Member
2. Sen. Shakila Abdalla Mohamed, MP - Member
3. Sen. Eddy Oketch Gicheru, MP - Member

IN ATTENDANCE

1. Hon. FCPA. Fernandes Barasa, OGW - Governor, Kakamega/Chair, Technical Committee on Finance and Economic Affairs
2. Hon. Kimani Wamatangi - Governor, Kiambu County
3. Hon. Issa Timamy - Governor, Lamu County
4. Hon. AbdullSwamad Nasir - Governor, Mombasa County
5. Hon. David Kones - Deputy Governor, Nakuru County
6. Mr. Stephen Momanyi - Program Officer
7. Ms. Natasha Kinoti

SECRETARIAT

1. Mr. Christopher Gitonga - Clerk Assistant
2. Ms. Beverlyne Chivadika - Clerk Assistant
3. Ms. Lucy Radoli - Legal Counsel
4. Mr. Constant Wamayuyi - Fiscal Analyst
5. Mr. Kiminza Kioko - Fiscal Analyst
6. Mr. Stanley Gikore - Media Relations Officer

7. Ms. Rose Ometere - Audio Officer
8. Mr. James Ngusya - Sergeant-At-Arms
9. Mr. Enock Chelal - Intern

MIN/SEN/SCF&B/1172/2025 **PRELIMINARIES**

The Chairperson called the meeting to order at 9:30 a.m. This was followed by a word of prayer and followed by a round of introduction.

MIN/SEN/SCF&B/1173/2025 **ADOPTION OF THE AGENDA**

The agenda was adopted after being proposed by Sen. Mohamed Faki Mwinyihaji, CBS, MP, and seconded by Sen. Maureen Tabitha Mutinda, MP, as listed below-

1. Prayer;
2. Introduction;
3. Adoption of the Agenda;
4. Confirmation of Minutes of 201st Sitting;
5. Matters arising from the minutes of the previous sittings;
6. Consideration of the Public Procurement and Asset Disposal (Amendment) Bill, 2024 (National Assembly Bills No. 48 of 2024) -*(Committee Paper No.130A);*
7. Meeting with the Council of Governors (CoG) and National Treasury and Economic Planning to deliberate on recommendation on the Fourth Basis for Revenue Sharing among County Governments for Financial Years 2025/2026 to 2029/2030- *(Committee Paper 129A);*
8. Any Other Business; and
9. Adjournment and Date of the Next Meeting.

MIN/SEN/SCF&B/1174/2025 **MEETING WITH THE COUNCIL OF GOVERNORS (COG) AND NATIONAL TREASURY AND ECONOMIC PLANNING TO DELIBERATE ON RECOMMENDATION ON THE FOURTH BASIS FOR REVENUE SHARING AMONG COUNTY GOVERNMENTS FOR FINANCIAL YEARS 2025/2026 TO 2029/2030- *(COMMITTEE PAPER 129A)***

Meeting with the Council of Governors

The Chairperson welcomed the representatives from the Council of Governors (CoG) to the meeting, and thanked them for honouring Committee's invitation to discuss the critical matter, recommendation by Commission on Revenue Allocation (CRA) on the Fourth Basis for revenue sharing among county governments.

Upon invitation, the CoG Chairperson for the Technical Committee on Finance and Economic Affairs submitted the following-

a) **Population Parameter:** the application of this parameter will not be uniform across the 47 counties due to High Court ruling regarding the Population and Housing Census report for 2019. In this regard, for Garissa, Mandera and Wajir Counties, the census data for 2009 will be applied. This would affect allocations based on the Population Index.
b) **Equal Share Parameter**: The Council proposed enhancement of the parameter's weight to 28% which they had proposed to CRA during stakeholder engagement.
c) **Geographical Size Parameter:** There were significant discrepancies in the data used on geographical size between the 2019 Census data, and the 2009 data, which would consequently affect allocation to most counties. Further that, the inconsistencies in land area data had not been adequately explained by the CRA in their recommendations.
d) **Poverty Parameter**: The Council submitted that-
    i. The index is population-oriented, which implies that counties with larger populations would ordinarily receive higher allocations.
    ii. The significant changes in data date used in the Third Basis (which used the 2015/2016 Kenya Integrated Household Budget Survey) and the Fourth Basis, may lead to volatility and unstable resource distribution, contradicting provisions of Article 203(1)(j) on need for stable and predictable allocation.
    iii. Continued use of the Poverty parameter may become a disincentive for counties that have been implementing poverty eradication programs.
    iv. The multidimensional nature and aspects of poverty have not been adequately considered over time.
    v. Given aforementioned, the effectiveness of the poverty parameter in addressing economic disparities across all 47 counties may not be a good proxy for promoting development.
    vi. The Council proposed dropping of the poverty parameter.
e) **Per Capita Income Distance Parameter** - The Council submitted that the parameter was introduced after stakeholders' consultation had been concluded. The parameter was not subjected to wide scrutiny by stakeholders. Further, the parameter has not been sufficiently explained and its applicability in the Kenya Counties context.
f) **Cushioning and Stabilisation Factor:** This was introduced to ensure that no county government receives less funding than their allocation in the FY 2024/25 during transition from the 3rd to 4th basis for revenue sharing among county governments.
g) The Council submitted the following general comments-
    i. Argued the Senate to ensure that no county should receive lower allocation than allocation received in the FY 2024/2025 at Ksh.387.425 billion;

ii. When 4th Basis is applied on county equitable share of Kshs.387.425 billion, 31 counties will receive lower allocation than when 3rd Basis is applied, thus the Basis is flawed and discriminatory in nature.

iii. For the 4th Basis to be implemented and to ensure no county gets a lower allocation, counties must be guaranteed at least Kshs.399.53 billion.

iv. That Basic Equal Share be enhanced to between 26% and 28% from the proposed 22%. This will serve as an affirmative action to increase allocation to counties with lowest allocations under the Third Basis.

v. The Senate should make a determination on population data across counties in view of the High Court ruling on population data for Garissa, Mandera and Wajir. Using different data sets on revenue allocation framework would result in inconsistencies and may prejudice other counties.

vi. Parameter on income distance should be dropped for a more acceptable parameter or be subjected to a wider stakeholder engagement. Parameter may disincentivize economic activity since counties with lower economic output are getting higher allocations. Further, the data on income distance parameter may not be credible.

vii. The Poverty Parameter should be dropped and replaced with measure of poverty gap so as not be 'rewarding poverty'. The Council stated that use of the Parameter acts as an incentive for counties to maintain high poverty levels in order to receive more funds. To promote sustainable economic growth and equitable development, the Council urged the adoption of alternative parameter.

viii. The Council emphasized the need for a fair, transparent, consultative and efficient Basis for revenue sharing.

ix. The Council expressed concern about quantifying land area in counties bordered by sea bodies, which affects allocation of resources to these counties and consequently service delivery.

x. The Gross County Product Parameter uses average per capita for 2020, 2021, and 2022, which is a measure of market value of final goods and services produced within 47 counties. However, given different economic activities across the 47 counties, it may not be appropriate parameter for revenue allocation. Furthermore, the data used is not the most recent thus, not credible.

The Committee noted that-

a) The Third (3rd) Basis for revenue sharing among county governments contains a sector-specific and services parameters like health, agriculture, population, urban services, road and land. Thus, proposed to retain or continue using the Formula.
b) The Council proposed dropping of the parameters such as Poverty and Income Distance but did not provide substitutes that would enable the Senate to come up with a fair, and equitable Basis.

c) The overall submission by the Council failed to provide or recommend alternatives to the parameters and weights proposed by CRA.

Following deliberations, the Committee resolved that the Council of Governors should consult widely, revise their submission and re-submit a comprehensive with alternative proposals to the recommendation on 4th Basis to the Senate by Wednesday, 9th April, 2025.

Meeting with the National Treasury and Economic Planning

The meeting was informed that the Cabinet Secretary was unable to attend the meeting due to other official engagements and had requested for rescheduling of the meeting to a later date. The Committee acceded to CS's request, and resolved that the meeting be rescheduled to Thursday, 10th April, 2025.

MIN/SEN/SCF&B/1175/2025 CONSIDERATION OF THE PUBLIC PROCUREMENT AND ASSET DISPOSAL (AMENDMENT) BILL, 2024

The agenda was deferred to the next meeting.

MIN/SEN/SCF&B/1176/2025 ADJOURNMENT AND THE DATE OF THE NEXT MEETING

The meeting adjourned at 12.10 p.m. Next meeting shall be by notice.

SIGNATURE: .... DATE: 08/04/2025

SEN.(CAPT.) ALI IBRAHIM ROBA, EGH, MP

(CHAIRPERSON)

MINUTES OF THE TWO HUNDRED AND SECOND (202ND) HYBRID MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON TUESDAY, 1ST April, 2025 IN GROUND FLOOR BOARDROOM, COUNTY HALL, PARLIAMENT BUILDINGS AT 9.00 A.M.

PRESENT

1. Sen. (Capt.) Ali Ibrahim Roba, EGH, MP - **Chairperson**
2. Sen. Maureen Tabitha Mutinda, MP - **Vice-Chairperson**
3. Sen. (Dr.) Boni Khalwale, CBS, MP - Member
4. Sen. Mohamed Faki Mwinyihaji, CBS, MP - Member
5. Sen. Richard Momoima Onyonka, MP - Member **(Virtual)**
6. Sen. Shakila Abdalla Mohamed, MP - Member
7. Sen. Esther Okenyuri, MP - Member

ABSENT WITH APOLOGY

8. Sen. Eddy Oketch Gicheru, MP - Member
9. Sen. Mariam Sheikh Omar, MP - Member

SECRETARIAT

1. Mr. Christopher Gitonga - Clerk Assistant
2. Ms. Beverlyne Chivadika - Clerk Assistant
3. Ms. Lucy Radoli - Legal Counsel
4. Mr. Constant Wamayuyi - Fiscal Analyst
5. Mr. Kiminza Kioko - Fiscal Analyst
6. Ms. Hamun Mohamud - Research Officer
7. Mr. Stanley Gikore - Media Relations Officer
8. Ms. Rose Ometere - Audio Officer
9. Mr. James Ngusya - Sergeant-At-Arms
10. Mr. Enock Chelal - Intern

IN ATTENDANCE

Kenya National Bureau of Statistics

1. Dr. Macdonald Obudho, MBS - Director General
2. Mr. Paul Samoei - Senior Manager
3. Ms. Linda Olwenyi - Manager, Legal Services
4. Mr. James Abuga - Assistant Manager, National Accounts

MIN/SEN/SCF&B/1167/2025 PRELIMINARIES

The Temporary Chairperson called the meeting to order at 9.30 a.m. This was followed by a word of prayer and followed by a round of introduction.

MIN/SEN/SCF&B/1168/2025 ADOPTION OF THE AGENDA

The agenda was adopted after being proposed by Sen. Maureen Tabitha Mutinda, MP, and seconded by Sen. (Dr.) Boni Khalwale, CBS, MP, as listed below-

1. Prayer;
2. Introduction;
3. Adoption of the Agenda;
4. Confirmation of Minutes of 201st Sitting;
5. Matters arising from the minutes of the previous sittings;
6. Meeting with the KNBS to deliberate on the data required in developing the Fourth Basis for Revenue Sharing among County Governments for Financial Years 2025/2026 to 2029/2030-*(Committee Paper 129A);*
7. Consideration of the Public Procurement and Asset Disposal (Amendment) Bill, 2024 (National Assembly Bills No. 48 of 2024) -*(Committee Paper No.130A);*
8. Any Other Business; and
9. Adjournment and Date of the Next Meeting.

MIN/SEN/SCF&B/1169/2025 MEETING WITH THE KENYA NATIONAL BUREAU OF STATISTICS TO DELIBERATE ON THE DATA REQUIRED IN DEVELOPING THE FOURTH BASIS FOR REVENUE SHARING AMONG COUNTY GOVERNMENTS FOR FINANCIAL YEARS 2025/2026 TO 2029/2030- *(COMMITTEE PAPER 129A)*

Upon invitation, the Director General of Kenya National Bureau of Statistics (KNBS) responded to the following concerns that were raised regarding the data applied in developing the Fourth Basis proposal for revenue sharing among county governments-

Impact of the High Court Judgement in Garissa High Court Constitutional Petition No.4 Of 2020: Hon. Abdullah Bahir Sheikh and 25 Others Vs Kenya National Bureau of Statistics and 4 Others

a) The judgement was delivered on 28th January, 2025.
b) The Court among others the made following orders-
    i. Cancelled the published 2019 population Census date in respect of Mandera North, Mandera West, Banisa, Lafey, Mandera East and Mandera South Constituencies; Eldas, Tarbaj, Wajir West, Wajir East and Wajir North

Constituencies; Balambala, Lagdera, Dadaab and Garissa Township Constituencies were.

ii. The Court ordered the KNBS to conduct a new mini-population census in the affected constituencies, where population data was annulled, within one year from the date of the Judgement.

c) The Bureau consulted the Attorney General who advised the Bureau to appeal and file an application for stay of execution of the judgement to enable government agencies and Bureau to rely on the 2019 Census results pending determination of the appeal. The Bureau filed Notice of appeal on 3rd February, 2025.

d) The impact of the High Court decision-

i. The High Court decisions would affect Kenya's population data. High Court directed that until a mini-census is conducted, counties of Mandera, Wajir, and Garissa should use 2009 census results and 2019 population data for the rest of the country. This would result in use of different population data set resulting in unequal treatment of parts of the country.

ii. Implementation of judgement would affect government at national and county levels processing including delimitation of boundaries, division of resources and provision of basic services, irreversible by the success of appeal.

iii. The implementation of judgement would result in mixture of 2019 and 2025/26 population data.

iv. In the event that the order cancelling the published 2019 Kenya Population and Housing Census results for Mandera, Wajir, and Garissa is implemented, the same shall have the effect of cancelling the 2019 census figures for the entire country as national population data must comprised of enumeration in all 47 counties derived at the same time.

v. Implementation of judgement would prejudice the credibility of the Bureau as principal agency of the government for collection, collation and dissemination of official statistics.

Measurement of Monetary Poverty in Kenya

a) KNBS conducts Household Budget Surveys to facilitate computation of monetary and non-monetary indicators for monitoring poverty and inequality.

b) In 2005/06 and 2015/16, KNBS conducted Kenya Integrated Household Budget Surveys. To address the challenges around the frequency and consistency of Household Budget Surveys, KNBS initiated a series of Kenya Continuous House Survey (KCHS) to provide data to support production of annual poverty estimates for 2019, 2020, 2021 and 2022.

c) KNBS did not conduct Kenya Continuous House Survey (KCHS) in 2023 and 2024 due to budget constraint.

d) Poverty refers to the condition in which an individual or household lacks the financial resources and access to basic necessities of life, such as food, clean water, shelter, healthcare, and education.
e) Data on poverty is applied by CRA in division of revenue, formulation of Medium-Term Plans (MTPs) and County Integrated Development Plans (CIDPS).
f) KNBS uses a consumption-based welfare indicator, known as the consumption aggregate, to measure poverty. This is because consumption expenditures are more stable and less variable than income.
g) Consumption aggregate is obtained from adding food and non-food consumption expenditures.
h) The adult equivalent scales are used to measure the consumption needs of household members.
i) **Poverty line**- the real total consumption aggregate is subjected to a threshold to determine the persons who are below the poverty line.
j) KNBS uses two national poverty lines for poverty measurement: the food poverty line and the overall poverty line.
k) Food poverty line represents level of consumption below which individuals cannot afford enough food to meet their basic dietary needs. It represents the cost of main food items consumed in by the reference population to achieve 2,250 kcal per day per adult equivalent. Separate poverty lines are calculated for rural and urban population.
l) Overall poverty line is obtained by adding mean value of total non-food consumption to food poverty line.

Three measures used to estimate and describe poverty-

m) **Poverty headcount rate**- proportion of the population whose consumption per adult equivalent is below poverty line. In Kenya, three poverty headcount rates are estimated-
    i. Food poverty headcount rate-proportion of individuals or households whose food consumption per adult equivalent is less than food poverty line, the 'food poverty'
    ii. Overall (absolute) poverty headcount rate-proportion of individuals or households whose food and non-food consumption is less than overall poverty line.
    iii. Hardcore (extreme) poverty headcount rate- captures the proportion of individuals or households whose total consumption per adult equivalent is less than food poverty line.
n) **Depth of poverty**, also known as poverty gaps-This provides on how far off a household or individual is from poverty line.
o) **Severity of poverty,** also referred to as the squared poverty gap- considers not only the distance separating the poor from poverty line, but also the inequality amongst the poor.

Overall poverty estimates for Kenya Household Survey 2022 at county level

p) There is a significant variation in overall poverty incidence at the county level ranging from a low of 16.5% in Nairobi City to a high of 82.7% in Turkana. There were also notable variations between counties in the ASAL areas and counties in the rest of the country.

q) Overall poverty incidence is highest in the following seven counties: Turkana (82.7%), Mandera (72.9%), Samburu (71.9%), Garissa (67.8%), Tana River (66.7%), Marsabit (66.1%) and Wajir (64.7%).

r) Overall poverty incidence is lowest in: Nairobi City (16.5%), Kiambu (19.9%), Kirinyaga (23.1%), Embu (24.3%), Nyeri (26.0%) and Narok (26.2%) counties.

Measurement of the Gross County Product (GCP) in Kenya

a) Gross County Product (GCP) is the total market value of all new goods and services produced within a specific county over a given period, typically a year. It is a key indicator used to assess the economic performance of a county.

b) The report is produced annually with a lag of 9 months and data is available from 2013 onwards.

c) GCP report contains data on economic activity at current and constant 2016 prices, real GCP growth, and GCP per capita.

d) Countries that compile regional GDP include United States, Canda, United Kingdom, Germany, India, China, Brazil, Australia, Japan, Mexico, South Korea, Russia, Argentina and South Africa.

Measurement of County Economic Activity

e) GCP can be estimated using two approaches: bottom-up and top-down methods.

f) The bottom-up method utilizes data on establishments and households' residents in that region to estimate the gross value added for the county. In the top-down method, the national estimate is allocated to the counties using distribution keys. The distribution keys are equivalent to the weight of a county's contribution to an economic activity.

g) The Bureau adopted the top-down method as the appropriate method to compute GCP based on the availability data.

Analysis of the Latest GCP Results

h) The report highlights several key points about the disparities across the county economies-

i) Significant Economic Disparities- There are considerable differences in the size of county economies, with Nairobi City standing out by contributing a disproportionately large share of 27.5%.

ii) Other counties like Kiambu, Nakuru, and Mombasa also have notable contributions of 5.6%, 5.2% and 4.8% respectively.

iii) Majority of the counties (33) contributed less than 2% each to the national Gross Value Addition.

iv) As of 2023, Kenya's GDP per capita was Ksh.293,229, up from Ksh.266,473 in 2022. However, there are significant differences among counties, with some areas surpassing the national average with others lagging behind.

v) Nairobi City leads with a GCP per capita of Ksh.802,344, nearly three times the national average.

vi) Mombasa was second, with a GCP per capita of Ksh.507,337. Other counties that recorded GCP per capita figures significantly above the national average include Nakuru (Ksh.334,667), Nyeri (Ksh.317,459), and Lamu (Ksh.304,024).

The Committee noted or raised the following issues of concern-

a) Poverty indicators like food, access to health, water and education are very volatile. What is the suitability of using poverty index to share revenue? Should the poverty index be replaced with Gross County Product?

b) The most comprehensive and thorough household data is from the 2015/2016 Kenya Integrated Household Budget Survey. With the passing of time, how reliable or relevant is the data in 2025 used to share resources among the county governments?

c) Each county has its own Gross County Product (GCP), which changes depending on the economic activity and parameters, not available or similar in all counties. As a result, GCP data may not be reliable or credible enough to be used in revenue sharing among counties.

d) In GCP compilation methodology by activity, the Bureau uses data from different sources. For instance-

    i. Agriculture data from Ministry of Agriculture- Crop production, Livestock population and production, Household consumption from own production from 2015/16 KIHBS;

    ii. Mining and quarrying data-Employment in mining and quarrying activities from 2015/16 KIHBS;

    iii. Manufacturing-production from Monthly Survey of Industrial Production and Census of Industrial Production, 2017; Employment in manufatcring-2019 Kenya Continuous Household Survey; and Micro, and small and Medium Enterprises survey 2016.

    iv. Electricity-Administrative data, 2015/16 KIHBS/Kenya, continuous Household Survey Programme (KCHSP), distribution by KPLC.

e) The KNBS, is the sole government agency or body responsible for collecting, collating and disseminating or publishing official statistics (custodian of country statistics) yet it had some shortcoming that impact its operations. The Bureau lacks adequate financial and personnel resources, with a lean secretariat (494 staffers) spread across 47 counties, limiting its ability to provide real-time, sufficient, relevant, scientific data for proper planning at national and county level planning and decision-making.

f) The Bureau is financially supported by Sweden, the United Kingdom, and the World Bank in its operations.
g) The Committee questioned 2019 population census data credibility, and suitability of using the census data in sharing resources among county governments, citing the High Court nullification of census data for Mandera, Wajir and Garissa counties. Should the entire country's census be nullified and a new census conducted?
h) There are two types of censuses; *de jure* and *de facto*". *de jure* refers to counting people based on their usual or legal residence, while *de facto* counts individuals based on their location at the time of the census, regardless of their usual residence. In conducting census, the Bureau uses *de facto* method in census while *de jure* method in surveys.
i) Mapping is necessary before conducting a census. During the 2019 census, there was severe drought and insecurity in the Mandera, and movement of people out of the region. This could have had an impact on the collected data.
j) Data provided by KNBS is critical in sharing of revenue, thus the data ought to be timely, accurate, credible, reliable and readily available.
k) The KNBS should establish and devolve its functions or services to devolved units of government. This would enhance counties' capacity to collect accurate, credible and reliable data for use in planning, decision making and share of revenue.
l) The Bureau plans to conduct the mini- census in Mandera, Wajir, and Garissa as judgement. However, mapping should be done before beginning the activity.

The Committee resolved that the KNBS should submit in writing responses to the issues raised on County Gross Product, Poverty and the population census by 8th April, 2025. Further, that the Committee and KNBS should hold a one-day retreat to brainstorm on the decentralising its services to the counties and promotion of the role of counties in statistics.

MIN/SEN/SCF&B/1170/2025 CONSIDERATION OF THE PUBLIC PROCUREMENT AND ASSET DISPOSAL (AMENDMENT) BILL, 2024 (NATIONAL ASSEMBLY BILLS NO. 48 OF 2024)

This agenda item was deferred to the subsequent meeting.

MIN/SEN/SCF&B/1171/2025 ADJOURNMENT AND THE DATE OF THE NEXT MEETING

The meeting adjourned at 12:15 p.m. Next meeting shall be by notice.

SIGNATURE: .... **DATE:** 08/04/2025

SEN.(CAPT.) ALI IBRAHIM ROBA, EGH, MP

(CHAIRPERSON)

MINUTES OF TWO HUNDREDTH (200TH) HYBRID MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON MONDAY, 24TH MARCH, 2025 IN RUWENZORI CONFERENCE ROOM, FOUR POINTS BY SHERATON JKIA AT 2.00 P.M.

PRESENT

1. Sen. (Capt.) Ali Ibrahim Roba, EGH, MP - **Chairperson (Virtual)**
2. Sen. Maureen Tabitha Mutinda, MP - **Vice-Chair (Chairing)**
3. Sen. (Dr.) Boni Khalwale, CBS, MP - Member
4. Sen. Mariam Sheikh, MP - Member

ABSENT WITH APOLOGY

1. Sen. Mohamed Faki Mwinyihaji, CBS, MP - Member
2. Sen. Richard Momoima Onyonka, MP - Member
3. Sen. Shakila Abdalla Mohamed, MP - Member
4. Sen. Eddy Oketch Gicheru, MP - Member
5. Sen. Esther Okenyuri, MP - Member

SECRETARIAT

1. Mr. Christopher Gitonga - Clerk Assistant
2. Ms. Beverlyne Chivadika - Clerk Assistant
3. Ms. Lucy Makara - Deputy Director, PBO
4. Mr. Mitchell Otoro - Legal Counsel
5. Mr. Abdirahman Gorod - Fiscal Analyst
6. Mr. Solomon Alubala - Fiscal Analyst
7. Mr. Constant Wamayuyi - Fiscal Analyst
8. Mr. Kiminza Kioko - Fiscal Analyst
9. Mr. Stanley Gikore - Media Relations Officer
10. Ms. Johnstone Simiyu - Audio Officer
11. Mr. James Ngusya - Sergeant-At-Arms

IN ATTENDANCE: COMMISSION ON REVENUE ALLOCATION (CRA)

1. Commissioner Koitamet Olekina - Vice Chairperson
2. Commissioner Benedict Muasya Mutiso
3. Commissioner Dr. Jalang'o Midiwo

4. Commissioner Jonas Kuko
5. Commissioner Dr. Isabel Waiyaki
6. Ms. Lineth Oyugi - Director Economic Affairs
7. Mr. Renny Mutahi - Deputy Director
8. Ms. Keziah Njeri - Manager

MIN/SEN/SCF&B/1157/2025 PRELIMINARIES

The Vice-Chairperson called the meeting to order at 2.05 p.m. This was followed by a word of prayer, and a round of introduction.

MIN/SEN/SCF&B/1158/2025 ADOPTION OF THE AGENDA

The agenda was adopted after being proposed by Sen. (Dr.) Boni Khalwale, CBS, MP and seconded by Sen. Mariam Sheikh, MP.

MIN/SEN/SCF&B/1159/2025 MEETING WITH THE CRA TO DELIBERATE ON THE PROPOSED FOURTH BASIS FOR SHARING REVENUE AMONG COUNTY GOVERNMENTS

Upon invitation, the Commission led by the Vice Chairperson informed the Committee as follows concerning the Recommendation for the Fourth Basis for sharing revenue among counties-

a) The proposed Fourth Basis is expected to share revenue from FY 2025/2026 - FY 2029/2030. The Basis contains five (5) parameters: Population-42%, Equal share-22%, Geographical Size-9% but capped at 10%, Poverty-14%, and Income Distance-13%.
b) The Income Distance parameter is determined by difference between Nairobi City County per capita Gross County Product (GCP) and respective county per capita GCP. The GCP applied is the average of the county's GCP for 2020,2021 and 2022.
c) To ensure the principle of holding counties harmless was sustained, the Commission introduced a stabilization factor.
d) The data on population was as per 2019 population census, However, following a High Court Judgement, the population in some constituencies in Garissa, Wajir and Mandera counties were to apply 2009 population census.
e) In the previous basis, the proposed geographical size used to be called land area, however, in order to ensure it covers even water masses, the name of the parameter was changed.
f) The shift from third basis was due to issues raised by most of stakeholders who noted the usage of a number of parameters/ measures that are population based like agriculture, urban services, roads and health.

Following deliberations-

a) Commissioner Benedict Muasya Mutiso, indicate that though the Commission had made a decision and submitted the recommendation to the Senate, he had reservation in that-
   i) The application of income distance in the basis was similar to poverty;
   ii) The public participation conduct was on use of GCP as a parameter but not income distance.
   iii) Though he did not have a dissenting report, the use of poverty and income distance ought to have been thoroughly thought through and a better approach adopted.
b) The Commission indicated that it was open for discussions and deliberations during the development of the Basis which the Senate may approve. However, the recommendation submitted was the best for it ensured, no county would get less allocation that what was allocated in financial year 2024/25. Further, that-
   i) Should the county equitable share for FY 2025/26 be less than ksh.400 billion, the basis as recommended would not be applicable.
   ii) Some parameters applied in the Third basis such as health did have very credible data and could not be adopted for the fourth basis.
   iii) In determining income distance, Nairobi City County was selected because it had the highest per capita GCP. Then, for the formula to work, it was assigned the Mombasa County index.
c) The Committee noted-
   i) That the past 3 basis parameter on land was assigned a weight of 8% but the recommendation under consideration it had been assigned 9%.
   ii) The most recent data ought to be applied, however following the High Court Judgement, the population numbers of the affected counties will have to be changed in adherence to the Judgement.
   iii) The parameter on poverty should be discouraged since it may amount to encouraging and promoting under development. The parameter ought to focus on the counties that have been able to improve the condition of its residents.
   iv) The data used by the Commission should be availed to assist the Committee in scrutinizing the recommendation as submitted.
   v) Any data that should be applied should be the most recent data available.

d) The Committee resolved-
   i) The CRA to submit the data applied in developing the recommendation;
   ii) To invite the Kenya National Bureau of Statistics to a meeting to deliberate on, among others, -

- the impact of the High Court Judgement in Case No. KEHC 3212 on the 2019 Census;
- the measurement of poverty levels; and
- the measurement of County Gross Product.

iii) Pursuant to Article 217(2)(c) and (d) to invite CoG and The Cabinet Secretary to a meeting to deliberate on the proposed Basis. Further, request for submission of written memorandum from other stakeholders.

MIN/SEN/SCF&B/1160/2025 ADJOURNMENT AND THE DATE OF THE NEXT MEETING

The meeting adjourned at 5.58 p.m. Next meeting will be by Notice.

SIGNATURE: .... **DATE:** 08/04/2025

SEN. (CAPT.) ALI IBRAHIM ROBA, EGH, MP

(CHAIRPERSON)

ANNEX 2 – PUBLIC ADVERTISEMENT

REPUBLIC OF KENYA

THIRTEENTH PARLIAMENT | FOURTH SESSION

THE SENATE

INVITATION FOR SUBMISSION OF MEMORANDA

RECOMMENDATION ON THE FOURTH BASIS FOR REVENUE SHARING AMONG COUNTY GOVERNMENTS

Article 217(1) of the Constitution provides that once every five years, the Senate shall, by resolution, determine the basis for allocating among the counties the share of national revenue that is annually allocated to the county level of government.

Pursuant to Article 216(1) of the Constitution, the Commission on Revenue Allocation submitted to the Senate its recommendation on the fourth basis for revenue sharing among county governments. The recommendation was tabled in the Senate on Wednesday, 12th February, 2025 and thereafter stood committed to the Standing Committee on Finance and Budget to facilitate public participation and to take into account the views and recommendations of the public when making its report to the Senate.

The recommendation of the Commission on Revenue Allocation on the fourth basis for revenue sharing among county governments for Financial Years 2025/2026 to 2029/2030 is based on the following objectives and parameters-

	Objective	**Parameter**	**Assigned weight (%)**
1.	To share revenue equitably to facilitate service delivery	Population	42
		Equal share	22
		Geographical size	9
2.	To share revenue equitably to address economic disparities and promote development	Poverty	14
		Income distance	13
	Total		**100**

In accordance with the provisions of Articles 118(1)(b) and 217(2)(d) of the Constitution, the Standing Committee on Finance and Budget now invites interested members of the public to submit any representations that they may have on the recommendation by way of written memoranda.

The memoranda may be submitted to the Clerk of the Senate, P.O. Box 41842-00100, Nairobi, hand-delivered to the Office of the Clerk of the Senate, Main Parliament Buildings, Nairobi or emailed to clerk.senate@parliament.go.ke and copied to financebudgetcomm.senate@parliament.go.ke to be received on or before **Thursday, 3rd April, 2025 at 5.00 p.m.**

The full text of the recommendation may be accessed on the Parliament website at http://www.parliament.go.ke/the-senate/house-business/papers-laid.

J. M. NYEGENYE, CBS,
CLERK OF THE SENATE.

ANNEX 3- STAKEHOLDERS' SUBMISSIONS

REPUBLIC OF KENYA
THE NATIONAL TREASURY AND ECONOMIC PLANNING

Telegraphic Address: 22921
Finance – Nairobi
FAX NO. 310833
Telephone: 2252299

THE NATIONAL TREASURY
P O BOX 30007 – 00100
NAIROBI

When Replying Please Quote

Ref. IGFR/CRA/02/C (25)

9th April, 2025

Mr. Jeremiah M. Nyegenye, CBS.
Clerk to the Senate
Clerk's Chamber
Parliament Building
NAIROBI.

DSEC

Dear Clerk

RE: RECOMMENDATIONS ON THE FOURTH BASIS FOR SHARING REVENUE AMONG COUNTY GOVERNMENTS

Reference is made to letter **Ref: SEN/DSEC/F&B/2025/029(a)** dated **4th April 2025,** from the Clerk of Senate communicating the resolutions of the Senate Standing Committee on Finance and Budget and also inviting the Cabinet Secretary for the National Treasury and Economic Planning to a meeting to deliberate on the Final Fourth Basis for sharing revenue among County Governments.

The National Treasury has reviewed the recommendations on the Final Fourth Basis for Revenue Sharing among County Governments for the financial years 2025/26 to 2029/30 as submitted by the Commission on Revenue Allocation (CRA), and wishes to make the following observations:

1. **Basis For Equitable Sharing of Revenue among Counties**

Article 216(1) of the Constitution mandates the CRA to make recommendations concerning the basis for equitable sharing of revenue raised by the National Government, between the National Government and County Governments and *among* the County Governments. In so doing, the Constitution requires that the Commission promotes and give effect to the criteria set out in Article 203 (1). Article 217 requires that once **every five years** Parliament shall determine the basis for allocating among County Governments the share of nationally raised revenue.

Table 1 below summarises the allocated weights in the First, Second, Third Basis and proposed Fourth Basis for Revenue sharing.

Table 1: Framework on the 1st, 2nd, 3rd and 4th Fourth Basis for Revenue Sharing

S/No.	Indicator of Expenditure	First	Second	Third Basis	Fourth Basis

	Need	Basis weights (%) (FYs 2013/14 - 2016/17)	Basis weights (%) (FYs 2017/18-2019/20)	weights (%) (FYs 2020/21-2024/25)	weights (%) (FYs 2025/26-2029/30) (Proposed)
1.	Health index	-	-	17	-
2.	Agricultural index	-	-	10	-
3.	Population index	45	45	18	42
4.	Urban services index	-	-	5	-
5.	Basic share index	25	26	20	22
6.	Land area/ Geographical Size index	8	8	8	9
7.	Rural access index/ Roads Index	-	-	8	
8.	Poverty head count index	20	18	14	14
9.	Per Capita Income Distance	-	-	-	13
10.	Fiscal Effort	2	2	-	-
11.	Development Factor	-	1	-	-
	TOTAL	**100**	**100**	**100**	**100**

Source: Commission on Revenue Allocation

The **First** and **Second basis** aimed to achieve three primary objectives based on Article 203 of the Constitution, namely:

i. provide adequate funding to ensure County Governments have adequate funds to provide assigned functions;
ii. correct for economic disparities and minimize the development gap between Counties in the provision of services, and;
iii. stimulate economic optimization and incentivize County Governments to optimize capacity to raise revenue.

Further, the **Third Basis** sought to achieve two objectives namely:

i. to enhance equitable service delivery
ii. to promote balanced development

2. Proposed 4th Basis for Revenue Allocation

The Fourth Generation Basis recommendation proposed by CRA aims to achieve two objectives namely: (i) Share revenue equitably to facilitate service delivery in Counties and; (ii) To address economic disparities to promote development. Table 2 summarises proposed parameters in the fourth Basis for revenue sharing namely population (42 percent), basic share (22 percent), geographical size (9 percent), **Per Capita Income Distance** (13 percent), and poverty (14 percent).

Table 2: Framework on the Fourth Basis for Revenue Sharing

Objective	Parameter	Assigned Weight %
1. To share revenues equitably to facilitate service delivery	Population	42
	Basic Share	22
	Geographical size	9
	Poverty	14

Objective	Parameter	Assigned Weight %
2. To share revenue equitably to address economic disparities and promote development	Per Capita Income Distance	13
Total		**100**

Source: Commission on Revenue Allocation

Taking note of the parameters in the proposed fourth Basis, we observe that there is a shift in focus from the sectoral approach towards *equity* and *inclusivity*.

3. Recommendations of the National Treasury on The Proposed Fourth Basis For Revenue Sharing

Upon review of the proposed Fourth Basis based on the parameters and weights submitted above, the National Treasury wishes to make the following observations:-.

i) Holding Counties at the minimum base allocation

Table 3 below shows a simulation of allocations to Counties based on the fourth Basis in comparison with allocations to Counties in FY 2024/25 based on the third Basis.

Table 3 : - Analysis of 4th Basis in allocating Ksh. 405 billion to 47 counties in FY 2025/26 compared by allocations in FY 2024/25

S/N	County	FY 2024/2025					FY 2025/26		VARIANCE
		0.5 (Allocation Ratio)		(Equitable Share-0.5 Allocation Ratio) *(Formula)		Total Equitable Share	Allocation Factor		
		Allocation ratio	Equitable Share	Allocation ratio	Equitable Share			Equitable Share	Column J=(I-E)
		column A	column B	column C	column D	column E = B+D	column H	column I	
1	Baringo	1.61	2,547,825,000	1.80	4,136,047,230	6,683,872,230	1.72	6,967,194,027	283,321,798
2	Bomet	1.74	2,753,550,000	1.86	4,261,570,960	7,015,120,960	1.8	7,291,249,564	276,128,604
3	Bungoma	2.81	4,446,825,000	2.93	6,723,847,761	11,170,672,761	2.82	11,422,957,650	252,284,889
4	Busia	1.9	3,006,750,000	1.97	4,508,186,175	7,514,936,175	1.89	7,655,812,042	140,875,867
5	Elgeyo Marakwet	1.22	1,930,650,000	1.26	2,896,082,154	4,826,732,154	1.29	5,225,395,521	398,663,366
6	Embu	1.36	2,152,200,000	1.40	3,217,697,179	5,369,897,179	1.35	5,468,437,173	98,539,994
7	Garissa	2.22	3,513,150,000	2.08	4,777,297,207	8,290,447,207	2.61	10,572,311,867	2,281,864,660
8	Homa bay	2.13	3,370,725,000	2.09	4,799,554,683	8,170,279,683	2.04	8,263,416,172	93,136,489
9	Isiolo	1.34	2,120,550,000	1.22	2,802,956,894	4,923,506,894	1.5	6,076,041,303	1,152,534,409
10	Kajiado	2.03	3,212,475,000	2.24	5,132,539,080	8,345,014,080	2.34	9,478,624,433	1,133,610,353
11	Kakamega	3.29	5,206,425,000	3.39	7,774,078,856	12,980,503,856	3.25	13,164,756,156	184,252,301
12	Kericho	1.7	2,690,250,000	1.77	4,048,215,912	6,738,465,912	1.83	7,412,770,390	674,304,478
13	Kiambu	2.98	4,715,850,000	3.31	7,577,845,472	12,293,695,472	3.14	12,719,179,794	425,484,322
14	Kilifi	3.3	5,222,250,000	3.03	6,947,593,603	12,169,843,603	3.05	12,354,617,316	184,773,713
15	Kirinyaga	1.34	2,120,550,000	1.45	3,328,723,298	5,449,273,298	1.36	5,508,944,115	59,670,816
16	Kisii	2.46	3,892,950,000	2.36	5,412,886,563	9,305,836,563	2.33	9,438,117,491	132,280,928
17	Kisumu	2.16	3,418,200,000	2.18	4,987,127,544	8,405,327,544	2.1	8,506,457,824	101,130,281
18	Kitui	2.79	4,415,175,000	2.82	6,470,792,728	10,885,967,728	2.72	11,017,888,229	131,920,501
19	Kwale	2.46	3,892,950,000	2.06	4,732,461,411	8,625,411,411	2.16	8,749,499,476	124,088,065
20	Laikipia	1.32	2,088,900,000	1.44	3,298,135,312	5,387,035,312	1.45	5,873,506,593	486,471,281
21	Lamu	0.82	1,297,650,000	0.85	1,956,780,925	3,254,430,925	0.94	3,807,652,550	553,221,625
22	Machakos	2.45	3,877,125,000	2.50	5,720,097,939	9,597,222,939	2.4	9,721,666,085	124,443,146
23	Makueni	2.34	3,703,050,000	2.09	4,794,258,449	8,497,308,449	2.13	8,627,978,650	130,670,201
24	Mandera	3.23	5,111,475,000	2.87	6,579,144,375	11,690,619,375	2.93	11,868,534,012	177,914,636
25	Marsabit	2.14	3,386,550,000	1.84	4,210,600,148	7,597,150,148	2.26	9,154,568,896	1,557,418,748
26	Meru	2.54	4,019,550,000	2.59	5,924,790,172	9,944,340,172	2.5	10,126,735,505	182,395,333
27	Migori	2.14	3,386,550,000	2.18	4,998,526,708	8,385,076,708	2.12	8,587,471,708	202,395,000
28	Mombasa	2.23	3,528,975,000	1.91	4,370,699,510	7,899,674,510	1.98	8,020,374,520	120,700,010
29	Murang'a	1.99	3,149,175,000	1.90	4,362,692,136	7,511,867,136	1.88	7,615,305,100	103,437,964
30	Nairobi	5.03	7,959,975,000	5.33	12,218,737,721	20,178,712,721	5.05	20,456,005,720	277,292,999
31	Nakuru	3.31	5,238,075,000	3.68	8,428,923,494	13,666,998,494	3.42	13,853,374,171	186,375,677
32	Nandi	1.69	2,674,425,000	2.04	4,671,645,242	7,346,070,242	1.84	7,453,277,332	107,207,090
33	Narok	2.54	4,019,550,000	2.28	5,222,311,510	9,241,861,510	2.31	9,357,103,607	115,242,097
34	Nyamira	1.52	2,405,400,000	1.29	2,954,588,239	5,359,988,239	1.41	5,711,478,825	351,490,585
35	Nyandarua	1.54	2,437,050,000	1.53	3,499,472,422	5,936,522,422	1.49	6,035,534,361	99,011,939
36	Nyeri	1.71	2,706,075,000	1.66	3,812,534,636	6,518,609,636	1.63	6,602,631,549	84,021,913
37	Samburu	1.46	2,310,450,000	1.45	3,312,779,594	5,623,229,594	1.52	6,157,055,187	533,825,593
38	Siaya	1.83	2,895,975,000	1.92	4,405,497,442	7,301,472,442	1.92	7,777,332,868	475,860,426
39	Taita taveta	1.34	2,120,550,000	1.29	2,945,588,537	5,066,138,537	1.37	5,549,451,057	483,312,519
40	Tana River	1.85	2,927,625,000	1.70	3,897,093,335	6,824,718,335	1.78	7,210,235,680	385,517,344
41	Tharaka Nithi	1.24	1,962,300,000	1.06	2,437,207,348	4,399,507,348	1.2	4,860,833,042	461,325,694
42	Trans Nzoia	1.82	2,880,150,000	2.03	4,660,351,498	7,540,501,498	1.89	7,655,812,042	115,310,544

S/N	County	FY 2024/2025					FY 2025/26		VARIANCE
		0.5 (Allocation Ratio)		(Equitable Share-0.5 Allocation Ratio) *(Formula)		Total Equitable Share	Allocation Factor		
		Allocation ratio	Equitable Share	Allocation ratio	Equitable Share			Equitable Share	
		column A	column B	column C	column D	column E = B+D	column H	column I	Column J=(I-E)
43	Turkana	3.33	5,269,725,000	3.47	7,943,558,350	13,213,283,350	3.31	13,407,797,809	194,514,458
44	Uasin Gishu	2	3,165,000,000	2.32	5,307,399,603	8,472,399,603	2.12	8,587,471,708	115,072,105
45	Vihiga	1.47	2,326,275,000	1.29	2,966,647,428	5,292,922,428	1.46	5,914,013,535	621,091,107
46	Wajir	2.7	4,272,750,000	2.46	5,630,048,207	9,902,798,207	2.7	10,936,874,345	1,034,076,138
47	West Pokot	1.58	2,500,350,000	1.79	4,109,385,011	6,609,735,011	1.69	6,845,673,201	235,938,191
	Total	100	158,250,000,000	100.00	229,175,000,000	387,425,000,000	100	405,069,420,197	17,644,420,197

Use of Stabilization Factor:

To ensure that no County loses on the amount of equitable share allocated in FY 2025/26, the fourth basis formulae propose an inbuilt stabilization factor. It is not clear how the respective indices attributed to this factor are arrived at to ascertain its objectivity. It should, however, be noted that all County Governments are gaining on application of the final allocation factor of the Fourth Basis, to the proposed equitable share of **KSh. 405,069,420,197** in 2025/26 financial year *(see table 3).*

ii) Enhancement of fiscal capacity and efficiency of County governments

There is a need to include **fiscal prudence and fiscal effort indexes** as parameters to the fourth Basis to promote and give effect to the criteria set out in Article 203 (1)(e) on enhancement of fiscal capacity and efficiency of County governments. This is meant to incentivize counties to collect more revenue and to promote efficiency in utilization of public funds. This will also reduce over reliance on National Government for equitable share. The decline in growth of the nationally raised revenues will require that County governments are incentivised to raise their Own Source Revenues (OSR) and entrenching fiscal prudence as a strategy for promoting fiscal sustainability.

iii) Increase percentage of the Basic Share Index

The percentage of the **Basic share index** should be increased to ensure all counties have sufficient resources to provide basic services to its population i.e. cautionary allocations. This is meant to ensure that even though some counties score low on other parameters, they have adequate allocations to provide basic services. This increase should ensure balance with other parameters with the objective of achieving a better allocation from the base of the third generation across all counties. A simulation of the proposed fourth basis with a higher equal basic share results in better allocation and the number with less allocation compared to third basis also reduces.

iv) Use of updated data sources on Poverty

Poverty index has been assigned a weight of 14 percent in the Fourth Basis. The parameter uses poverty head count which is defined as a proportion of poor people in a County based on the Kenya Poverty Report 2022 by Kenya National Bureau of Statistics (KNBS). Noting that this allocation is the same as 14 percent allocated in the third basis, no study has been provided to illustrate the shift in the spatial dimensions of poverty over time.

v) Linking County Expenditures to the expected outcome

We recommend use of Sectoral based revenue allocation should include a Development Index that consolidates all fourteen County functions (in the Fourth Schedule of the Constitution) into one index. Further county expenditures should be linked to the outcome therefore there is need to refocus allocation towards outcome-based performance.

vi) Calibration of weights on land area

The Land size parameter has been allocated 9 percent weight in the fourth basis, an increase of one percent from the allocation in the third basis. There is need to calibrate the weights on land area to avoid disadvantaging Counties with significantly smaller land sizes despite having higher populations. Based on the simulation in Table 3, Counties with smaller land sizes have emerged as the largest net losers compared to counties with larger land mass.

vii) Per Capita Income Distance factor

CRA has applied the **per capita income distance** parameter which uses the Gross County Product (GCP) to allocate resources among county governments. In their definition, CRA avers that it provides a monetary measure of the market value of all the final goods and services produced within each of the 47 counties and therefore is a good proxy of the tax capacity of county governments computed using three-year average GCP per capita for 2020, 2021, 2022 and assigned a weight of 13 percent. Preliminary assessment by the National Treasury reveals that this factor does not reward Counties contributing highly to the National GDP, but rather rewards counties with less contribution towards the country's economic growth. For instance, under that factor: Nairobi is getting 1.09, Mombasa- 1.09, Nakuru- 1.83, Kiambu- 1.81 and Kisumu is 1.90; while Mandera is 2.82, Lamu- 1.84, Isiolo- 2.45, Homa Bay- 2.38, Kirinyaga-1.93, Nyeri 1.65.... etc.

Thus, the definition of the factor being the contribution to growth by counties is not demonstrated in the reward by the factor. The resultant indices of the formulae hence applied the inverse of its objective. If the assumption, when your GCP is higher, then you are bound to have more OSR and thus your equitable share being an inverse of your contribution to national GDP, then ought to be explained. Secondly, if that is the assumption, CRA ought to explain what Fiscal efforts are being applied by respective counties to optimize their OSR including enhancing economic activities in all counties.

Further, the formula used in computation for that factor indices uses Nairobi GCP as a reference point and further assumably assigns Nairobi County the least income distance index of Mombasa without any explanation. There is need to clarify what informed this selection.

viii) Impact studies on previous parameters to inform future proposals on revenue sharing

The National Treasury recommends the Commission carries out impact assessment on previous revenue sharing basis before to inform future revenue sharing proposals. This will clearly explain the rationale and justification for discontinuing some parameters and introducing others.

The purpose of this letter, therefore, is to forward to you our recommendations on the Fourth Basis for Revenue sharing for your consideration and necessary action.

Yours Sincerely

HON. FCPA. JOHN MBADI NG'ONGO, EGH.
CABINET SECRETARY

COUNCIL OF GOVERNORS

COUNCIL OF GOVERNORS SUBMISSION TO SENATE ON THE PROPOSED FOURTH BASIS FOR REVENUE SHARING AMONG COUNTY GOVERNMENTS

1.0. INTRODUCTION

The Council of Governors acknowledges receipt of an invitation by the Senate to submit views on the proposed Fourth Basis for Revenue Sharing among County governments pursuant to Article 217 (2)(c) of the Constitution. The Constitution requires that: ***"In determining the basis of revenue sharing, the Senate shall consult the County Governors, the Cabinet Secretary responsible for finance and any organisation of county government."*** In fulfilment of this provision of the Constitution, the Council has reviewed the Fourth Basis for Revenue Sharing among County Governments as recommended by the Commission on Revenue of Allocation (CRA) and submits its views as hereinbelow.

2.0. REVIEW OF THE FOURTH BASIS FOR REVENUE SHARING AMONG COUNTIES

The recommended framework for sharing revenue among the county governments has two objectives namely:

1. To share revenues equitably to facilitate service delivery which has three parameters under it; Basic Share, Population and Geographical Size/Land Area.
2. To address economic disparities to promote development which has two parameters; Poverty and per capita income distance.

The proposed basis is as summarised in the table below.

Table 1: Summary of the recommended fourth basis for revenue sharing.

Objective	Parameter	Assigned Weight (%)
1. To share revenues equitably to facilitate service delivery	Population	42
	Equal Share	22
	Geographical Size	9
2. To share revenue equitably to address economic disparities and promote development	Poverty	14
	Per Capita Income Distance	13
TOTAL		**100**

Source: CRA

The aggregate Allocation Framework for the Fourth Basis is summarised as below:

$$\textit{County Allocation}_i = (0.42*\textit{Population Index}+ 0.22*\textit{Equal Share Index}_i + 0.14*\textit{Poverty Index}_i + 0.09*\textit{Geographical Size Index}_i + 0.13*\textit{Income Distance Index}_i) * \textit{Stabilisation Factor}_i$$

COUNCIL OF GOVERNORS

The proposed fourth basis is almost similar to the first and second bases in terms of the parameters used and a departure from the third basis which had taken a sector approach as shown in tables 2 and 3 below. The parameters on Health Services, Agriculture Services, Urban Service and Roads have therefore been dropped in coming up with the 4th basis.

Table 2 : First and Second bases for revenue sharing among Counties

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

Source: CRA

Table 3: Third Basis for Revenue Sharing Among County Governments

Objective	Parameter	Indicator of Expenditure Need	Assigned Weight
1. To enhance service delivery	Health services	Health index	17%
	Agriculture services	Agricultural index	10 %
	Population	Population index	18 %
	Urban service	Urban services index	5%
	Basic Share	Basic share index	20%
2. To promote balanced development	Land	Land area index	8 %
	Roads	Rural Access index	8 %
	Poverty level	Poverty head count index	14 %
Total			100%

Source: CRA

2.1. Comments on the Parameters used in the Fourth Basis

a) **Population Parameter** – The population parameter has the highest assigned weight of 42% based on the Kenya Population and Housing Census of 2019.

Comments:

- The weight assigned on population in the 4th basis is higher than the weight in the third basis (18%) and slightly lower than the weight assigned in the first two bases (45%).

- However, the application of this parameter will not be uniform across the 47 Counties in light of the High Court ruling regarding the Population and Housing Census report of 2019 for Garissa, Mandera and Wajir Counties.
- For the three Counties, the census data of 2009 will be applied, and this will affect their respective allocations based on the Population Index.

b) **Equal Share Parameter** – The parameter has the second highest assigned weight of 22%.
Comments:
- This parameter was assigned 25%, 26%, and 20% weight in the first, second, and third basis respectively.
- The Council had proposed for enhancement of the parameter's weight to at least 28% during the stakeholders' engagement.
- However, this was not fully considered by the CRA as it was enhanced by only 2% from the third basis's assigned weight.

c) **Geographical Size Parameter** – This is the county's proportion of the total geographical size of the Country and has been assigned a weight of 9% with the index capped at 10%.
Comments:
- There are significant differences on the data used on geographical size (2019 Census data) affecting most Counties and consequently their allocation. (***See footnote***[1]).
- The inconsistency in the land area data between 2009 and 2019 has not been explained by CRA in their recommendation.

d) **Poverty Parameter** – The parameter has been assigned a weight of 14% and is based on the Kenya Poverty Report of 2022 by KNBS which is the latest data on poverty.
Comments:
- Poverty levels are based on three different poverty indices; the poverty headcount index, the poverty severity index, and the poverty gap index.
- The poverty parameter in the 4th basis uses the Poverty Head County Index (that is, the proportion of people living below the poverty line in the county).
- This Index is still population oriented as opposed to the other two and as such Counties with higher populations would ordinarily get higher allocations.

[1] The data used on geographical size is different from the data used in the previous bases and as such there are significant changes in most Counties with some having an increased land area while others are shrinking. For example, with the new data, Garissa County's size has increased by 561 KM^{SQ} while Tana River County's size has reduced by 487 KM^{SQ}. In total the total land area of the territory of Kenya has reduced by 431KM^{sq} from 581,307 KM^{sq} to 580,877KM^{sq}. The data differences on geographical size by County is as per Annex 2.

- The significant changes in the data used in the 3rd basis (2015/2016 Kenya Integrated Household Budget Survey (KIHBS)) and the 4th basis point to high volatility and could lead to an unstable resource allocation criterion which is against the provisions of Article 203 (1)(j) on the need for stable and predictable allocation.
- The constant use of the poverty parameter on revenue allocation may become a disincentive for Counties that have been allocating resources to and implementing poverty eradication programs.
- The multidimensional nature and aspects of poverty have not been considered over time.
- Due to the issues highlighted above, the poverty parameter may no longer be a good proxy for promoting development across the 47 Counties or come close to addressing economic disparities.

e) **Per Capita Income Distance** – This parameter uses the proportion of the three-year average Gross County Product (GCP) per capita for 2020, 2021 and 2022 and is assigned a weight of 13%. The GCP provides a monetary measure of the market value of all the final goods and services produced within each of the 47 counties. The income distance is obtained by subtracting the other Counties' GCP from Nairobi City County which has the highest. For purposes of this parameter Nairobi City County has been assigned the second highest GCP value, that is, Mombasa County's GCP.

Comments:

- The parameter was introduced after stakeholders' consultation had been concluded. It was therefore not subjected to wide scrutiny by stakeholders before its introduction.
- Further, the parameter has not been sufficiently explained adequately on the rationale and its applicability in the Kenya Counties context.

f) **Cushioning and Stabilisation Factor** – The basis has an inbuilt stabilisation factor to ensure no county government loses or gets less than what they were allocated in financial year 2024/25.

Comments:

- Introduction of this factor provides a financial safety net that guarantees continuity in county operations regardless of changes introduced by the new basis.

- This will also ensure there are no funding challenges related to the transition from the 3rd to 4th basis of allocation.

2.2. General Comments on the proposed Fourth Basis

1. On the general transition from the 3rd basis to the 4th basis, **NO** County will receive lower allocations than the current FY's (2024/25 based on Kshs.387.425 billion)
2. However, when the 4th basis is applied on the recommended allocation of Kshs.417.425 billion (by CRA), a total of 31 Counties will receive lower amounts of equitable share than when the 3rd basis is applied on the same amount. 16 Counties will receive a higher allocation. **(See Annex 1 below).**
3. Without the cushioning factor and if run on the FY 2024/25 allocation, 21 Counties could lose a cumulative amount of **Kshs.12.106 billion.**
4. For the basis to be implemented without any County losing, the allocation to Counties must be guaranteed at least **Kshs.399.53 billion.**
5. Counties must therefore be guaranteed that the allocation for the next FY has to be more than Kshs.399.53 billion.

3.0. COUNCIL OF GOVERNORS RECOMMENDATIONS FOR THE FOURTH BASIS FOR REVENUE SHARING AMONG COUNTY GOVERNMENTS

Premised on the above observations and further by the need to ensure resource allocation responds to the principles of equity in terms of socio-economic development, the Council of Governors, on behalf of the 47 County governments, recommends that in determining the Fourth Basis for Revenue Sharing among County Governments, the Senate considers the following:

1. **THAT** in any case and upon implementation of the new allocation criteria, **NO County** shall receive less than the allocation it received in the FY 2024/25.

   Rationale

   Cognizant of the fact that the revenue sharing framework should not destabilize functionality of county governments, the allocation of revenue should be incremental. This is in line with the provisions of Article 203(d) and (j) that require the criteria to consider the need to ensure that county governments can perform functions allocated to them and the desirability of stable and predictable allocations of revenue. Consistent and predictable growth of equitable share transfers is essential to enable county governments to manage the growing demand and increasing costs of service delivery.

2. **THAT** the Basic Equal Share be enhanced to at least between 26% and 28% from the proposed 22%.

Rationale

To a great extent, the number of expenditures on running of government, establishment of administrative and governance structures is similar for all county governments. Currently, personnel emoluments and the cost of operation and maintenance within the counties have gone up. This calls for an upward review of the basic share to guarantee a minimum funding to ensure county governments can maintain and operate optimally and continue delivering services irrespective of their population and geographical sizes.

Secondly, this will serve as an affirmative action pursuant to Article 203 (1)(h) to increase allocation to the counties with the lowest allocations under the third basis to bring them to the level of those with higher allocations, as far as possible. The Counties with a higher allocation have had a fair advantage and have since advanced from setting up basic structures to largely being service delivery and development oriented. If the current allocation basis is maintained there is a potential to widen the gap in socio-economic development and in the long run create inequity which was not the object of devolution nor the revenue allocation criteria.

3. **THAT** the Senate decides on the application of the population data across Counties due to the emerging issue on the Court ruling on population of Garissa, Mandera and Wajir Counties.

Rationale

Using different data sets on the revenue allocation framework poses a risk of being inconsistent with the other Counties and inaccuracy by using outdated data. This may prejudice other Counties and lead to unpredictability in revenue allocation.

4. **THAT** the parameter on income distance to be elaborated and subjected to a wider stakeholder engagement or dropped for a more widely acceptable parameter.

Rationale

The parameter may disincentivize economic activity since the Counties with lower economic output are getting significantly higher allocations. In the long run it will further compound income and productivity inequalities.

Secondly, the data on the income distance parameter may not be credible since it hasn't been subjected to stakeholders and the fact that it is a new introduction. There is also no explanation on how and why the parameter was introduced or its application on the framework.

5. **THAT** the Fourth Basis for Revenue Sharing should be based on scientific, evidence-based data only on various parameters to ensure fairness and national acceptability.

Rationale

Whereas the Kenya National Bureau of Statistics (KNBS) is the official custodian of national data and the County governments the custodians of County data, some of the data sets used in the various parameters are not statistically sound or credible. For example, the parameter on Income Distance used GCP data that has not been subjected to Counties validation; the data on poverty is highly volatile which could lead to instability in the revenue allocation framework; the data on geographical size has also significantly changed between 2009 and 2019 without explanation. These data gaps will in turn destabilize the revenue allocation framework casting doubt on the credibility of the data source and consequent application to revenue allocation. The CRA should ensure the use of comprehensive, accurate and timely data, including robust consultation with counties to validate the data before its use.

6. **THAT** The Poverty Parameter should take into consideration measure of poverty gap changes so as not to be 'rewarding poverty' and instead incentivize production and economic activities geared towards poverty eradication.

Rationale

The use of poverty head count index in the poverty parameter does not take into account the multidimensional nature of poverty and also the changes that have taken place over the period it has been in application. Counties that have put in place measures to address poverty are being unfairly being denied resources to do development. For equity in revenue allocation, there ought to be balance in incentivizing poverty eradication and closing the poverty gap.

4.0. CONCLUSION

The Council of Governors emphasizes the importance of a fair, transparent, and efficient fourth basis for revenue sharing. The basis should support equitable development across the Counties, address regional disparities (economic, geographical and demographic), enhance service delivery to citizens, and incentivize good governance. We look forward to continually collaborating with the Senate to ensure that the new basis reflects the diverse needs, capacities and aspirations of all counties in Kenya.

ANNEX 1: COMPARISON OF COUNTIES ALLOCATIONS BETWEEN THE THIRD BASIS AND THE FOURTH BASIS FOR FY 2025/26: BASED ON CRA'S RECOMMENDATION OF KSHS.417.425 B.

No.	COUNTY	ALLOCATIONS AS PER THE 3RD BASIS (KSHS. MILLION)	ALLOCATIONS AS PER THE 4TH BASIS (KSHS. MILLION)	VARIANCE (KSHS. MILLION)
1	Nairobi	21,778	21,082	-696
2	Nakuru	14,770	14,279	-491
3	Turkana	14,253	13,805	-448
4	Kakamega	13,998	13,562	-436
5	Kilifi	13,079	12,715	-364
6	Kitui	11,733	11,374	-359
7	Mandera	12,551	12,214	-337
8	Makueni	9,214	8,878	-336
9	Machakos	10,346	10,027	-319
10	Uasin Gishu	9,167	8,852	-315
11	Kisii	10,014	9,723	-291
12	Bungoma	12,050	11,766	-284
13	Nandi	7,957	7,675	-282
14	Kisumu	9,058	8,782	-276
15	Trans Nzoia	8,150	7,878	-272
16	Narok	9,925	9,656	-269
17	Meru	10,719	10,454	-265
18	Homa bay	8,798	8,536	-262
19	Kwale	9,244	9,012	-232
20	Murang'a	8,082	7,852	-230
21	Mombasa	8,471	8,253	-218
22	Busia	8,105	7,893	-212
23	Nyeri	7,017	6,811	-206
24	Migori	9,039	8,838	-201
25	Kirinyaga	5,885	5,693	-192

26	Nyandarua	6,394	6,202	-192
27	Kiambu	13,285	13,094	-191
28	Embu	5,791	5,616	-175
29	West Pokot	7,147	7,070	-77
30	Bomet	7,572	7,528	-44
31	Baringo	7,225	7,185	-40
32	Tana River	7,334	7,433	99
33	Nyamira	5,746	5,885	139
34	Siaya	7,878	8,019	141
35	Elgeyo Marakwet	5,205	5,374	169
36	Laikipia	5,818	6,039	221
37	Taita taveta	5,451	5,711	260
38	Samburu	6,056	6,352	296
39	Tharaka Nithi	4,718	5,028	310
40	Kericho	7,268	7,653	385
41	Vihiga	5,681	6,077	396
42	Lamu	3,510	3,935	425
43	Wajir	10,639	11,283	644
44	Kajiado	9,016	9,767	751
45	Isiolo	5,290	6,241	951
46	Marsabit	8,148	9,427	1,279
47	Garissa	8,915	10,894	1,979
		417,425	417,425	
NOTES:	ALLOCATIONS ARE BASED ON CRA'S RECOMMENDATION OF KSHS.417.425 B			
	31 COUNTIES WILL RECEIVE LOWER AMOUNT ON THE 4TH BASIS THAN THE 3RD			
	16 COUNTIES WILL RECEIVE MORE ON THE 4TH BASIS THAN ON THE 3RD BASIS			

Annex 2: Differences in land area data between 2009 and 2019

		LAND AREA DATA PER COUNTY		
	COUNTY	2009 LAND AREA (IN SQ. KM)	2019 LAND AREA (IN SQ. KM)	DIFFERENCE IN LAND AREA IN SQ. KM
1	Bungoma	3,592.8	3,023.9	-568.9
2	Tana River	38,436.9	37,950.5	-486.4
3	Turkana	68,680.3	68,232.9	-447.4
4	Machakos	6,208.2	6,042.7	-165.5
5	Tharaka-Nithi	2,638.8	2,564.4	-74.4
6	Kilifi	12,609.7	12,539.7	-70.0

COUNCIL OF GOVERNORS

7	Kitui	30,496.5	30,429.5	-67.0
8	Mandera	25,991.5	25,939.8	-51.7
9	West Pokot	9,169.4	9,123.2	-46.2
10	Kericho	2,479.0	2,436.1	-42.9
11	Baringo	11,015.3	10,976.4	-38.9
12	Murang'a	2,558.8	2,524.2	-34.6
13	Nakuru	7,495.1	7,462.4	-32.7
14	Kakamega	3,051.2	3,020.0	-31.2
15	Homa Bay	3,183.3	3,152.5	-30.8
16	Kajiado	21,901.0	21,871.1	-29.9
17	Nandi	2,884.2	2,855.8	-28.4
18	Lamu	6,273.1	6,253.3	-19.8
19	Marsabit	70,961.2	70,944.1	-17.1
20	Nyeri	3,337.1	3,325.0	-12.1
21	Kiambu	2,543.4	2,538.6	-4.8
22	Kwale	8,270.2	8,267.1	-3.1
23	Nyamira	899.3	897.3	-2.0
24	Kirinyaga	1,479.1	1,478.3	-0.8
25	Siaya	2,530.4	2,529.8	-0.6
26	Kisumu	2,085.9	2,085.4	-0.5
27	Trans Nzoia	2,495.5	2,495.2	-0.3
28	Mombasa	218.9	219.9	1.0
29	Elgeyo/Marakwet	3,029.8	3,032.0	2.2
30	Embu	2,818.0	2,820.7	2.7
31	Kisii	1,317.5	1,323.0	5.5
32	Nairobi City	695.1	703.9	8.8
33	Isiolo	25,336.1	25,350.6	14.5
34	Migori	2,596.4	2,613.5	17.1
35	Narok	17,933.1	17,950.3	17.2
36	Vihiga	530.9	563.8	32.9
37	Nyandarua	3,245.3	3,285.7	40.4
38	Samburu	21,022.2	21,065.1	42.9
39	Uasin Gishu	3,345.2	3,392.2	47.0
40	Bomet	2,471.3	2,530.9	59.6
41	Taita/Taveta	17,084.0	17,152.0	68.0
42	Meru	6,936.2	7,006.3	70.1
43	Laikipia	9,461.9	9,532.2	70.3
44	Wajir	56,685.8	56,773.1	87.3
45	Makueni	8,008.8	8,169.8	161.0
46	Garissa	44,175.0	44,736.0	561.0

47	Busia	1,134.4	1,696.3	561.9
	TOTAL	**581,313.1**	**580,876.5**	**-436.6**

NOTES

The land area data used in the previous bases including the third basis is that of 2009

The data used in the fourth basis is that of 2019

Both data sets are from KNBS population and household census reports of 2009 and 2019

However, there are significant changes in land area that needs qualification before it can be applied

(orange)	Counties whose land area has reduced going by the 2009 & 2019 data
(green)	Counties whose land area has increased going by the 2009 & 2019 data

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PRESENTATION TO THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET

Part 1: IMPACT OF THE HIGH COURT JUDGEMENT IN GARISSA HIGH COURT CONSTITUTIONAL PETITION NO. 4 OF 2020: HON. ABDULLAH BASHIR SHEIKH & 25 OTHERS VS KENYA NATIONAL BUREAU OF STATISTICS & 4 OTHERS

Part 2: MEASUREMENT OF MONETARY POVERTY IN KENYA

PART 3: MEASUREMENT OF THE GROSS COUNTY PRODUCT (GCP)

(2) DDSEC (BL)
kindly deal
02/04/2025

(1) DSFC
kindly deal.
01/04/2025

(3) Mr. Gitonga
Kindly deal
02/04/25

IMPACT OF THE HIGH COURT JUDGEMENT IN GARISSA HIGH COURT CONSTITUTIONAL PETITION NO. 4 OF 2020: HON. ABDULLAH BASHIR SHEIKH & 25 OTHERS VS KENYA NATIONAL BUREAU OF STATISTICS & 4 OTHERS

A. Introduction and Background

The publication of the 2019 Census Report by the Bureau occasioned the institution of seven (7) petitions challenging the published results for Mandera East, Mandera West, Banisa, Lafey, Mandera North, Mandera South, Balambala, Lagdera, Dadaab, Garissa Township, Eldas, Tarbaj, Wajir West, Wajir East and Wajir North Sub-Counties. The petitions were:

i. Nairobi High Court Petition No. 102 of 2020: County Government of Mandera –Vs- Kenya National Bureau of Statistics & 3 Others;

ii. Nairobi High Court Petition No. 103 of 2020: Hon. Abdullah Bashir Sheikh & 5 Others –Vs- Kenya National Bureau of Statistics & 3 Others;

iii. Nairobi High Court Petition No. 106 of 2020: Hon. Adan Keynan Wehlitye & 4 Others –Vs- Kenya National Bureau of Statistics & 3 Others;

iv. Nairobi High Court Petition No. 107 of 2020: County Government of Wajir –Vs- Kenya National Bureau of Statistics & 3 Others;

v. Nairobi High Court Petition No. 110 Of 2020: Hon. Abdi Omar Shurie & 3 Others –Vs- Kenya National Bureau of Statistics & 3 Others;

vi. Nairobi High Court Petition No. 111 of 2020: County Government of Garissa –Vs- Kenya National Bureau of Statistics & 3 Others;

vii. Garissa High Court Petition No. 3 of 2020: Abdulahi Mohamed Kanyare & 3 Others –vs- Kenya National Bureau of Statistics & 3 Others.

The said petitions were consolidated to High Court Petition No. 4 of 2020, Hon. Abdullahi Bashir Sheikh & 24 others v. Kenya National Bureau of Statistics & 4 others, and transferred to the High Court at Garissa. The consolidated petition was heard by way of ***viva voce*** evidence and concluded on 14th October, 2024.

Judgement was delivered on 28th January, 2025 whereby the Court (Hon. Mr. Justice J.N. Onyiego) made the following findings: -

i) *The Bureau argues that the Petitioners were granted access to the server, yet the report by the Deputy Registrar reveals the opposite. By merely causing the scrutiny team to sit in the boardroom where there was no server and then print for them a one-page disputed census report which they already had is a high degree of disrespect to the Court order.*

ii) *The Bureau's claim that if there was disobedience to the orders the Petitioners should have filed a contempt application is neither here nor there. To the contrary, they should have gone ahead to prosecute their intended Appeal challenging the scrutiny order if indeed they were aggrieved.*

iii) *For the above stated reasons, it is my finding that there was no scrutiny exercise conducted as per the Court order and that the Bureau deliberately and willingly frustrated the process hence there was non-compliance.*

iv) *The objective in ordering for scrutiny was to verify the alleged discrepancy in the figures published which according to the Petitioners were inordinately manipulated taking into account the prevailing factors like the 2009 census as the baseline; high fertility rate; low knowledge in family planning; high level of polygamy and consistent upward trend of population growth since independence besides their independent sources of information although not ascertainable.*

v) *Having held that the Bureau's refusal to allow access to the server and the census devices attracts an adverse inference, it is my finding that the allegations made by the Petitioners have not been debunked sufficiently.*

vi) *Having considered the drastic decrease or decimal increase in population in the affected areas and considering that the grounds advanced for the drastic decrease does not resonate with the trend in population growth in the same region, and further taking into account that the Bureau failed to allow scrutiny to take place, I am left with no choice but to find that the 2019 enumerated results for the affected areas was incorrect and therefore not legitimate hence not suitable for use by any government department for purposes of executing their respective statutory and constitutional mandate.*

It is true that the prayer for structural interdict to be made was not pleaded or prayed for. However, the prayer to cancel the disputed census results is contained in the prayer for a certiorari order to quash the impugned results. As to the failure to specifically plead for a structural interdict order, the same is catered for in the omnibus prayer for the Court to issue any other relief it may deem fit.

Consequently, the Court made, among other orders, the following at paragraphs 186 -

i) *The published results in Volume 1 of 2019 Kenya Population and Housing Census in respect of Mandera North, Mandera West, Banisa, Lafey, Mandera East and Mandera South sub-counties (constituencies), Eldas, Tarbaj, Wajir West, Wajir East and Wajir North sub-counties (constituencies), Balambala, Lagdera, Dadaab and Garissa Township sub counties (constituencies) be and are hereby cancelled.*

ii) *That a structural interdict order be and is hereby issued directing Kenya National Bureau of Statistics (1st Respondent) to conduct a fresh mini-population census in respect to Mandera North, Mandera West, Banisa, Lafey, Mandera East and Mandera South sub-counties (constituencies), Eldas, Tarbaj, Wajir West, Wajir East and Wajir North sub-counties (constituencies), Balambala, Lagdera, Dadaab and Garissa Township sub counties (constituencies) within a period of one year from the date of delivery of this Judgement."*

Following this judgement, the Bureau consulted the Honourable the Attorney General who advised that the Bureau should: -

a) Institute an appeal against the Judgement; and

b) file an application for stay of execution of the Judgement to enable the Bureau and other government agencies to rely on the 2019 Kenya Population and Housing Census results in executing their respective mandates pending the determination of the appeal.

The Bureau through its Advocates has filed a Notice of Appeal dated 3rd February 2025 at the Nairobi High Court pursuant to Rule 77(1) of the Court of Appeal Rules, and expects to file a Record of Appeal at the Court of Appeal within sixty days of the filing of the Notice of Appeal as required by Rule 84(1) of the Court of

Appeal Rules. The Bureau has in addition filed a Notice of Motion Application dated 25th March, 2025 at the Court of Appeal seeking stay of execution of the Judgment, which application has been certified as urgent and directions in respect of the filing of responses and submissions have been issued.

B. JUSTIFICATION ON THE APPEAL

The Bureau's consultations with the Honourable the Attorney General, internally within the Management, and with the Bureau's Advocates drew the considered opinion that the findings and orders of the High Court are erroneous on the grounds that the High Court:

1. erred in law in finding and holding that the consolidated petitions that were before the court for determination met the threshold of a constitutional petition without identifying the specific Articles of the Constitution that the consolidated petitions sought to enforce;

2. erred in law and fact in finding that the consolidated petitions met the threshold for constitutional petitions when in fact the 1st -25th Respondents failed to demonstrate, with any degree of precision, the constitutional provisions alleged to have been infringed and/or threatened with infringement in the Appellant's discharge of its statutory mandate set out in **Section 4** of the **Statistics Act, 2006** and the manner in which those provisions were infringed;

3. erred in law after correctly finding that the census results unofficially gathered by the 1st to 25th Respondents through census officials and elders were illegitimate and inadmissible, but nevertheless went on to rely on the said unofficially gathered census results to find that the consolidated petitions meet the threshold of a constitutional petition. Moreover, despite having correctly found that the Bureau is the principal agency empowered to collect, analyze and disseminate statistical data in Kenya and hence the sole custodian of such information and that the Petitioners' alleged numbers could not be relied upon as they were not authentic and could not be verified, the Learned Judge erred in law and fact by holding that the 2019 enumerated results for the affected areas was incorrect and therefore not legitimate;

4. erred in law by issuing a structural interdict in the absence of a finding that the Appellant infringed the 1st -25th Respondents' constitutional rights or that the Appellant had acted contrary to its statutory mandate as set out in **Section 4** of the **Statistics Act;**

5. erred in law by considering and subsequently determining issues that had not been specifically pleaded in the consolidated petitions;

6. erred in law by setting aside the 2019 Kenya Population and Housing Census results in the areas contested in the consolidated petitions for the sole reason that the said results had not been verified through scrutiny, and failing to hold the 1st to 25th Respondents to the evidentiary obligation placed on them, to prove the allegations in the consolidated petitions, as Petitioners, by dint of **Sections 107, 108** and **109** of the **Evidence Act;**

7. erred in law by proceeding to enforce the said order in a manner contrary to, and which deliberately disregarded, the obligation placed on the court by **Article 50 of the Constitution.** Specifically, the Learned Judge grossly misconstrued **Article 50 of the Constitution** in the following manner;
    i. on fair hearing, by finding that the Petitioners had not specifically sought a structural interdict against the 1st Respondent, and then nevertheless proceeded to granted the said Order.

    ii. On due process of the Law. by deliberately disregarding the legal avenues and mechanisms through which enforcement proceedings could have been proffered by the Petitioners in ensuring compliance with the Order issued by the Hon. Justice C. Kariuki on 29th June 2020.

8. erred in law and fact in holding that the Bureau failed to comply with the order for scrutiny whereas the findings of the Bureau's report dated 7th February 2022 and the Deputy Registrar's report dated 18th November 2021 demonstrated compliance by the Bureau with the order issued by Hon. Justice Kariuki on 29th June 2020;

9. erred in law by pronouncing itself on issues arising from the 1st -25th Respondents' Notice of Motion Applications dated 9th March 2020 and 12th March 2020 and the Appellant's Notice of Motion Application dated 13th July 2020, which were determined in Rulings dated the 29th of June 2020 and the 28th of October 2020, and which were *res judicata* (precluded) by virtue of **Section 7 of the Civil Procedure Act, Cap 21 Laws of Kenya;**

10. erred in law and fact in failing to appreciate that the evidence adduced by the Bureau demonstrated that the devices used in the 2019 Kenya Population and Housing Census had already been reconfigured and disposed of in the Bureau's ordinary course of business prior to any issuance of a Court order directing the preservation of the devices;

11. erred in fact and law by imposing a legal obligation on the Bureau to not only preserving the devices used in the 2019 Kenya Population and Housing Census after receiving the Petitioners' demand letters whereas the Bureau had declined the Petitioners' request under **Article 35** of the **Constitution,** and additionally imposing a requirement for a disposal certificate where no such burden in Law exists.

C. Impact of the High Court decision

The impact of the orders made by the High Court have far reaching constitutional. legal and practical implications for the operation of the government system as follows: -

1. The implementation of the impugned decision of the High Court would affect Kenya's population data for the total population of Kenya. Census information is an important planning tool that is used, throughout government, to make crucial decisions such as the delimitation of boundaries, division of resources and the provision of basic services. The direction by the High Court is that until the mini - census is conducted, the counties of Mandera, Wajir and Garissa should use the 2009 census results in respect of the areas contested in the consolidated petitions.;

2. The implementation of the orders made in the impugned Judgement would have irreversible consequences at the national and county levels of government in affecting government processes including delimitation of

boundaries, division of resources, and provision of basic services that would not be reversible by the mere success of the appeal.

3. The impugned Judgement requires the use of 2009 population data ***in respect of Mandera North, Mandera West, Banisa, Lafey, Mandera East and Mandera South sub-counties (constituencies), Eldas, Tarbaj, Wajir West, Wajir East and Wajir North sub-counties (constituencies), Balambala, Lagdera, Dadaab and Garissa Township sub counties (constituencies)*** and 2019 population data for the rest of the country. The conduct of a mini census in the specified constituencies as directed by the judgment would also result in the use of a different population data set. Therefore, in all cases the implementation of the judgment of the High Court would result in the application of different data sets for the specific constituencies from the rest of the country. This would result in unequal treatment of parts of the population contrary to **Article 27(1)** of the **Constitution which provides that every person is equal before the law and has the right to equal benefit and equal protection of the law**. The effect of such unequal treatment would be permanent and not remediable by the success of the Appeal and would therefore render the Appeal nugatory.

4. The implementation of the impugned Judgement would sully Kenya's population data due to the mixture of 2019 and 2025/26 population values, the effect of which would not be reversible even by a successful appeal.

5. In the event that the Order cancelling the published 2019 Kenya Population and Housing Census results for Mandera, Wajir and Garissa Counties is implemented, the same shall have the effect of cancelling the published 2019 Kenya Population and Housing Census results for entire country as the national population census figure must be comprised of the results from all enumeration areas in all the 47 Counties derived at the same time.

6. The implementation of the judgment would cause prejudice to the credibility of the Bureau as the principal agency of the government for the collection, collation and dissemination of official statistics and affect the public interest in so far as any violations of the Constitution and statute that will have been occasioned in furtherance of the impugned Judgement will

be irreversible thereby occasioning grave injustices on the entire Kenyan public who stand to suffer irreparable harm.

MEASUREMENT OF MONETARY POVERTY IN KENYA

D. Introduction and Background

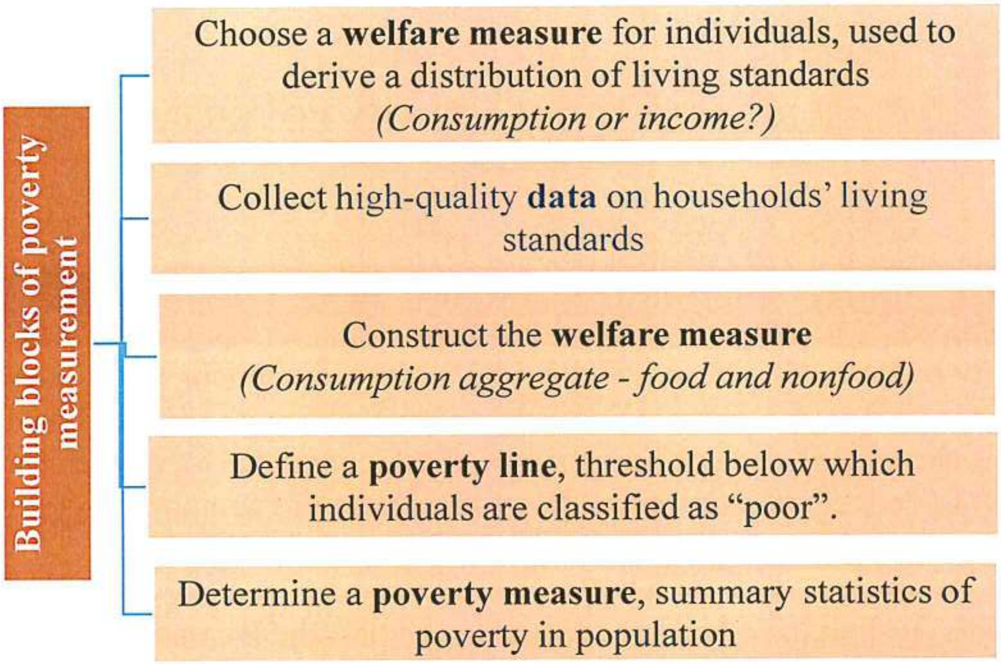
Poverty reduction has been a major goal of the government since independence. To track the progress in reducing poverty and inequality, the Government through the Kenya National Bureau of Statistics (KNBS), conducts Household Budget Surveys (HBS) to collect welfare information to facilitate the computation of monetary and non-monetary indicators for monitoring poverty and inequality.

The surveys that have been conducted in the past the Bureau include: The 1981/82 Rural Household Budget Survey (RHBS); 1983/84 and 1993/94 Urban Household Budget Surveys (UHBS); the 1992, 1994, and 1997 Welfare Monitoring Survey (WMS); the 2005/06 and 2015/16 Kenya Integrated Household Budget Survey (KIHBS). To address the challenge around the frequency and consistency of Household Budget Surveys, KNBS initiated a series of Kenya Continuous Household Survey (KCHS) to provide data to support production of annual poverty estimates for 2019,2020,2021 and 2022.

Poverty refers to the condition in which an individual or household lacks the financial resources and access to basic necessities of life, such as food, clean water, shelter, healthcare, and education. People living in poverty often face significant barriers to improving their quality of life and may experience social exclusion, limited opportunities for work or advancement, and poor living conditions.

Poverty and inequality indicators are important for planning, monitoring, and evaluation of programmes at the national and county levels. The estimates are used by the Commission on Revenue allocation (CRA) in the preparation of the recommendations for division of revenue. The poverty numbers are also used in formulation of Medium-Term Plans (MTPs) as well as County Integrated Development Plans (CIDPs). Further, the indicators will provide information to monitor Kenya's progress towards achieving the Sustainable Development Goals (SDGs), Africa's Agenda 2063 and other international targets.

Figure 1: Building blocks of poverty measurement

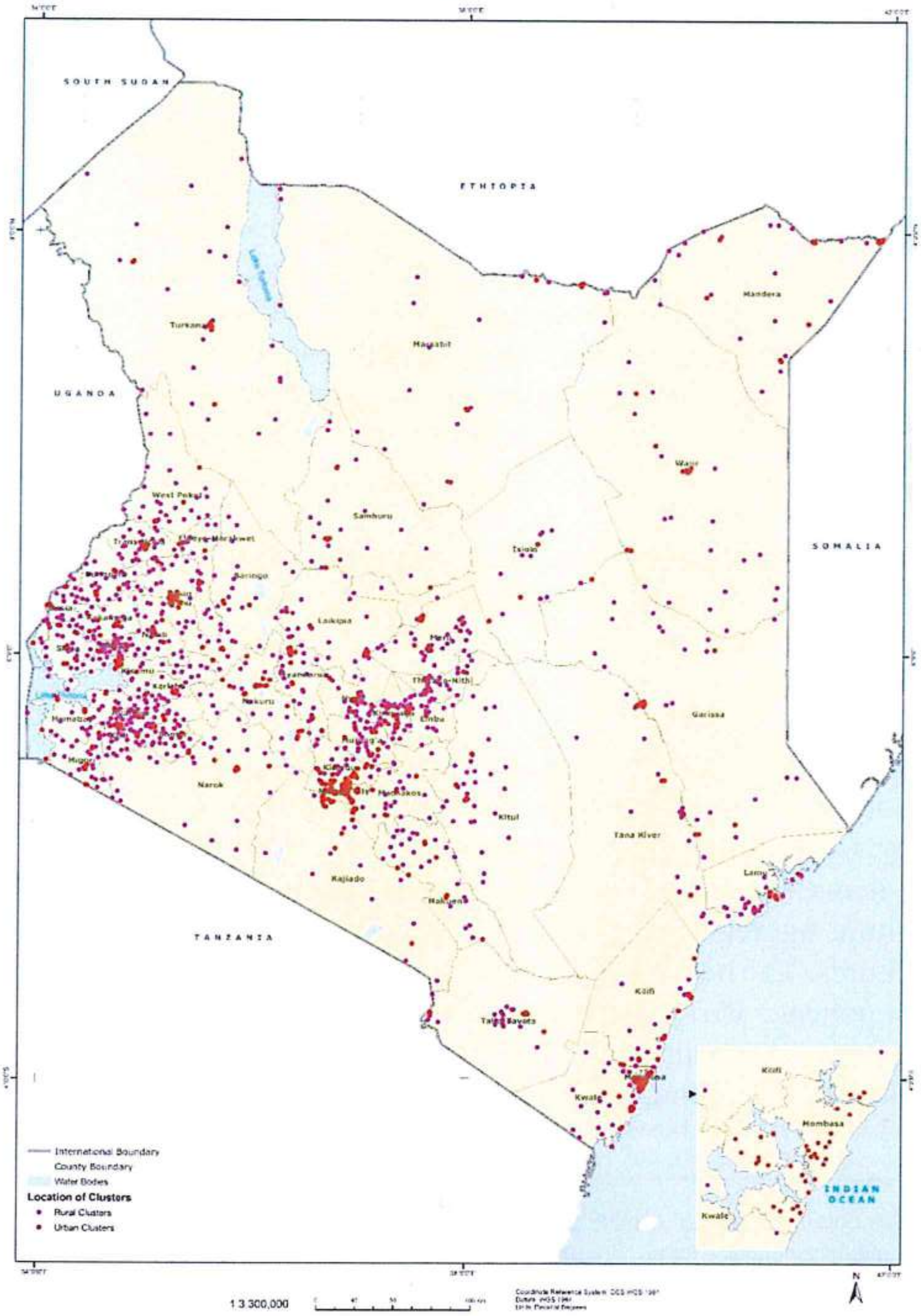


This note provides an overview of how poverty is measured in Kenya, with the key building blocks and steps outlined in Figure 1. The compilation of poverty statistics in Kenya follows international best practices and guidelines of welfare measurement based on monetary, consumption expenditure by households. The indicators are computed at national, rural, urban, and county levels.

E. Data on Households' Living Standards

KNBS on behalf of the Government Kenya conducts Household Budget Surveys (HBS), across the Country to collect welfare information. The information is collected from a representative sample. The sample for the surveys are usually drawn from a master sample frame developed from the latest Kenya Population and Housing Census. The master sample is an area frame developed from a random sample of the census Enumeration Areas. An enumeration area (EA) is the smallest geographical unit created during cartographic mapping that precedes a Population and Housing Census. The size may vary from 50 to 149 households depending on the population density, terrain and vastness of the area concerned. An EA may be a village, group of villages or part of a village. In urban areas, an estate may incorporate the concept of a village, and a block of flats may constitute more than one EA, depending on the number of households. Information is usually collected a cluster which is the smallest geographical statistical unit, which is either an EA or part of an EA with details pertaining to households and structures. The clusters are selected to represent either urban or rural population. Figure 2, present a typical distribution of clusters in the country.

Figure 2: Distribution of sampled clusters



F. The Welfare Measure: Used to derive a distribution of living standards

Broadly, there are two approaches to measuring welfare.[1] The first is an income-based measure, which sums income from all sources, including employment, social transfers, home production, and informal support. The second is a consumption or expenditure-based measure, which captures total spending on all consumed goods, both food and non-food.

In Kenya, KNBS uses a consumption-based welfare indicator, known as the consumption aggregate, to measure poverty. Research on the relationship between income and consumption has shown that consumption is not directly linked to short-term income fluctuations. Consumption expenditures are more stable and less variable than income. Therefore, well-being rankings based on consumption are often more consistent for households with fluctuating incomes, such as those in rural Kenya who rely on income from agricultural activities like crop farming and livestock rearing, which can be unpredictable. Collecting income data from households is also challenging, as many people struggle to report it accurately, especially those in the informal sector or with seasonal jobs, or who simply refuse to disclose it.

The compilation of poverty statistics in Kenya follows international best practices and guidelines of welfare measurement based on monetary, consumption expenditure by households. The indicators are computed at national, rural, urban, and county levels.

The measure of welfare used in poverty estimation is the **total value of a household's consumption expenditure aggregate** based on data collected through a survey. Consumption expenditure aggregate refers to the value (price x quantity) for all items consumed by the household during a given period. Consumption expenditure aggregate is obtained from adding food and non-food consumption expenditures. The nominal food consumption expenditure component includes three sub-components derived from purchases, own production, gifts of food items consumed by the household. The non-food consumption expenditure component comprises of non-food, assets or durables (consumption flow of households),

[1] While this note focuses on monetary poverty, it is important to recognize that welfare can be measured in both monetary and non-monetary terms. Non-monetary approaches view poverty as a lack of "well-being," encompassing factors such as inadequate access to basic needs like clean water, food, shelter, education, and clothing, as well as challenges like unemployment, political instability, and environmental issues.

housing rent and education. All food items are included in the welfare indicator while non-food items, large-sized, or "lumpy, durable goods" are excluded to reduce their biasing factor in the monthly estimates.

Adjusting for price variation (spatial and temporal)

When using consumption-based measures of welfare to compare standards of living across time and space, it is essential to consider differences in the cost of living. Household Budget Surveys are typically conducted over a 12-month period, but individuals living in different locations or surveyed at different times may not pay the same prices for similar goods. Prices can vary geographically and seasonally, particularly for certain food items. An analysis of nominal consumption that does not account for spatial and temporal price variations may underestimate poverty in areas with higher prices and overestimate poverty in areas with lower prices. Therefore, the consumption aggregate must be adjusted for price variations across geographic regions and survey periods.

To account for spatial and temporal differences in cost of living, Kenya's consumption aggregate is adjusted using the Paasche price index, which is based on survey median food prices. This index is designed to adjust for cost-of-living variations across both space and time, resulting in a price index referenced to national median prices in both urban and rural areas. The median prices used for this index are the same as those used to compute and value the rural and urban food baskets and poverty lines. The method developed to adjust for cost-of-living differences relies on a Paasche price index with household-specific weights derived from unit prices collected in the Household Budget Surveys. **The total nominal household consumption aggregate is then deflated using the *Paasche price index* to obtain the real total consumption aggregate at the household level.**

Adjusting for differences in needs based on household composition

A fundamental limitation of household income and expenditure surveys is that individual consumption is not directly observed. Comparing consumption between households can be misleading since households vary in size and composition. While household consumption can be divided by size to reflect per capita consumption, this approach does not account for differences in consumption based on household composition, such as the presence of children, women, or the elderly. For example, per capita expenditure measures may underestimate the welfare of individuals in households with a high proportion of children, as children typically consume less than adults up to a certain age.

In Kenya, adult equivalent scales are used to measure the consumption needs of household members. To account for intra-household differences in needs, these adult equivalence scales dictate that age groups 0-4 years are weighted as 0.24 of an adult, children aged 5-14 years are weighted as 0.65, and all individuals aged 15 years and older are assigned a value of unity.

The final welfare measure used by KNBS is **consumption per adult equivalent**, which is the real total consumption aggregate divided by the per adult equivalent to account for differences in household composition and size.

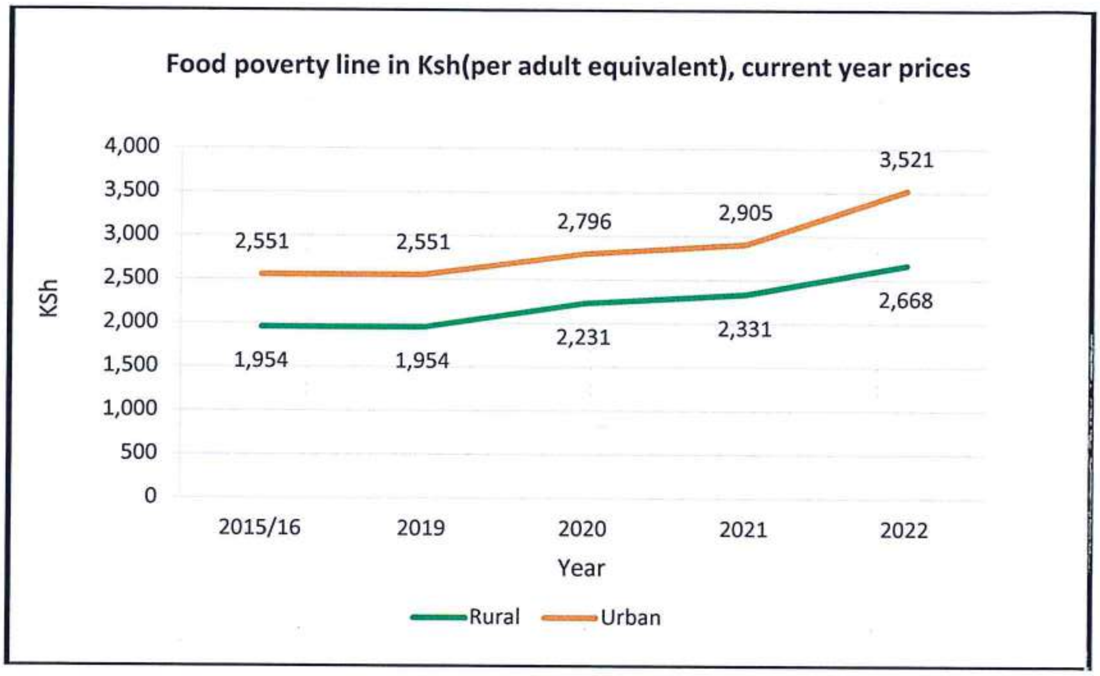
G. Poverty Lines: Threshold below which individuals or household are classified as "poor"

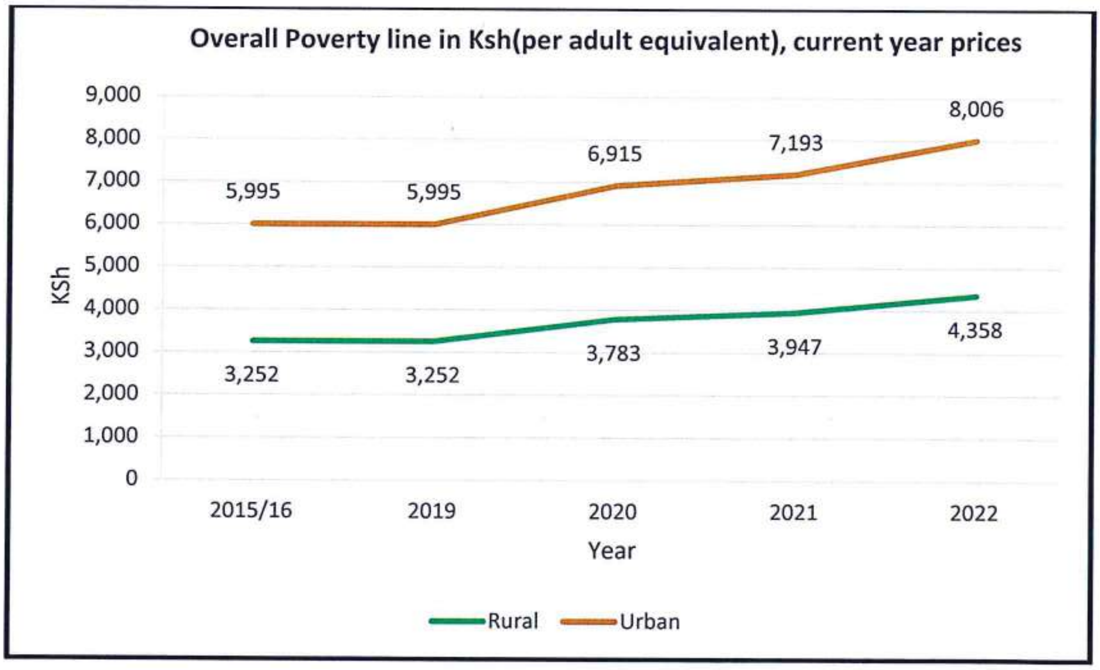
The real total consumption aggregate is subjected to a threshold to determine the poor. The thresholds are referred to as the poverty lines, which are determined using a cost-of-basic-needs (CBN) approach. The approach stipulates a consumption bundle deemed to be adequate for 'basic consumption needs' and then estimates what this bundle costs in reference price.

KNBS uses two national poverty lines for poverty measurement: the food poverty line and the overall poverty line. The first step is calculating the food poverty line, which represents the level of consumption below which individuals cannot afford enough food to meet their basic dietary needs. The food basket used to construct the food poverty line is based on a minimum energy requirement of 2,250 kilocalories (kcal) per adult equivalent per day. A reference population is then defined to determine the composition of the food basket and calculate the total cost of meeting these nutritional needs based on their consumption patterns. Therefore, the food poverty line is the cost of the main food items consumed by the reference population to achieve 2,250 kcal per day per adult equivalent. Separate poverty lines are calculated for both rural and urban populations in Kenya.

The rural and urban food poverty lines constitute the foundation on which to anchor the computation of the respective overall poverty lines. Derivation of the overall poverty line is obtained by adding the mean value of total non-food consumption (Non-food allowance) to food poverty line for those households whose food expenditure fall within an interval around the food poverty line. Figure 3 presents the recent trends in poverty lines over time.

Figure 3: Distribution of sampled clusters





H. Poverty Measures: Summary statistics of poverty in population

Three measures are commonly used to estimate and describe poverty in Kenya, based on the premise that poverty measurement involves comparing a welfare indicator—consumption per adult equivalent—against a pre-determined threshold, known as the poverty line.

1. The **poverty headcount rate (incidence of poverty)** which captures the proportion of the population whose consumption per adult equivalent is below the poverty line. In Kenya, three poverty headcount rates are estimated: the food poverty headcount rate, the overall poverty headcount rate, and the hardcore poverty rate. Accordingly,
   - **Food poverty headcount rate** captures the proportion of individuals (or households if estimated at household level) whose food consumption per adult equivalent is less than the food poverty line These are considered to be food poor or live in "food poverty".
   - **Overall (absolute) poverty headcount rate** captures the proportion of individuals (or households if estimated at household level) whose total consumption, that is combination of food and nonfood consumption per adult equivalent, is less than the overall poverty line. These are considered to be overall poor or live in "overall poverty".
   - **Hardcore (extreme) poverty headcount rate** captures the proportion of individuals (or households if estimated at household level) whose *total consumption per adult equivalent* was less than the food poverty line. These are considered to be hardcore poor or live in "hardcore poverty"

2. The **depth of poverty**, also referred to as the poverty gap, provides information regarding how far off a household or individual is from the poverty line. Summing these gaps for the poor (the non-poor have a shortfall of zero) and dividing the total by the population gives the mean aggregate consumption (or income) shortfall relative to the poverty line across the whole population. The measure gives the total resources needed to bring all the poor to the level of the poverty line (divided by the number of individuals in the population).

3. The **severity of poverty**, also referred to as the squared poverty gap, considers not only the distance separating the poor from the poverty line (the poverty gap), but also the inequality amongst the poor. The severity of poverty gives a higher weight to those households who are further away from the poverty line.

The depth and severity measures complement the poverty headcount rate by providing additional insights. For example, many poor households or individuals may be clustered just below the poverty line, resulting in a high poverty incidence but a low poverty gap. Conversely, the poverty incidence may be low, but those below the poverty line could have extremely low consumption levels. All three measures can be calculated on a household or population basis (in terms of individuals).

I. Recent Poverty Trends

All three poverty headcount rates – the food, overall and hardcore poverty rates reveal the adverse effects of multiple shocks households have been experiencing since the onset of COVID-19 in 2020. The post-pandemic recovery has though been interrupted by a severe drought and a spike in food prices. Recent trends in the poverty headcount rates are presented in Figure 4. Considering the overall poverty line, the proportion of the population living below the poverty line, increased from 33.6 per cent in 2019 to 42.9 per cent in 2020. There was a slight recovery in 2021 as the overall poverty headcount rate fell to 37.3 per cent before rising again to 39.8 per cent in 2022. A similar trend was observed for both food and hardcore poverty headcount rates.

The COVID-19 pandemic related rise in overall poverty was more pronounced in urban areas where the overall poverty rose by nearly 16 percentage points from 26 per cent in 2019 to 42 per cent in 2020 compared to a 6.5 percentage point increase in rural areas from 37 per cent in 2019 to 43.5 per cent in 2020. This led to a near convergence of poverty levels in urban and rural areas. The post-pandemic recovery was also stronger in urban areas as overall poverty declined to 31 per cent in 2021 while rural poverty fell to 40 per cent. Poverty in both urban and rural areas is still above the pre-pandemic levels at 43 per cent in rural areas and 33 percent among urban households in 2022.

The number of the poor increased between 2019 and 2020 as the pandemic resulted in an additional 5.05 million poor from 15.8 million poor to 20.9 million poor. This estimate dropped slightly in 2021 before increasing again in 2022 to a total of 20.1 million poor individuals nationally. The number of food poor followed the same trend, increasing sharply in 2020 followed by a recovery in 2021 and slight rise in 2022, with the national estimate of food poor at 16.1 million in 2022.

From 2019 to 2020 the increase in the number of food and overall poor was concentrated in urban areas, where around 1.8 million more people became food poor, compared to 0.6 million more in rural areas. In terms of overall poverty, the number of the poor increased by about 2.6 million in urban areas, while the corresponding increase was about 2.4 million in rural areas. There was a decline in the number of the hardcore poor at national level and in the rural areas, while the hardcore poor increased in urban areas between 2019 and 2020. These patterns suggest that the impact of COVID-19 was more severe in urban compared to rural areas.

The number of poor as measured by food, overall and hardcore poverty, fell between 2020 and 2021. About 16.1 million people and 20.2 million people were food poor and overall poor respectively, in 2022. Around 3.6 million people lived in abject poverty and were unable to afford the minimum required food consumption basket, even if they allocated all their expenditure on food alone.

Overall poverty estimates for KCHS 2022 at county level

Figure 6 presents visualization of overall individual poverty estimates by county ranked in ascending order, from least to highest poverty incidence. The results show a significant variation in overall poverty incidence at the county level ranging from a low of 16.5 per cent in Nairobi City to a high of 82.7 per cent in Turkana. There were also notable variations between counties in the ASAL areas and counties in the rest of the country. Overall poverty incidence is highest in the following seven counties: Turkana (82.7%), Mandera (72.9%), Samburu (71.9%), Garissa (67.8%), Tana River (66.7%), Marsabit (66.1%) and Wajir (64.7%). Overall poverty incidence is lowest in: Nairobi City (16.5%), Kiambu (19.9%), Kirinyaga (23.1%), Embu (24.3%), Nyeri (26.0%) and Narok (26.2%) counties.

Table 1 shows the trends in overall poverty incidence (headcount ratio) between 2019 and 2022 by County. These patterns suggest that the impact of COVID-19 was severe in 2020 with all counties registering high headcount ratio compared to the years before and after.

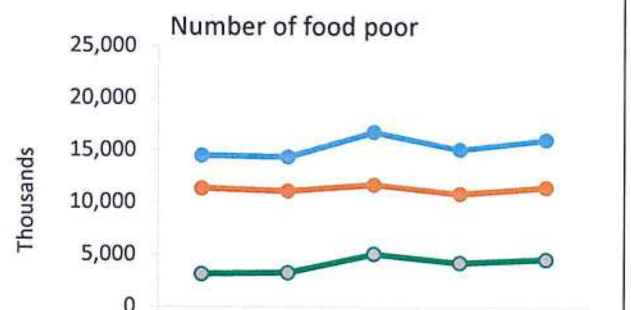
Figure 4: Trends in Food, Overall, and Hardcore Poverty Headcount Rates

	2015/16	2019	2020	2021	2022
National	32.0	30.5	34.4	30.5	31.7
Rural	35.0	34.0	35.1	32.2	33.2
Urban	24.4	22.5	33.0	26.9	28.6

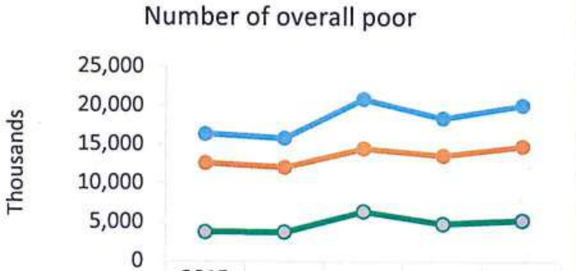
	2015/16	2019	2020	2021	2022
National	36.1	33.6	42.9	37.3	39.8
Rural	38.8	37.0	43.5	40.3	42.9
Urban	29.4	26.0	41.9	30.8	33.2

	2015/16	2019	2020	2021	2022
National	8.6	8.3	7.1	5.7	7.1
Rural	10.7	10.9	9.1	7.7	9.3
Urban	3.4	2.7	2.8	1.3	2.4

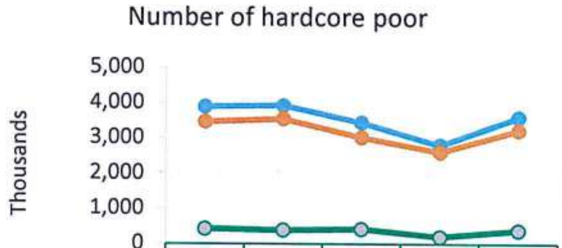
Figure 5: Trends in the Number of Food, Overall, and Hardcore Poor



	2015/16	2019	2020	2021	2022
National	14,496	14,351	16,769	15,093	16,062
Rural	11,342	11,075	11,681	10,836	11,450
Urban	3,153	3,276	5,088	4,257	4,613



	2015/16	2019	2020	2021	2022
National	16,397	15,839	20,892	18,456	20,157
Rural	12,602	12,050	14,463	13,572	14,798
Urban	3,795	3,790	6,429	4,884	5,359



	2015/16	2019	2020	2021	2022
National	3,891	3,927	3,444	2,807	3,607
Rural	3,456	3,536	3,018	2,599	3,221
Urban	434	391	426	208	387

Figure 6: Individual overall poverty incidence across counties, KCHS 2022

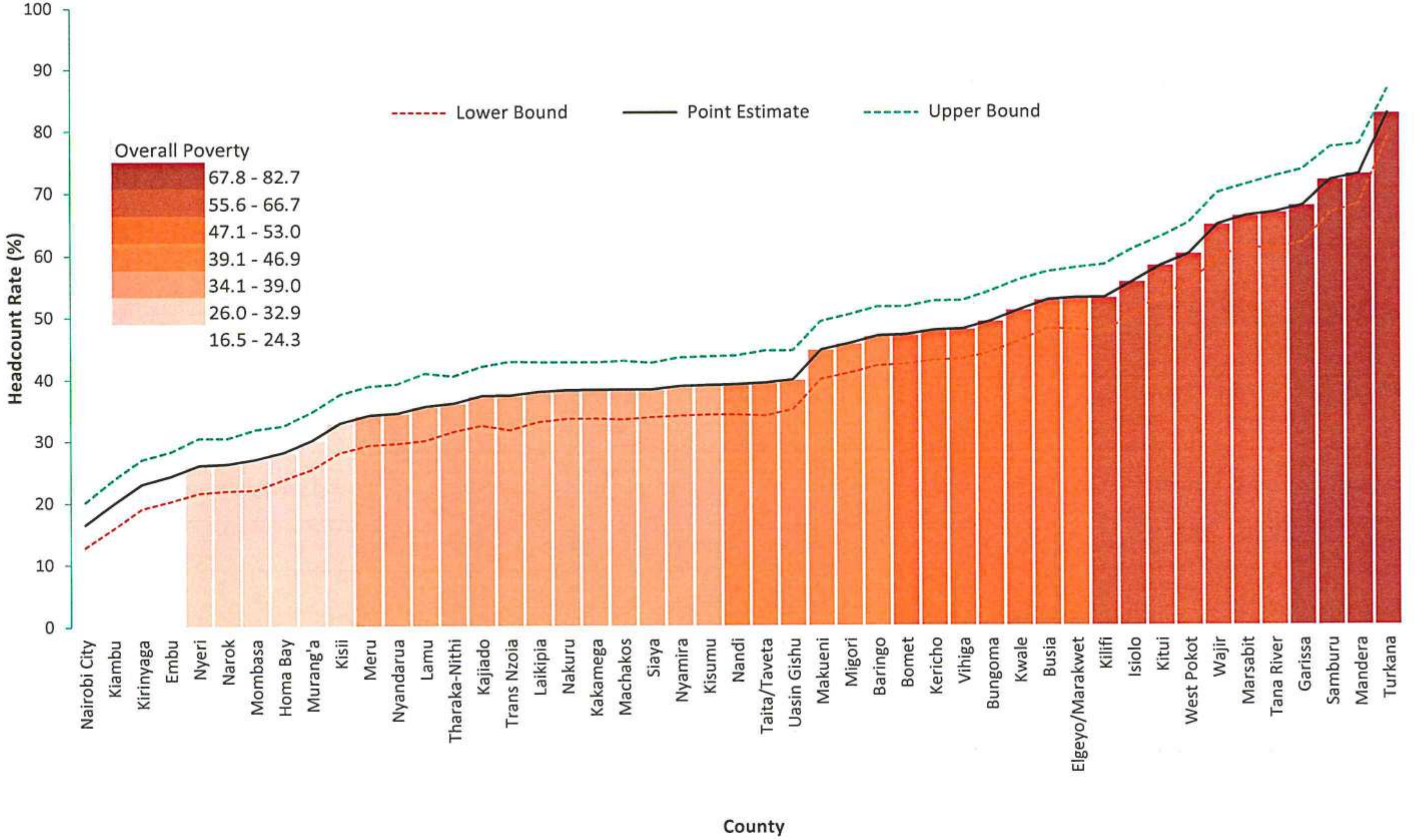


Table 1: Trends in Overall Poverty Incidence between 2015/06 and 2022 by County

Residence / County	KIHBS	KCHS			
	2015/16	2019	2020	2021	2022
National	36.1	33.6	42.9	37.3	39.8
Rural	38.8	37.0	43.5	40.3	42.9
Urban	29.4	26.0	41.7	30.8	33.2
Mombasa	27.1	27.6	40.1	31.8	27.0
Kwale	47.4	41.6	53.1	49.2	51.1
Kilifi	46.6	44.3	53.3	46.9	53.0
Tana River	62.2	61.7	65.4	66.4	66.7
Lamu	28.5	31.0	44.3	33.5	35.6
Taita/Taveta	32.3	34.4	35.8	32.7	39.3
Garissa	65.5	64.7	69.1	67.8	67.8
Wajir	62.6	56.2	71.2	66.2	64.7
Mandera	77.6	69.5	73.7	72.2	72.9
Marsabit	63.7	55.9	75.7	66.0	66.1
Isiolo	51.9	50.1	53.8	53.5	55.6
Meru	19.4	17.2	30.9	23.7	34.1
Tharaka-Nithi	23.6	18.8	40.1	27.3	36.1
Embu	28.2	21.8	39.1	26.4	24.3
Kitui	47.5	44.4	65.0	54.2	58.3
Machakos	23.3	22.4	35.0	32.6	38.3
Makueni	34.8	38.1	45.8	39.1	44.7
Nyandarua	34.8	25.4	32.5	30.6	34.5
Nyeri	19.3	12.8	33.1	23.0	26.0
Kirinyaga	20.0	15.9	21.1	18.1	23.1
Murang'a	25.3	19.7	35.1	26.0	30.1
Kiambu	23.3	17.8	26.7	18.6	19.9
Turkana	79.4	81.3	80.6	77.0	82.7
West Pokot	57.4	57.7	67.8	61.2	60.1
Samburu	75.8	71.3	72.2	66.8	71.9
Trans Nzoia	34.0	34.9	46.4	34.2	37.3
Uasin Gishu	41.0	38.8	40.3	37.1	39.9
Elgeyo/Marakwet	43.4	37.5	47.4	45.2	53.0
Nandi	36.0	35.4	37.7	34.8	39.1
Baringo	39.6	37.8	56.7	46.9	46.9
Laikipia	45.9	30.6	32.8	32.9	38.0
Nakuru	29.1	29.1	39.4	34.5	38.2
Narok	22.6	19.7	27.3	21.7	26.2
Kajiado	40.7	39.9	41.0	35.5	37.3
Kericho	30.3	36.7	45.0	38.7	47.8
Bomet	48.8	42.8	45.7	44.7	47.1
Kakamega	35.8	36.3	44.3	39.2	38.2
Vihiga	43.2	46.5	50.7	48.8	47.9
Bungoma	35.7	34.9	44.3	42.7	49.2
Busia	69.3	58.7	61.4	57.4	52.7
Siaya	33.8	23.7	39.8	34.8	38.3
Kisumu	33.9	34.7	35.7	34.9	39.0
Homa Bay	33.5	29.6	30.5	26.2	28.2
Migori	41.2	36.3	45.3	45.9	45.7
Kisii	41.7	41.1	43.9	36.6	32.9
Nyamira	32.7	34.5	42.6	34.0	38.8
Nairobi City	16.7	10.2	25.7	16.0	16.5

J. Inequality Measures and Recent Trends

While poverty measures focus on individuals or households at the bottom of the income distribution, inequality is a broader concept that looks at disparities across the entire population, not just the poor. Inequality measures the differences in a given metric, in this case, consumption per adult equivalent.

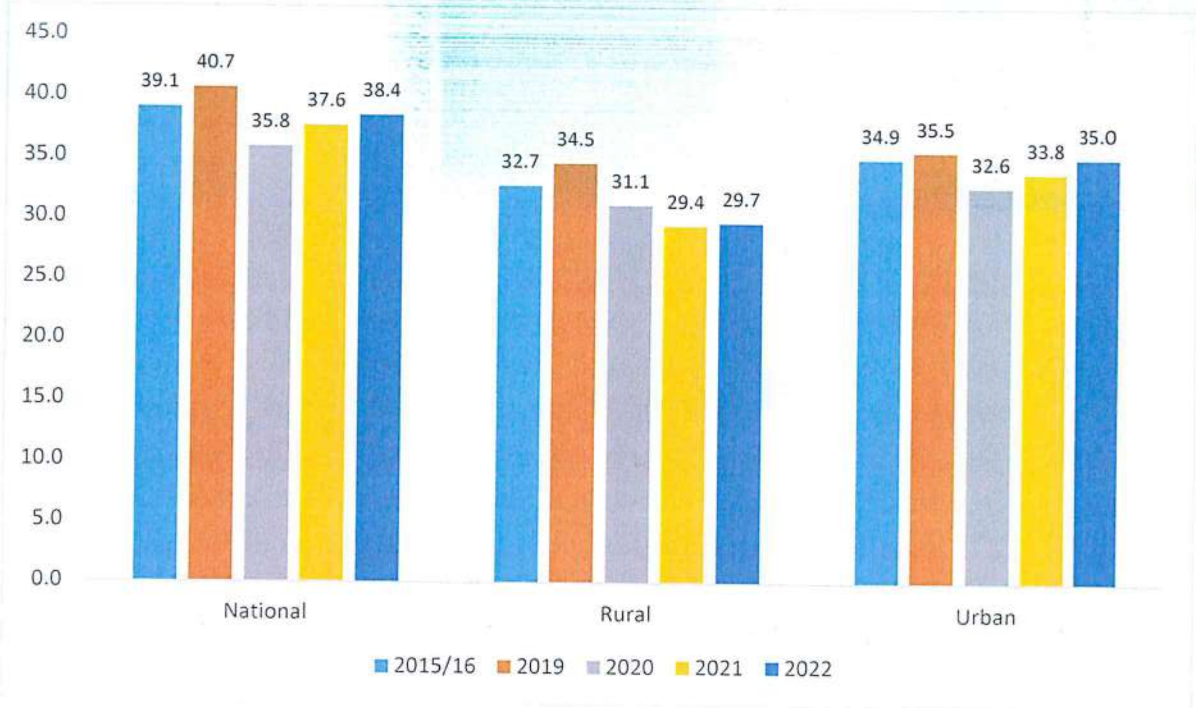
The main measure of inequality used by KNBS is the Gini index (or Gini coefficient), which compares the cumulative proportions of consumption expenditure received by individuals or households. It measures how much the distribution of consumption deviates from a perfectly equal distribution, ranging from 0 to 100. A value of 0 indicates perfect equality (everyone has the same consumption), while 100 indicates perfect inequality (one person has all the consumption and everyone else has none).

The Gini index is complemented by simpler measures of dispersion, such as sorting the population from poorest to richest and showing the percentage of expenditure (or income) attributable to each fifth (quintile) or tenth (decile) of the population. In addition, the decile dispersion ratio is used, which compares the consumption per adult equivalent of the richest decile to that of the poorest decile. While the decile ratio is easily interpretable, it disregards information about the middle of the income distribution and does not capture consumption disparities within the top and bottom deciles.

Recent inequality trends

The decline in inequality has been slow. The national Gini index – a measure of inequality – has hovered between 36 and 41 as shown in Figure 7. For the year 2019 was 40.7, for 2020 was 35.8 for 2021 was 37.6 and for 2022 was 38.4. The Gini index measures the extent to which the distribution of consumption expenditure within a country, deviates from a perfectly equal distribution. An index of 0 expresses perfect equality where everyone has the same consumption expenditure, while an index of 100 expresses full inequality where only one person has all the consumption expenditure.

Figure 7: Gini index



MEASUREMENT OF THE GROSS COUNTY PRODUCT (GCP) IN KENYA

K. Introduction and Background

What is GCP?

Gross County Product (GCP) is the total market value of all new goods and services produced within a specific county over a given period, typically a year. It is a key indicator used to assess the economic performance of a county. The report is produced annually with a lag of 9 months and data is available from 2013 onwards. The GCP report contains data on economic activity at current and constant 2016 prices, real GCP growth, and GCP per capita. Countries that compile regional GDP include United States, Canda, United Kingdom, Germany, India, China, Brazil, Australia, Japan, Mexico, South Korea, Russia, Argentina and South Africa.

Measurement of County Economic Activity

Methodological Approach

The GCP can be estimated using two approaches, namely bottom-up and top-down methods. The bottom-up method utilizes data on establishments and households' residents in that region to estimate the gross value added for the county. In the top-down method, the national estimate is allocated to the counties using distribution keys. The distribution keys are equivalent to the weight of a county's contribution to an economic activity. The Bureau adopted the top-down method as the appropriate method to compute GCP based on the availability data.

Examples of Application of Top-Down Method

1. Output of Tea Growing

Tea is grown in several counties with quantity of production varying considerably across the counties. The weight for the counties where tea is cultivated is calculated by dividing the Quantity of tea produced by the total tea production in the country. Then, the output for each county is estimated by multiplying the weight by annual output of tea for the entire country.

2. **Output of Electricity Supply**- The county output of electricity supply is obtained by multiplying the ratio of electricity generated at the county level to total generation with the total output of electricity supply.

Similar procedures and techniques are followed for all economic activities, after which the aggregation is done to obtain the Gross County Product. Estimates at constant prices (2016 prices) are also compiled to facilitate computation of changes across years (growths.

Latest GCP Results

The report highlights several key points about the disparities across the county economies:

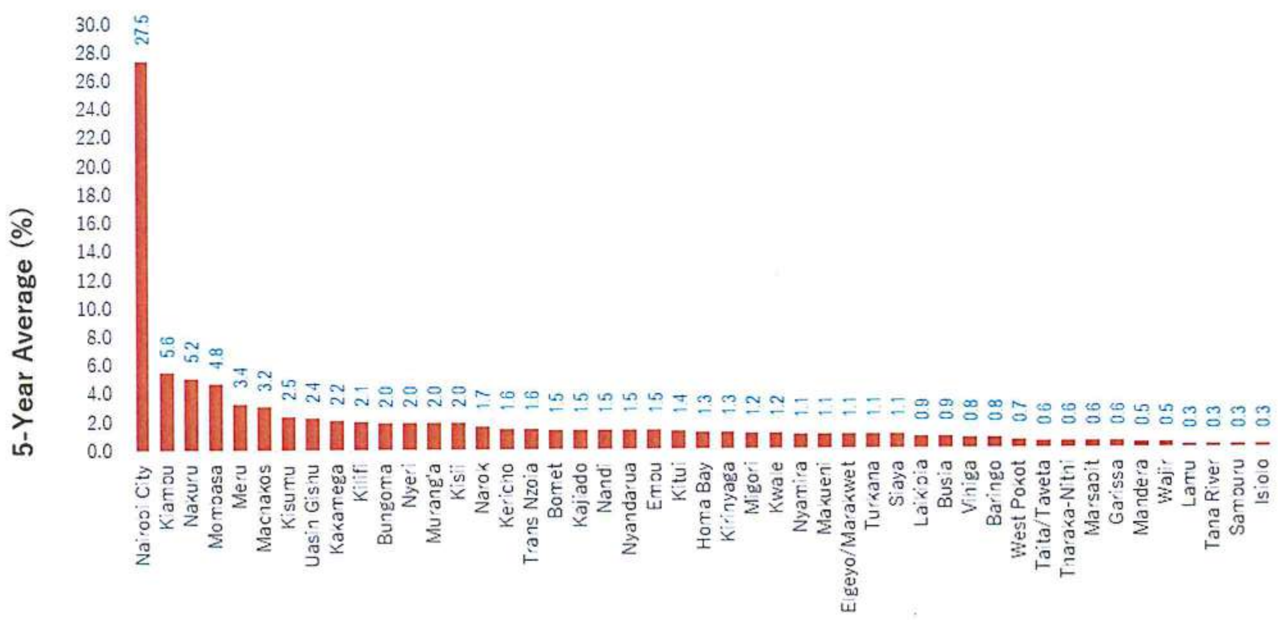
I. **Significant Economic Disparities:** There are considerable differences in the size of county economies, with Nairobi City standing out by contributing a disproportionately large share (27.5%) of the national GVA. Other counties like Kiambu, Nakuru, and Mombasa also have notable contributions of 5.6 per cent, 5.2 per cent and 4.8 per cent, respectively. However, majority of the counties (33) contributed less than 2.0 per cent each to the national GVA.

II. **Commercial Hubs Lead in Share of GCP:** Counties with major commercial centres, such as Nairobi City, Kiambu, Mombasa, Nakuru, and Machakos, have higher GCP compared to the predominantly rural counties. Nonetheless, counties with diverse economic activities, especially in agriculture, like Meru, Kakamega, and Nyeri, also made significant contributions to the GVA.

III. **Population Factor**: Counties with larger populations, in addition to having urban settings and diverse economic activities, contribute more to the overall GVA. These counties include Nairobi City, Kiambu, Nakuru, and several others with substantial populations.

IV. **Agricultural Focus**: Counties heavily dependent on agricultural production, particularly those growing tea, maize, potatoes, and vegetables, contribute more significantly to the national GVA than those focusing on less economically impactful activities.

Figure 1: Average County Share of Gross Domestic Product, 2019-2023

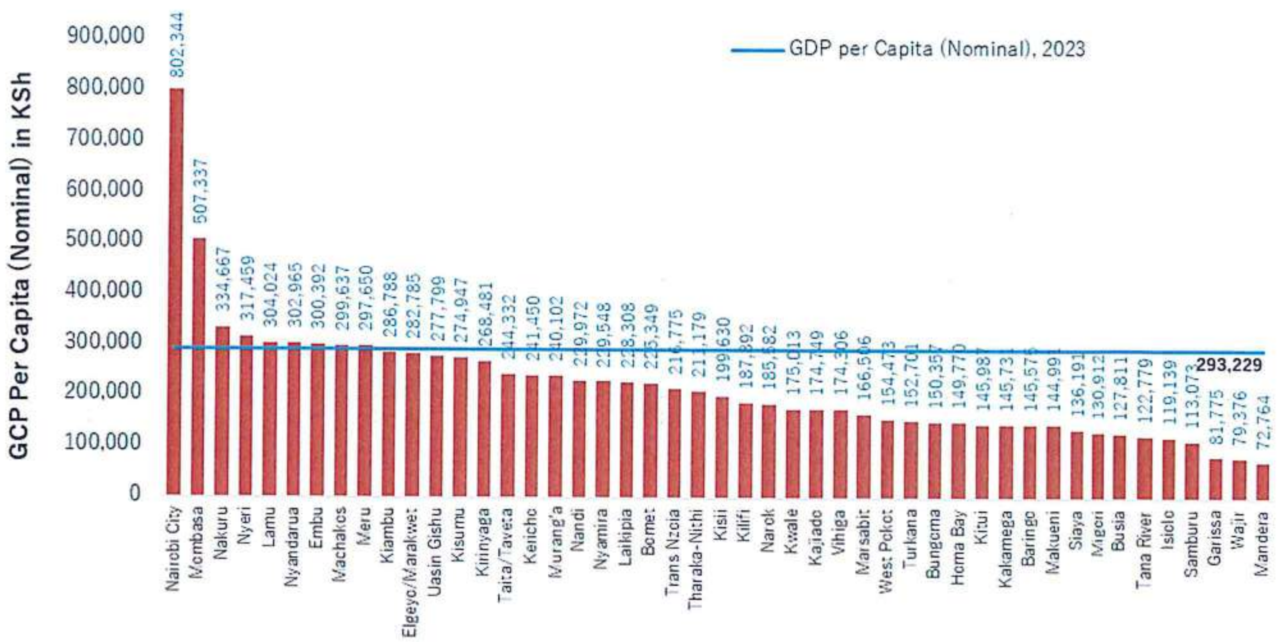


As of 2023, Kenya's GDP per capita was KSh 293,229, up from KSh 266,473 in 2022, indicating continued growth in the country's overall economic performance. However, there are significant differences among counties, with some areas surpassing the national average with others lagging behind.

I. Nairobi City leads with a GCP per capita of KSh 802,344, nearly three times the national average. This dominance is driven by Nairobi's status as the capital city and the major economic hub.

II. Mombasa was second, with a GCP per capita of KSh 507,337. Other counties that recorded GCP per capita figures significantly above the national average include Nakuru (KSh 334,667), Nyeri (KSh 317,459), and Lamu (KSh 304,024). These counties have diversified economies with strong contributions from agriculture, manufacturing, and services.

Figure 2: Gross County Product Per Capita, 2023



Uses of Gross County Product

1. Economic Performance Assessment

GCP helps track the economic performance of a county over time. It assists policy makers evaluate the health of the county economy so that they make necessary interventions. The policies will be based on the strengths and weaknesses of the counties.

2. Investment Decisions

Investors and businesses use GCP data to scout opportunities in the counties based on the structure of the county economy. The data can also inform infrastructure investment in the counties.

3. Measuring Economic Inequality

GCP helps in understanding economic inequalities between counties. The analysis is useful in the development of targeted interventions to reduce economic disparities and promote balanced economic development.

4. Forecasting and Planning

Economists can use current and historical GCP data to forecast potential growth patterns and make informed decisions about county development and investments.

5. Environmental and Sustainability Planning

GCP data can be used to assess whether economic development is sustainable in the long term. For instance, countries with a high concentration of manufacturing firms may pose environmental concerns requiring the development of policies to balance economic growth and environmental protection.

Annex I: Gross County Product (GCP) Compilation Methodology by Activity

This annex provides the data source and distribution keys used in compiling the current estimates. The matrix indicates the methodological approaches used in the current compilation. An increase in data availability enabled separate compilation of some industries which were initially combined with other industries. The various data sources enabled the creation of different distribution keys.

Activity	Current Compilation - Data Sources and Distribution Keys
Agriculture	• Ministry of Agriculture data- crop production; livestock population and production; Census of commercial farms and greenhouses, Household consumption from own production from 2015/16 KIHBS
Forestry	• Compiled separately • Percentage of forest cover • Quantity of firewood gathered
Fishing	• Compiled separately • Data on fish caught from freshwater, marine and aquaculture fishing.
Mining and Quarrying	• Employment in mining and quarrying activities – 2015/16 KIHBS • Foreign trade data exports, e.g., titanium in Kwale, soda ash in Kajiado, etc. • Exploration of petroleum in Turkana allocated.
Manufacturing	• Production from Monthly Survey of Industrial Production and Census of Industrial Production, 2017 • Micro, Small and Medium Enterprises (MSME) Survey 2016 • Informal flour milling allocated using the Kenya Integrated Household Budget Survey (KIHBS) expenditure on milling services • Kenya Integrated Household Budget Survey (KIHBS) expenditure on food products • Employment; Kenya Continuous Household Survey Programme (KCHSP), employment in manufacturing (2019 KPHC)
Electricity	• Administrative data

Activity	Current Compilation - Data Sources and Distribution Keys
	• Kenya Integrated Household Budget Survey (KIHBS)/Kenya Continuous Household Survey Programme (KCHSP)-Expenditure on electricity • Distribution – Kenya Power & Lighting Company (KPLC) sales • Distribution, demand side- (Households and commercial - CIP, ISS for proportions) • Use of Independent Power Producers (IPPs) in terms of production by counties
Water	• Billed water from the Water Services Regulatory Board (WASREB) • Number of households - 2019 KPHC data
Construction	• 2019 KPHC for Households by type of tenureship • Work done from Census Industrial Production (CIP) for corporation and other surveys
Wholesale & Retail	• Purchases component of Kenya Integrated Household Budget Survey (KIHBS)/Kenya Continuous Household Survey Programme (KCHSP) • Integrated Survey of Services (ISS) and Census of Establishments (COE) turnover
Transportation	• Kenya Integrated Household Budget Survey (KIHBS)/Kenya Continuous Household Survey Programme (KCHSP) fares by county • Breakdown of air traffic per aerodrome, airports, airstrip, etc. • For railways, data on passengers and receipts per station. • Number of fuel stations per county • Census of Establishments (COE) turnover • Administrative data
Warehousing & Storage Cargo Handling	• Census of Establishment Turnover • Census of Establishments and Micro, Small and Medium Enterprises (MSME) Survey 2016 distributed using tax administrative records
Postal & Courier	• Population per county for courier activities

ICPAK
Credibility . Professionalism . AccountAbility

Institute of Certified Public Accountants of Kenya

ICPAK SUBMISSION

ON

FOURTH BASIS FOR REVENUE SHARING

APRIL 2025

1. Introduction

The Institute of Certified Public Accountants of Kenya (ICPAK) is the statutory body of Accountants established in 1978 and draws its mandate from the Accountants Act No.15 of 2008. It is also a member of the Pan African Federation of Accountants (PAFA) and the International Federation of Accountants (IFAC), the global Accountancy umbrella body.

The Institute appreciates the Commission on Revenue Allocation's recommendations on the Fourth Basis for equitable revenue sharing among County Governments for the FY 2025/26 to FY 2029/30 period and hereby wishes to propose the following adjustments for consideration:

PARAMETER	CRA PROPOSAL	ICPAK PROPOSAL
Population	42%	29%
Urban Service Index	-	5%
Rural Access Index	-	8%
Geographical Size	9%	9%
Equal Share	22%	21%
Development Factor	-	1%
Income Distance Index	13%	11%
Poverty Index	14%	14%
Fiscal Effort	-	2%
Total	**100%**	**100%**

2. Background

Since the 2010 Constitution, there have been three revenue-sharing frameworks for counties. The first was approved in November 2012 by the 10th Parliament, the second in June 2016 by the 11th Parliament, and the third in September 2020 by the 12th Parliament. As required by Article 216 (1)(b), the Commission on Revenue Allocation (CRA) submitted its recommendations for the fourth basis of revenue sharing to Parliament in January 2025.

The Fourth Basis for Revenue Sharing, which will be effective from FY 2025/26 to FY 2029/30, introduces five key parameters as follows:

Objective	Parameter	Assigned Weight %
1.To share revenues equitably to facilitate service delivery	Population	42
	Equal Share	22
	Geographical Size	9
2. To share revenues equitably to address economic disparities and promote development	Poverty	14
	Income Distance	13
Total		**100**

Source: CRA, 2024

A stabilization factor is also included that ensures that no county receives less than it did in the previous financial year to enhance service delivery. The allocation to counties in FY 2024/25 was 387,425 billion and the proposal for FY 2025/26 is 417,425 billion.

In light of the above, the Institute has observed the following Issues of concern for the 4th basis of revenue sharing as follows

(i) Although the stabilization factor aims to ensure no county receives less than its previous year's allocation, it lacks a solid scientific basis which could undermine the fairness and predictability of the formula. A scientific approach would be more effective in addressing the challenges posed by shifting revenue collections and unpredictable economic shocks.

(ii) The inconsistency of weighting of the population parameter from 45% in first and second basis, 18% in third basis, and 42% in the fourth basis may lead to data manipulation during the next national census in 2029, as counties would have an incentive to inflate their population figures to secure a higher share of revenue allocation.

(iii) The population parameter does not adequately address the need for social safety nets and dependency ratio considering the youth bulge in Kenya and demographic variations of age distribution and urban-rural migration which influence the economic needs of counties.

(iv) The lack of clarity on the introduction of the income distance index weighted at 13% may raise concerns about the fairness and accuracy in assessing the income generation capacity of counties. If not properly implemented it can disincentivize growth at the County growth.

3. Trends in Allocations to Counties

The following analysis highlights the trends in the previous trends in allocations.

<table>
<tr><th>ITEM</th><th>ISSUE OF CONCERN</th><th>RECOMMENDATION</th></tr>
<tr><td>Parameters used in Previous</td><td>The following table shows the analysis of previous parameters:
<table>
<tr><th>Parameter</th><th>1st Basis</th><th>2nd Basis</th><th>3rd Basis</th><th>4th Basis</th></tr>
<tr><td>Population</td><td>45</td><td>45</td><td>18</td><td>42</td></tr>
<tr><td>Basic Equal Share</td><td>25</td><td>26</td><td>20</td><td>22</td></tr>
</table></td><td>The Institute recommends the inclusion of the following parameters to the fourth basis</td></tr>
</table>

Revenue Sharing Bases

Land Area/ Geographical Size	8	8	8	9
Fiscal Responsibility/ Effort	2	2	-	-
Poverty	20	18	14	14
Development Factor	-	1	-	-
Health Index	-	-	17	-
Agricultural Index	-	-	10	-
Urban Service Index	-	-	5	-
Rural Access Index	-	-	8	-
Income Distance	-	-	-	13
Total	**100**	**100**	**100**	**100**

The issues of concerns from the previous basis are as follows:

1. The use of the third basis for revenue-sharing parameters occasioned substantial losses to some counties which affected service delivery in the counties with substantial losses.
2. The changes to the 2nd revenue sharing formula led to a decline in equitable shares allocations to 29 counties ranging from Ksh.28 million for Homa Bay County to Kshs. 2,110 million for Turkana County.
3. Uncapping of the land area measure in the first revenue sharing formula
4. Need to increase of the basic share allocation to cushion counties that were receiving the lowest allocations.

to improve service delivery in counties

- Development Factor
- Urban Service Index
- Rural Access Index

Equitable Share of Revenue for Counties

The table below shows the equitable share to county governments across the previous sharing basis formulas:

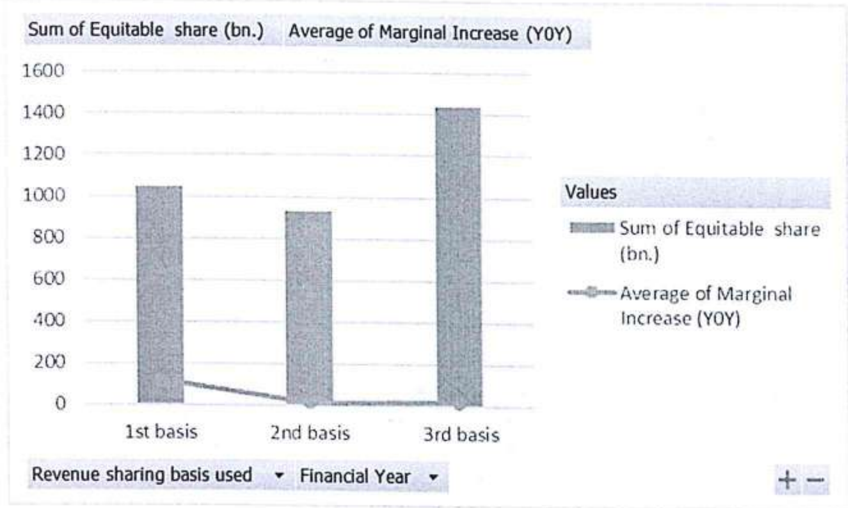
1st Basis	Sum of Equitable Share (bn.)	Sum of Marginal Increase (YOY)
2012/13	9	0
2013/14	190	100
2014/15	226.6	136.6
2015/16	259.7	169.7
2016/17	280.2	190.2
Total	1046.5	596.5
2nd Basis		
2017/18	302	21.8
2018/19	314	12
2019/20	316.5	2.5
Total	932.5	36.3

1. CRA should prioritize establishing a fixed set of parameters across all revenue-sharing bases to ensure consistency and predictability in the formula.
2. Only the weights assigned to these parameters should be adjusted periodically, based on emerging needs and priorities.

3rd Basis		
2020/21	316.5	0
2021/22	370	53.5
2022/23	370	0
2023/24	385.4	15.4
Total	1441.9	68.9

From the table the Institute notes the following issues;

1. The Marginal increases were highest under the 1st basis revenue sharing formula due to the roll out of county government operations funding at the beginning of devolution.
2. The average annual increase has generally declined showing slower growth in county funding or a plateau in equitable share under current models.
3. The average marginal increase has been fluctuating because of changes and restructuring of the parameters used in the formulas as shown in the graph below



The Institute is of the opinion that the above approach will minimize unnecessary disruptions associated with introducing or removing parameters, especially now that core service delivery needs have been adequately captured across previous bases.

Auditor General reports	From the table below only in FY 2017/18, FY 2019/20 and FY 2020/21 received an unqualified opinion.	1. Enhance the full adoption of the accrual basis of

Opinion	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Unqualified	-	-	-	-	2	-	3	1	-	-	-
Qualified	2	5	8	22	36	40	41	38	37	41	47
Adverse	6	17	12	12	4	6	3	8	10	6	-
Disclaimer	39	25	27	13	5	1	-	-	-	-	-
Total	47	47	47	47	47	47	47	47	47	47	47

Over the years, the Auditor General has identified cross-cutting issues in county governments as follows;

1. *Unsupported Expenditure on Goods and Services*: A substantial portion of expenditures reported by county governments lacked proper documentation and accuracy.
2. *Discrepancies in Pending Bills and Balances:* Variations in the reporting of pending bills were noted, with some either inadequately captured or inaccurately reflected.
3. *Delayed Remittances of Statutory Deductions:* County governments often failed to remit statutory deductions and pension contributions on time.
4. *Variances Between Financial Statement Balances and IFMIS Data:* Inconsistencies between reported financial statement balances and Integrated Financial Management Information System (IFMIS) data were identified.

accounting across all counties.

2. Strengthen revenue management controls and improve automation within the revenue collection process.
3. Prioritize pending bills as the first charge on available resources.
4. Implement the Own Source Revenue Policy and adopt unified revenue management systems.
5. Ensure full compliance with the provisions of the Constitution, PFMA, and related regulations.

ICPAK SUBMISSION ON THE FOURTH REVENUE SHARING BASIS

The table provides an analysis on the fourth revenue sharing basis parameters and their respective weights to optimize resource allocation:

<table>
<tr><th>Parameter</th><th>% Allocation</th><th>Issue of Concern</th><th>Recommendation</th><th>Justification</th></tr>
<tr><td>Population</td><td>42</td><td>The 42% weight given to population assumes that higher population equals higher service demand, which is true for healthcare, education, and infrastructure (KNBS Census, 2019). However, this does not fully consider service delivery challenges in counties with low population density but vast geographical areas.

Larger counties will require more funding for transport, decentralized service points, and administrative structures.</td><td>Adjust the weight of the Population Parameter from 42% to 29%.

Re-introduce the Urban Service Index Parameter and the Rural Access Index and allocate them 5% and 8% respectively.

<table><tr><th>Parameter</th><th>Current</th><th>ICPAK Proposal</th></tr><tr><td>Population</td><td>42%</td><td>29%</td></tr><tr><td>Urban Service Index</td><td>-</td><td>5%</td></tr><tr><td>Rural Access Index</td><td>-</td><td>8%</td></tr><tr><td>Total</td><td>42%</td><td>42%</td></tr></table></td><td>This adjustment aligns with Article 203(1)(g) of the Constitution, which requires consideration of "economic disparities within and among counties and the need to remedy them" which includes overcoming logistical and administrative challenges in counties.

The adjustment aims to better address infrastructure-related challenges in service delivery</td></tr>
<tr><td>Income Distance</td><td>13</td><td>Some counties might rely too heavily on revenue transfers without improving their own-source revenue generation, leading to a lack of fiscal discipline.</td><td>Adjust the income Distance Parameter weight from 13% to 11%.

Re-introduce the fiscal effort parameter and allocate it the 2%.

<table><tr><th>Parameter</th><th>Current</th><th>ICPAK Proposal</th></tr><tr><td>Income distance</td><td>13%</td><td>11%</td></tr><tr><td>Fiscal effort</td><td>-</td><td>2%</td></tr><tr><td>Total</td><td>13%</td><td>13%</td></tr></table></td><td>The formula would encourage aligning with the principles of fiscal responsibility laid out in the PFM Act, which emphasizes the need for counties to improve their revenue generation capacity.

Incorporating the Fiscal Effort parameter will reward counties for their efforts to increase own-source revenue.</td></tr>
</table>

<table>
<tr><th>Parameter</th><th>% Allocation</th><th>Issue of Concern</th><th>Recommendation</th><th>Justification</th></tr>
<tr><td>Basic Equal Share</td><td>22</td><td>According to the Controller of Budget Reports 2023/24, absorption of development funds has been highlighted as one of the challenges impeding the success of devolution in Kenya. The table highlights a decrease in the absorption rate as observed over the period under review.
<table><tr><th>FY</th><th>Development Expenditure (bn.)</th><th>Absorption Rate (%)</th></tr><tr><td>2023/24</td><td>Kshs.109.23</td><td>57.5</td></tr><tr><td>2022/23</td><td>Kshs.189.93</td><td>61.0</td></tr></table></td><td>Adjust the basic equitable share parameter from 22% to 21%.

Reallocate the resulting 1% to development factor.</td><td>1. The adjustment aligns with Section107(2)(b) of the Public Finance Management (PFM) Act, 2012, which emphasizes the need for public funds to be used in a manner that promotes development and enhances the provision of services.
2. Introducing the Development Factor in the revenue-sharing formula can incentivize counties to prioritize development over recurrent expenditure.</td></tr>
</table>

PARAMETERS FOR MEASURING SERVICE DELIVERY

The Institute is of the considered opinion that the Formula should place emphasis on service delivery. According to Section 232(b) and (c) of the Constitution, the core values of public service and the effectiveness of service delivery should be assessed and guided by the following key parameters:

1. Population density- expressed as the number of people per square kilometer, helps assess the demand for services in a given area therefore influencing resource allocation.
2. Cost- the cost of providing services should reflect the level of infrastructure development in each county. Counties with underdeveloped infrastructure will require higher expenditures to deliver services compared to those with established infrastructure.
3. Time efficiency is measured through efficiency, accessibility and responsiveness while delivering a service. Moreover, it includes the stages of service provision, from the start to the time the service is actually delivered. For example, in healthcare, time efficiency could refer to how quickly medical supplies are delivered from point A to point B in a specific county.

Institute of
Economic Affairs

MEMO

Institute of Economic Affairs – Kenya

Views to the Senate on the Fourth Basis for Revenue Sharing among County Governments

Date: 4th April, 2025

The Institute of Economic Affairs (IEA Kenya) is a think-tank that provides a platform for informed discussions in order to influence public policy in Kenya. We seek to promote pluralism of ideas through open, active and informed debate on public policy issues. We undertake research and conduct public education on key economic and topical issues in public affairs in Kenya and the region, and utilize the outcomes of the research for policy dialogue and to influence policy making

COMMENTS ON THE FOURTH BASIS FOR REVENUE ALLOCATION FORMULA

The Fourth Basis for Revenue Allocation among Kenya's 47 county governments provides a framework for equitable distribution of national revenue. While the current formula considers factors such as population, basic equal share, land area and poverty levels, there is need to strengthen incentives for improved financial management.

This MEMO makes the following proposals to the formula:-

A. Remove the Income Distance Component:

The Fourth Basis for Revenue Allocation formula proposes to use Income Distance as a parameter for Revenue Allocation. The parameter uses Gross County Product (GCP) as a proxy for income. We note that, while GCP measures the total economic output of a county, it doesn't distinguish between the contributions made by different levels of government—whether county, or national. This means that a county with significant national government projects or investments might appear to have a higher economic output (GCP), even if the county government itself has limited economic activity hence such counties may erroneously be rewarded. For example, if GoK completes a major project that happens to be in County A, the GCP of this county will rise suddenly. As per the proposed metric of using GCP as an anchor for revenue distribution across counties it means that County A will be rewarded above other other counties by virtue of the GoK activities and not by virtue of County's A own initiatives.

B. Increase the weight for Population Component

We advocate for the population component's weight in the revenue allocation formula be increased from the current 42% to a range between **45% and 50%**. This recommendation is based on the following rationale:

1. **Service Demand Correlation**: Population size directly influences the demand for basic services such as health, education, water, and infrastructure. A higher population requires proportionally greater resources to meet these needs.
2. **Equity and Fairness**: Counties with larger populations often experience pressure on existing facilities and services. Increasing the weight ensures that allocations more fairly match the actual needs on the ground.
3. **Alignment with Development Goals**: Enhancing the weight for population supports equitable development and strengthens inclusive service delivery, aligning with national and county-level planning frameworks.

C. Introduce the prudence component

We propose that counties that demostrate effective budgeting, absorption of development funds, and fiscal discipline should be rewarded. Hence, The Fourth Basis Formula should link a portion of the revenue share to county performance to enhance Transparency, Accountability and Public Participation. Counties with clean audit reports from the Office of the Auditor General (OAG) and those that actively engage citizens in budget-making processes, promote inclusion and receive positive public feedback based on reports by the National Cohesion and Integration Commission (NCIC) should be rewarded.

Budget Talk GLOBAL
Innovate Engage Transform

Ref: BTG/ DOR/04/2025 **3rd April 2025**

Submission on the Fourth Basis for Sharing Revenue among Counties (2025/26-2029/30)

1.0. Introduction & Background

Article 216 (1)(b) of the Constitution of Kenya mandates the Commission on Revenue Allocation (CRA), to make recommendations concerning the equitable division of nationally raised revenue among the county governments. Further, Article 217(1), requires the Senate, once every five years, by resolution, to determine the basis for allocating the share of the nationally raised revenue among county governments.

Following the call for public participation, by the Senate standing committee on finance and Budget, Budget Talk Global is pleased to share views and comments on the fourth basis of revenue sharing among counties, tabled before the senate on 12th February 2025. Budget Talk Global (BTG), formerly Ke Budget Talk, is a women-led social enterprise dedicated to advancing citizen-centred and inclusive public budgets through tech-driven and innovative solutions that enhance resilient and sustainable livelihoods in communities across Kenya and beyond.

2.0. Summary Submission on the Fourth Basis of Revenue Sharing

i. **The population parameter**, weighted at 42% in the 4th Basis, is aimed to measure county expenditure needs which are majorly population-based. The parameter, however, does not directly capture specific services mandated by the Constitution and overlooks factors like the transient population in urban counties. *The Senate should push for a more direct measure of expenditure needs for the services that counties provide, just like there was a measure for health services on the previous basis, there should be a direct measure for services such as disease burden, school enrolment, access to water index, climate change vulnerability, agriculture index balanced with other forms of agriculture such as blue economy.*

ii. **The equal share allocation**, weighted at 22%, is intended to ensure minimum funding for all counties but does not consider differences in administrative costs, population size, or service demands, which risks inefficiency or administrative bloat.

The Senate should pursue counties to provide actual administrative costs and then determine the weight for an equal share.

iii. **Poverty parameter-** The 4th basis has retained poverty at 14%. Whereas the poverty parameter has been taken as a key redistributive parameter, it remains to be an unstable parameter, to measure disparities and developmental needs in the counties. Even though poverty is correlated with underdevelopment, there is no correlation that a higher allocation would improve the livelihoods of poor households. *Despite the negative impacts of COVID-19, which could have impoverished some households, the poverty parameter should be decreasing over time, otherwise, the counties may be regressing in closing poverty gaps.*

iv. **The income distance parameter**, is a new parameter, weighted at 13%. It is measured, by the Gross County Product (GCP), which will provide a monetary measure of the market value of all final goods and services produced with each of the 47 counties, thus the parameter is used as a proxy for tax capacity for county governments. Whereas the income distance is used as a proxy for tax capacity, it does not directly translate to a county's ability to generate revenue, as counties have varying revenue collection structures, enforcement capacities, and informal economies that GCP may not capture. Secondly, Counties with lower GCP may receive higher allocations under this formula, but without a direct link to improving local revenue collection, this could disincentivize efforts to enhance tax capacity and economic productivity. The *income distance parameter should be refined to include actual county revenue collection performance and potential tax capacity assessments, to ensure allocations incentivize economic growth and efficient own source revenue mobilization rather than relying solely on Gross County Product (GCP).*

v. **The geographic size capped** at 10% and allocated a weight of 9%, is meant to provide counties with resources, for additional costs that are related to service delivery. While there is no justification for the capping, provided, it could be attributed to the marginal incremental costs associated with counties with larger geographical sizes. The 9% weight represents a 1% increase from 8%, weight which has been in place since the first-generation formula. There is a need to look at other dynamics of geographical areas such as terrains, counties with national parks/ reserves and those with water bodies, which may significantly increase service delivery costs, particularly in transportation, infrastructure maintenance, and service access. We propose the parameter to be weighted at 8%.

vi. **Holding harmless principle -** The transition from one basis of revenue sharing may cause significant changes in the county share of counties, thus disrupting service delivery. For instance, according to the proposed 4th basis, 31 and 16 counties are losers and winners respectively. The Commission on Revenue Allocation has provided a stabilisation factor, to ensure counties do not get less than they received in the FY 2024/25. By so doing, CRA proposed counties share Kshs 417 billion compared to Kshs.387 billion shared in FY 2024/25. On the contrary, in the Budget Policy Statement 2025, counties shared Kshs.405 billion as an equitable share, for FY 2025/26. *Since counties were not allocated the Kshs.417 billion proposed by CRA, some counties risk losing revenue thus possible disruption of services. The Senate should ensure that counties receive an adequate share of the nationally raised revenue and that no county loses revenue.*

vii. **Recurring objectives from basis one to basis four of revenue sharing-** Despite consistent revenue-sharing goals, counties continue to struggle with underperformance due to weak institutional capacity, corruption, poor planning, and geographic disparities, which hinder equitable development and effective service delivery. *The Senate should prioritize strengthening county institutional capacity, enhance revenue mobilization efforts, and ensure consistent monitoring and accountability of county service delivery, with a focus on addressing disparities in service access and quality across counties.* ***The Senate should*** *Introduce a* ***Service Delivery Index (SDI)*** *to track and reward counties for improving healthcare, education, and infrastructure.*

viii. **Re-introduce the fiscal effort parameter-** There is a need to reward counties' efforts on revenue collection, this will incentivize counties to optimise the collection of their own source revenue thus encouraging financial sustainability through their source revenue and reducing dependency on equitable share.

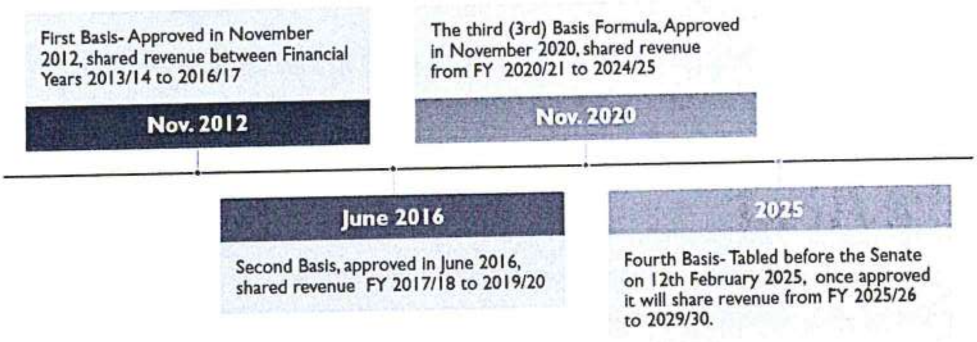
ix. **Enhance accountability & transparency-** There is a need to empower independent audit bodies, enforce public disclosure of project performance reports, and utilize Open Data Portals for real-time tracking of funds and project implementation. The latter can be achieved by encouraging the 42 County Governments that have not assented to the Open Governance Partnership (OGP) to do so.

3.0 Detailed submission

3.1: Overview of the previous basis of Revenue Sharing

The parliament has approved three bases of revenue sharing since 2012, the first, second and third basis of revenue sharing as captured in Figure 1 below.

Figure 1: The Evolution of Revenue Sharing Basis

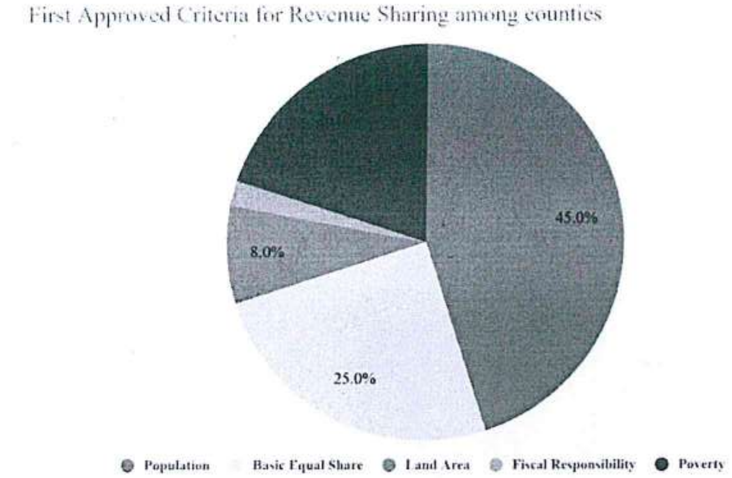


Source: Author's Analysis of Approved Basis

a) First Criteria

The first criterion's objective was meant to enhance service delivery and redistribution of resources meant to address the existing economic disparities and developmental gaps among the county governments. However, due to a lack of enough county data, post-devolution, the basis had shortcomings ranging from using proxy measures for service delivery and lack of counties harmless. In total, the formula shared *Kshs.966,519.2 million* among the counties. The key parameters used were *population, basic equal share, poverty, land area and fiscal responsibility, weighted as 45%, 25%, 20%, 8% and 2% respectively.*

Figure 2: Approved First Criteria for Revenue Sharing

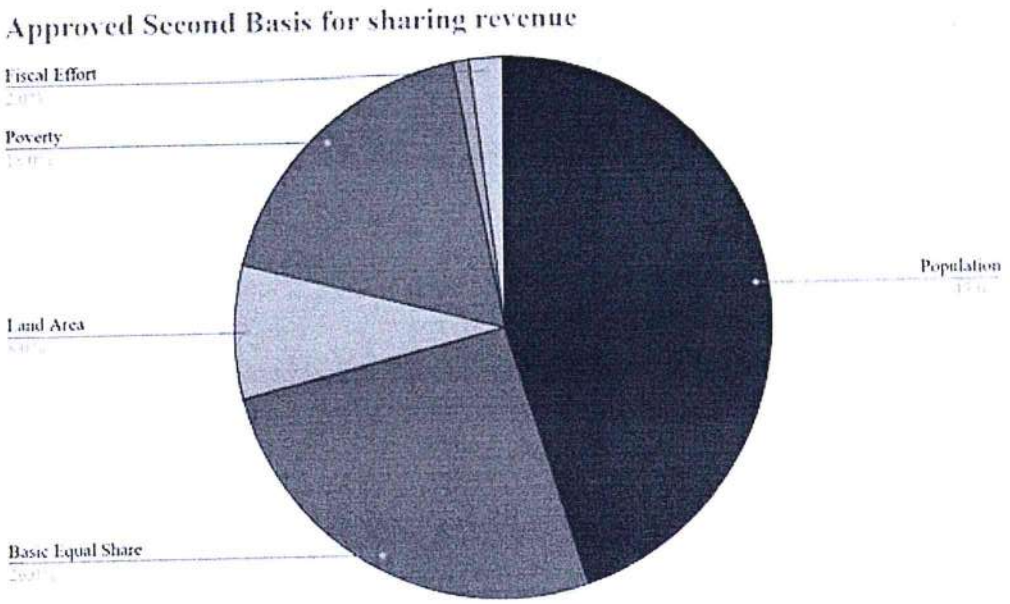


b) Second Basis

The second approved basis, on the other hand, introduced the *development factor weighted at 1%* as a new parameter in addition to the five parameters in the first formula, however, there were adjustments to the weights. The second basis saw a reduction in the poverty weight from 20% to 18% and an increase in the basic equal share from 25% to 26%.

Focused on three major objectives of providing enough resources for counties to perform their functions, correcting disparities and economic gaps and incentivizing the counties to optimise the counties collect more revenue, the second basis shared a total of Ksh. 932,500 million among the county governments. *Just like the first basis, the second formula used single transfer to address multiple objectives and did not satisfactorily address the principle of funds follow function and used proxy measures such as population to measure needs.*

Figure 3: Approved Second Basis for Sharing Revenue



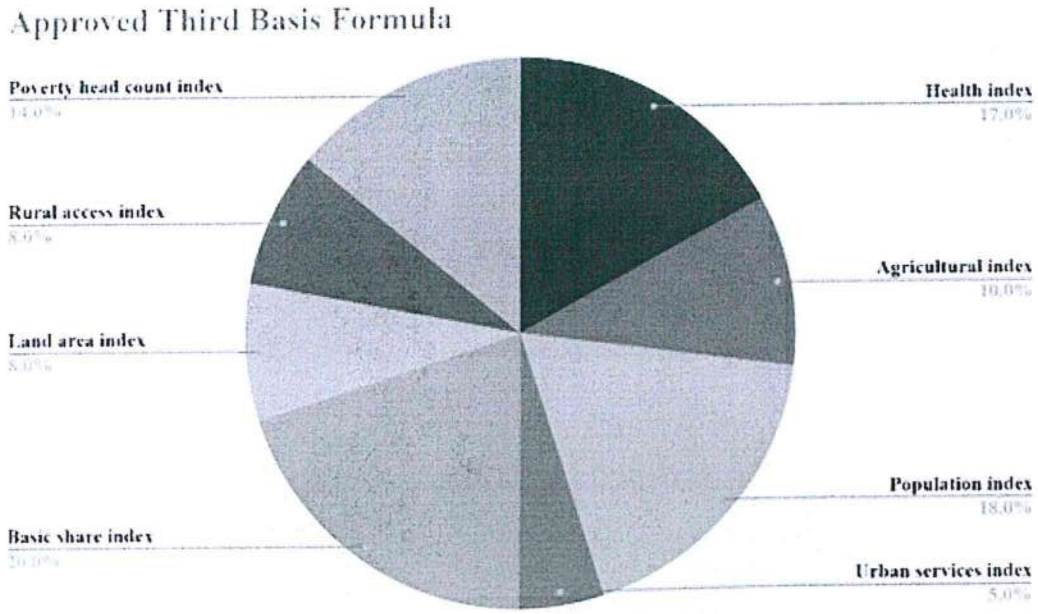
Source: Author's Analysis of CRA's Recommendations

c) 3rd Basis Criteria

The Third basis was approved in November 2020 and has been used to share revenue between 2019/20 to 2024/25. The basis weights are shown in *Figure 4*. The formula addressed two main objectives, promotion of equitable development and enhancement of service delivery in the counties.

In quest to hold counties "harmless" the parliament approved that 50% (Ksh 158.25 billion) of the equitable share that counties had received in 2019/20 be the baseline allocation to counties. The additional amount would then be shared based on the approved third-generation formula. Even with the quest to implement the "holding harmless" principle, some counties still lost some share of what they previously received, a possible risk of disrupting service delivery.

Figure 4: Approved Third Criteria parameters and weight.



Source: Analysis of CRA's Data

The basis's parameters tried to address some gaps in the previous basis of revenue sharing, such as *the use of single transfers to address multiple objectives and provided more direct measures to some services such as health and agriculture*. For example, to calculate the health index, three variables were used: *facility gap, number of primary health care visits to Level 2 & 3 health facilities, and average in-patient days in Level 4 & 5 hospitals* weighing 20 per cent, 60 per cent, and 20 per cent, respectively. The overall health index is weighted at 17 per cent (%). *Although this could measure health services directly, there was no justification for how the total weight of 17% was reached. Importantly, there were concerns about other factors such as capacity, and human resource requirements for the facilities, hence the gaps.* Overall, there were gaps in having existing data for service delivery of other county functions such as education, water and sanitation and climate change.

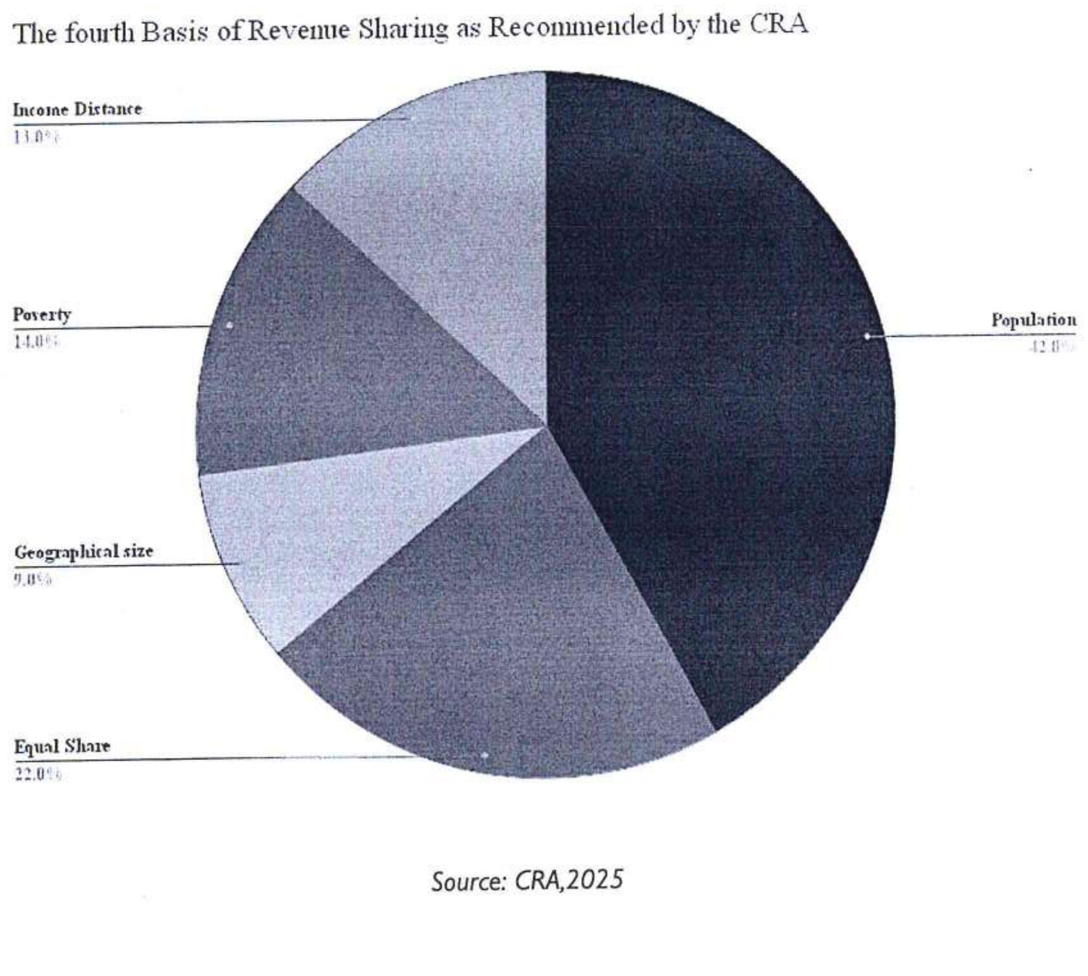
4.0 Fourth Basis of Revenue Sharing

4.1: Overview

Just like the third basis of revenue sharing, the proposed 4th basis is focused on two main objectives, sharing revenues equitably for service delivery and addressing economic disparities to promote development, as per Article 187 (2) and 203(f) (g) and (h) of Constitution of Kenya 2010. [1]

The CRA's proposed formula is structured around five key parameters, each weighted to reflect its significance in determining a county's financial needs, as shown in Figure 5 below.

Figure 5: The Fourth Recommended Basis



Source: CRA,2025

[1] https://cra.go.ke/wp-content/uploads/2024/12/CRA-The-Fourth-Basis-for-revenue-sharing-among-counties-2025-2030.pdf

4.2. Concerns in the proposed parameters and weights.

i. **Population**

In the 4th Basis, the parameter is weighed at 42%, compared to 18% in the third basis and 45% in the 1st and the second basis of revenue sharing. The population parameter is considered a stable measure of county expenditure needs based on the population-based services that counties are mandated to provide.

Concern: Whereas population is considered a stable measure for population-based services and measuring expenditures, just like in the previous formulas, it does not provide a specific direct measure of services that counties offer as mandated in the 4th schedule of the Constitution, such as water, education, energy, agriculture, climate change among others. Importantly, there are other factors to consider like the floating population, that uses county services during the day, which disproportionately affects counties with high transient populations, especially urban counties.

Key Ask: The Senate should push for a more direct measure of expenditure needs for the services that counties provide, just like there was a measure for health services on the previous basis, there should be a direct measure for services such as disease burden, school enrolment, access to water index, climate change vulnerability, agriculture index balanced with other forms of agriculture such as blue economy.

ii. **Equal Share**

The basic share allocation is meant to guarantee all counties a minimum allocation to establish administrative structures and coordinate the participation of communities in county planning and governance at the local level. The parameter is weighed at 22% on the 4th Basis and an increment from 20% on the 3rd Basis.

Whereas equal share has been used as an affirmative action for the counties, that receive less amount based on the other factors, allocating a uniform basic share to all counties does not account for differences in administrative costs, population size, and service demands. For example, the smaller or sparsely populated counties may receive more than they require for administration, while larger or high-demand counties may be underfunded. Secondly, without strict conditions on how the basic share is utilized, there is a risk of inefficiency or administrative bloat.

Key Ask: The Senate should pursue counties to provide actual administrative costs, then determine the weight for equal share.

iii. **Poverty**

The parameter remains 14% as in the third basis. As a redistributive parameter, poverty is used as a proxy measure for developmental needs, and thus, according to CRA, the parameter is aimed at addressing socioeconomic disparities by allocating more funds to counties with higher poverty rates, thereby promoting development in marginalized areas.

Concern: Whereas the poverty parameter is taken as a key redistributive parameter, it remains to be an unstable parameter, to measure disparities and developmental needs in the counties. Even though poverty is correlated with underdevelopment, there is no correlation that a higher allocation would improve the livelihoods of poor households.

Key Ask: Despite the negative impacts of ***COVID-19****, the poverty parameter should* ***decrease in absolute terms*** *to reflect long-term economic recovery and development progress.*

iv. **Income Distance Parameter**

The income distance parameter, is a new parameter, weighted at 13%. It is measured, by the Gross County Product (GCP), providing a monetary measure of the market value of all final goods and services produced with each of the 47 counties, thus the parameter is used as a proxy for tax capacity for county governments.

Concerns: Whereas the income distance is used as a proxy for tax capacity, it does not directly translate to a county's ability to generate revenue, as counties have varying revenue collection structures, enforcement capacities, and informal economies that GCP may not capture. Secondly, Counties with lower GCP may receive higher allocations under this formula, but without a direct link to improving local revenue collection, this could disincentivize efforts to enhance tax capacity and economic productivity. For instance, Mombasa and Nairobi counties, whose GCP is high, have been greatly affected by this parameter. (See the annexed table).

Key Ask: The income distance parameter should be refined to include actual county revenue collection performance and potential tax capacity assessments, to ensure allocations incentivize economic growth and efficient own source revenue mobilization rather than relying solely on Gross County Product (GCP).

v. **Geographic size of the county Parameter**

The geographic size capped at 10% and allocated a weight of 9%, is meant to provide counties with resources, for additional costs that are related to service delivery. While there is no justification for the capping, provided, it could be attributed to the marginal incremental costs associated with counties with larger geographical sizes. The 9% weight represents a 1% increase from 8%, weight which has been in place since the first-generation formula.

Concerns- To some extent, larger counties may incur some costs to provide services across the vast areas compared to the other counties. However, there is a need to look at other dynamics of geographical areas such as terrains, counties with national parks and those with water bodies, which may significantly increase service delivery costs, particularly in transportation, infrastructure maintenance, and service access. Finally, the parameter is unfair to counties with smaller geographical land sizes.

Key Asks: Retain the land area at 8%

4.3 Holding Harmless Principle.

The transition from one basis of revenue sharing may cause significant changes in the county share of counties, thus disruption of service delivery. For instance, according to the proposed 4th basis, 31 and 16 counties are losers and winners respectively. The Commission on Revenue Allocation has provided a stabilisation factor, to ensure counties do not get less than they received in the FY 2024/25. By so doing, CRA proposed counties share Kshs 417 billion compared to Kshs.387 billion shared in FY 2024/25. On the contrary, in the Budget Policy Statement 2025, counties shared Kshs.405 billion as an equitable share, for FY 2025/26.

Concern: Since counties were not allocated the Kshs.417 billion proposed by CRA, some counties risk losing revenue thus possible disruption of services. The Senate should ensure that counties receive an adequate share of the nationally raised revenue, and that no county loses revenue.

4.4 **Slow Development in Counties Despite Consistent Revenue-Sharing Objectives**

According to Kenya's Controller of Budget (CoB), 45% of counties in Kenya have struggled to meet the minimum fiscal performance standards, with poor utilization of allocated resources often leading to unspent funds. Data from the Kenya Revenue Authority (KRA) highlights that counties generate less than 2% of their total revenue on average, creating a dependency on national transfers and hindering financial autonomy while fostering complacency in local revenue mobilization. Disparities between counties in terms of human development indices (HDI), as shown by the Kenya National Bureau of Statistics (KNBS), remain wide, with counties like Nairobi, Kiambu, and Mombasa having better access to services, while counties such as Mandera, Wajir, and Turkana continue to lag. Additionally, the World Bank reports that service delivery has been inconsistent, with significant gaps in healthcare, education, infrastructure, and water. The Kenya Health Sector Performance Report reveals that despite an increase in health funding, access to services remains skewed, especially in northern counties where maternal and child mortality rates remain disproportionately high.

The revenue-sharing objectives set by the CRA from 2012 to 2029 emphasize service delivery and the reduction of economic disparities. While these are fundamental goals, they have consistently lacked the dynamic, targeted interventions that might allow counties to effectively address their unique development challenges. Over the years, we have seen consistent objectives around equity, but slight improvement in the rate of development in many counties. The gap between strategizing and actual implementation at the county level persists.

Some of the notable systematic barriers contributing to the development gap at the county level include *weak institutional capacity, corruption and mismanagement, poor planning and oversight, underutilization of funds, geographic and economic disparities, increased dependency on national transfers, and inadequate public participation and transparency in budget decisions and project execution.*

Key ask: The Senate should prioritize strengthening county institutional capacity, enhance revenue mobilization efforts, and ensure consistent monitoring and accountability of county service delivery, with a focus on addressing disparities in service access and quality across counties. As such, we propose an introduction to the service delivery index and a re-introduction of the fiscal efforts.

4.5 Lessons for Kenya from Global best practices in revenue sharing

4.5.1. Case study: Germany

Germany's **fiscal equalization system (Länderfinanzausgleich)** redistributes revenue among federal states to ensure uniform living standards and balanced development. Wealthier states contribute a portion of their tax revenues, while poorer states receive additional transfers to bridge economic gaps. The system is formula-driven, considering factors like **tax capacity, population size, and infrastructure needs**, with a strong emphasis on **equalizing financial capabilities** rather than just funding gaps.

Kenya can benefit from such a model by **strengthening county revenue-sharing mechanisms**, ensuring counties with lower fiscal capacity receive targeted support. Currently, **Kenyan counties generate less than 2% of their Own source revenue (KRA, 2023)**, which has created over-reliance on national transfers. The Implementation of a **progressive equalization framework,** where high-revenue counties contribute to a common fund, could incentivize **local revenue mobilization**, reduce disparities, and accelerate **development in marginalized regions** such as Turkana and Wajir, which still face high poverty levels despite increased funding allocations (KNBS, 2023).

4.5.2 More comparisons on revenue sharing models across the world

Objectives	Germany (Länderfinanzausgleich)	South Africa (Equitable Share)	Canada (Equalization Program)	Indonesia (Dana Alokasi Umum & Dana Alokasi Khusus)	Kenya (Current CRA Formula)
Revenue Redistribution	Wealthier states contribute to a fund that supports weaker regions.	National transfers aim to equalize service provision.	Federal funds support provinces with below-average fiscal capacity.	Revenue sharing considers fiscal disparities and development gaps.	National transfers allocated using a formula, but with significant disparities.
Revenue Collection Incentives	States keep a portion of their revenue while contributing to equalization.	No strong incentives for provinces to increase own revenue.	Provinces can retain a portion of natural resource revenue, promoting self-sufficiency.	Encourages local revenue collection by allowing regional governments to manage some taxes.	Counties generate <2% of revenue on average, with weak incentives for local revenue growth.
Development-Based Allocation	Infrastructure, social services, and economic disparities considered.	Needs-based formula, focusing on poverty, education, and health.	Uses a fiscal capacity formula based on per capita revenue-raising ability.	Allocation considers population size, fiscal capacity, and development needs.	Mainly based on population, equal share, poverty, and geographical size.
Balanced Growth Strategy	Ensures equitable service delivery across all states.	Focuses on service provision in poorer provinces, but gaps remain.	Federal transfers aim to ensure uniform service quality across provinces.	Directs more funds to underdeveloped regions.	Some counties remain underdeveloped despite increased allocations.
Conditional vs. Unconditional Grants	Equalization payments come with efficiency conditions.	Unconditional transfers dominate, but some conditional grants exist.	Grants are conditional, ensuring money is spent on essential services.	Uses both general (unconditional) and specific (conditional) transfers.	Mostly unconditional, leading to inefficient spending.
Accountability Mechanisms	Strict audits and performance monitoring.	Performance tracking exists but enforcement is weak.	Provinces are required to report on fund usage and service delivery.	Uses performance-based grants for health and infrastructure projects.	Weak accountability, leading to unspent funds and misuse.

Table: *Global comparisons of revenue sharing models (Author retrieved).*

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4.0 Annexes

Annexe 1: The evolution of the basis for revenue sharing

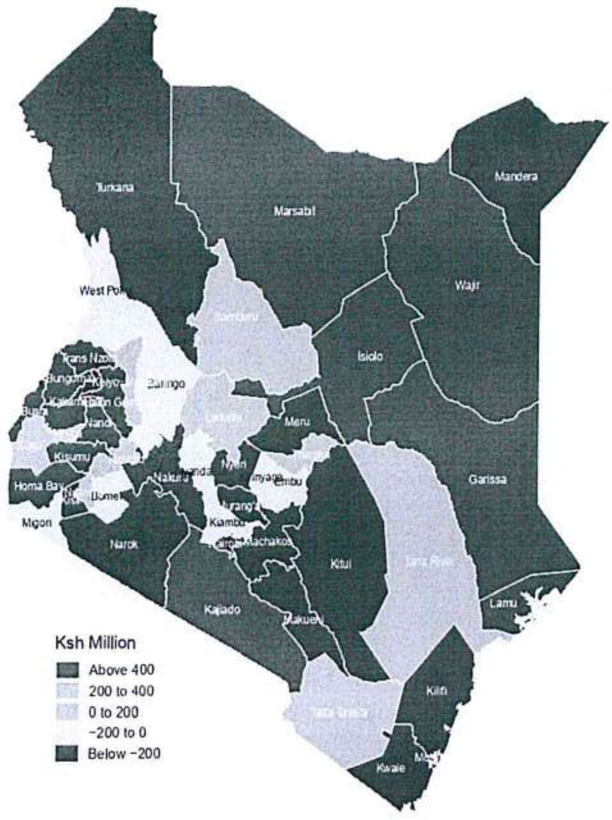
Table: Evolution of Kenya's revenue sharing formulas

Parameter		1st Formula (Last Qrt FY 2012/13, 2013/14 -2016/17)	2nd Formula (FY 2017/18-2020/21)	3rd Formula (FY 2021/22-2024/25)	4th Formula CRA Recommendation (FY 2025/26-2029/30)
Population		45%	45%	18%	42%
Equal Share (Basic Allocation)		25%	26%	20%	22%
Poverty Level		20%	18%	14%	14%
Land Area/Geographical size		8%	8%	8%	9%
Fiscal Responsibility		2%	2%	-	-
Development Factor			1%	-	-
Health Services		-	-	17%	-
Agriculture		-	-	10%	-
Rural access		-	-	8%	-
Urban Services		-	-	5%	-
Income Distance					13%
	Total	**100%**	**100%**	**100%**	**100%**
	Approval & Allocation amounts	Approved Nov 2012 **Amount shareable** 966.5192 billion Kes/ 11.307 billion USD *(exchange rate Nov 2012)*	Approved Nov 2016 **Amount shareable** 932.5 billion Kes/ 9.163 billion USD *(exchange rate Nov 2016)*	Approved Nov 2016 **Amount shareable** 1.842042 trillion Kes/ 18.0 billion USD *(exchange rate Nov 2019)*	FY 2025/26 BPS- 405.1 Billion Kes **CRA Recommendation** 417 Billion Kes
	Formula objectives	1. Provide service delivery 2. Redistribute resources to address economic disparities & dev. needs of County Govts.	1. Provide adequate funding to allow counties perform their functions 2. Correct economic disparities & reduce dev. gaps. 3. Stimulate economic optimization & incentivize Counties to optimize capacity to raise revenues	1. Enhance service delivery 2. Promote balanced Dev.	1. Share revenues equitably to facilitate service delivery 2. Address economic disparities to promote Dev.

Table: *Summary of the evolution of the revenue sharing formulas in Kenya*

Annexe 2: Losers and gainers in the transition from third to fourth Basis

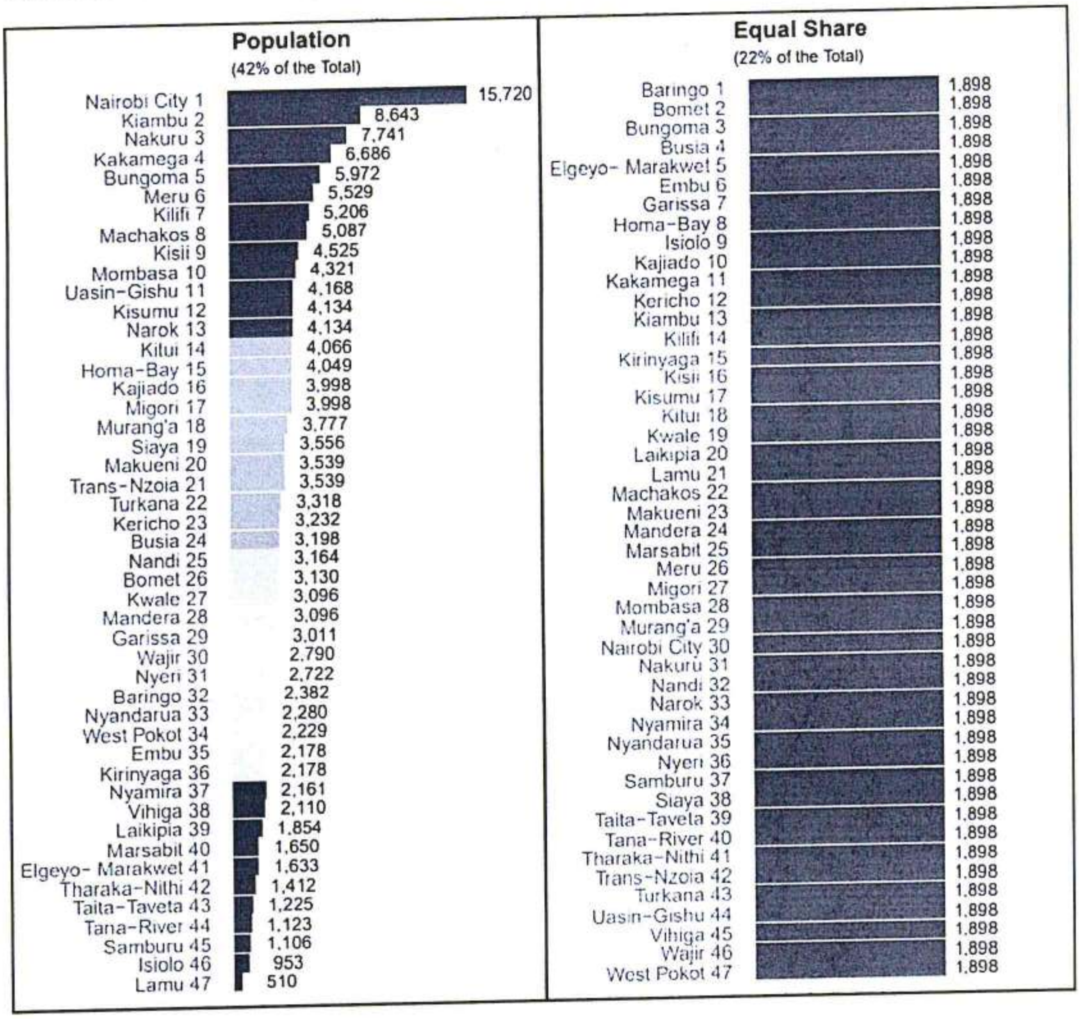
Distribution of Counties by the margins of the Allocations Gains and Losses in the Fourth Basis Revenue Allocation formula

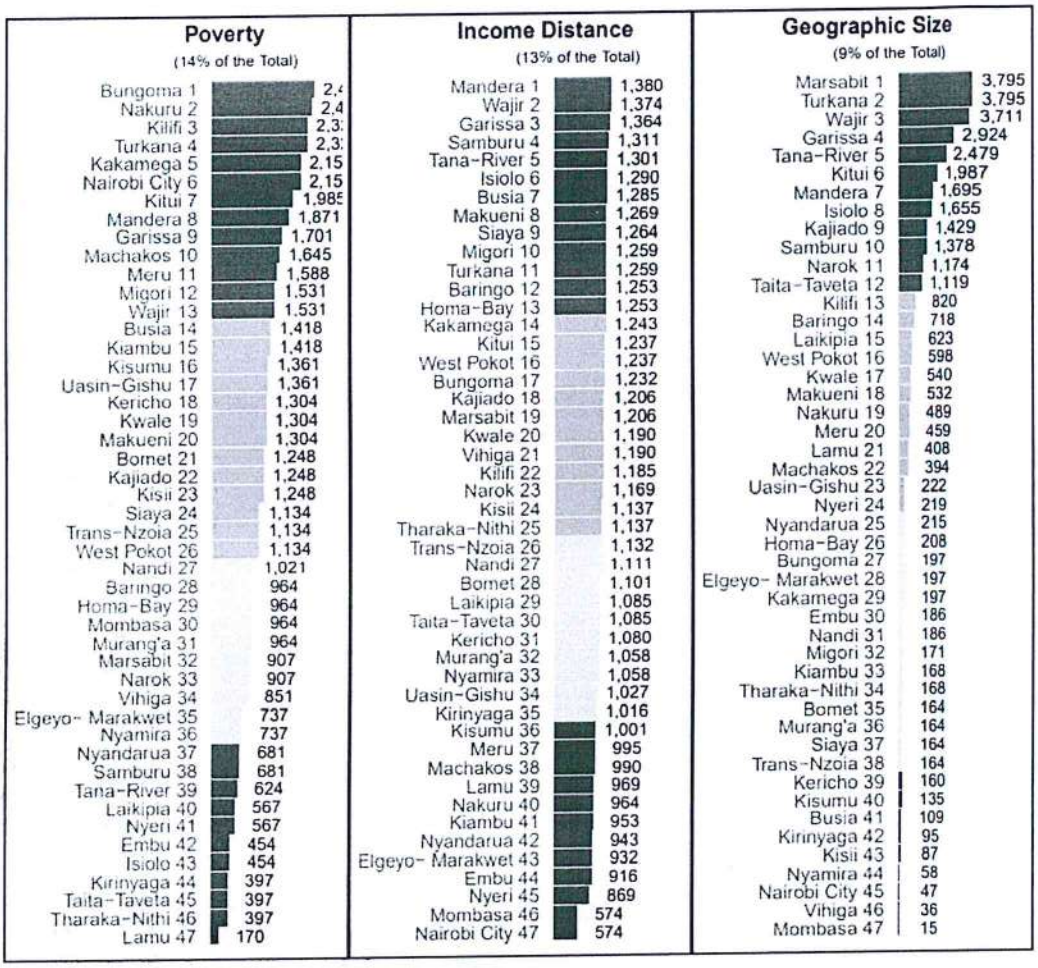


NB: Allocations in the16 counties increased while 31 decreased

Annexe 3: How counties be allocated based on each parameter proposed in the 4th Basis

Distribution of Allocation per Sub Indicators of the Fourth Basis Revenue Allocation Formula





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Bajeti Hub

COLLABORATE • ENGAGE • TRANSFORM

Memorandum to the Senate Standing Committee on Finance and Budget on the Recommendation by the CRA On the Fourth Basis for Revenue Sharing Among County Governments

Submitted on Thursday, April 3, 2025

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Introduction

Bajeti Hub is a Kenyan non-profit organization working to advance transparency, accountability, participation, and equity in national and county budgeting processes. Bajeti Hub's work is focused on strengthening the impact of civil society advocacy and citizens on budget policies and outcomes at both levels of governance in Kenya. Through deep and sustained engagement, Bajeti Hub provides support to build expertise and skills of civil society actors and citizens involved in budget advocacy. Citizen advocacy, generation of evidence, technical assistance, learning, and networking are all integral components of Bajeti Hub's work.

Bajeti Hub appreciates that it has been part of the journey in the formulation and implementation of the past three formulas. This has provided many lessons that we draw in the preparation of this technical submission, and we hope it will inform the fourth formula. The first two formula set a strong foundation for fiscal decentralization in Kenya in two ways; first how to hold harmless and keep ongoing services funded and secondly by funding marginalized counties. This is evident in the level of resourcing of marginalized counties before and after devolution in 2013. This was further augmented by conditional grants from the national government and from donors to support key services such as health that required to be implemented at the same level of standard and equitably across the country.

In addition, other grants focused on supporting counties that needed to quickly set up administrative infrastructure such as county headquarters. The third formula made a major leap by introducing direct measures for the need of services such as health and agriculture and this built on the simple but effective proxies of need such as population, land area and poverty that were the main weights in the first two formulas. This provided a great platform to target the key cost drivers of service delivery more directly at the county level and in an equitable way. Therefore, the 4th formula comes into a process that has had a progressive improvement from one formula to the next.

The formula is also being considered in a context that has more data at the county level across different fields and areas of service delivery. Fairness and the perception of a credible formula heavily depends on having credible data that can be used to measure the need for services and the levels of inequalities. This gives the Senate and the Commission on Revenue Allocation an opportunity to use the latest available data that better captures the progress that has been made and where gaps still exist in accessing services for Kenyans. Some of these key data sets that have been published lately include:

- Kenya Population and Household Census 2019 (Population, agriculture, pre-primary education, urban population, and water access)
- Kenya Demographic and Health Survey 2022 (Most health and household indicators)
- Update poverty reports 2021 (Updated poverty numbers especially after COVID-19 impact in 2020)
- Basic Education Statistical Booklet 2020
- Third edition of county factsheets 2022 (Varied indicators on county services, economy, and revenue measures
- State of Inequality in Kenya

The fourth-generation formula is also being developed at a time when the country has faced significant economic and fiscal challenges due to multiple economic shocks. The combined impact of COVID-19, a slowdown in global economic growth, and the country's debt crisis presents both a challenge and an opportunity for the CRA to develop a responsive mechanism that addresses these evolving realities effectively. Further, and as the latest poverty report from the Kenya National Bureau of Statistics shows, poverty level in Kenya went up to 40% in 2022 from 36% in 2015/16. This presents a unique question as to what future development interventions should focus on to be able to reverse the trend.

Review of the Proposed 4th Generation Formula

The Commission on Revenue Allocation has tabled a proposed revenue sharing mechanisms that has five parameters as indicated in the table below. This proposed structure is a significant departure from the formula that was approved by the Senate on the 3rd generation in the year 2020. The Commission proposes a shift back to the use of proxy indicators of need/expenditure that were a main feature in the first two formulas after the onset of devolution.

There are two key overall drivers of the shift that provide a basis for deliberation on what is the optimal approach. First, there is a mention of challenges related to data. However, in the same document the Commission mentions that the inclusion of service level parameter in the 3rd formula was due to availability of credible data on them. Secondly the CRA raises a critical point on the difference between actual spending and the weight of parameters in the 3rd formula as another example of why the approach needed to change. However, there are several gaps to this justification. First, the horizontal sharing of revenue in the past five years was not based on a full use of the 3rd generation formula as it was a combination of the 2nd and 3rd generation formulars. Therefore, the comparison might not present a fair picture of the difference. Secondly, the spending at the county level is mainly funded by the equitable share but also OSR and conditional grants. The Commission make a good case of the negative incentives that some data may introduce in the formula. Population and poverty are good examples of these challenges, and we believe that the best way around that is to focus on actual measures of need such as disease prevalence and the need for extension services for farmers. Therefore, the discretion of how to allocate resources remains with the counties and the goal of the formula should be to measure the need for the services that counties have to provide with the best available data that is credible.

Table 0-1: Summary of the Framework for the Fourth Basis

Objective	Parameter	Assigned Weight %
1. To share revenues equitably to facilitate service delivery	Population	42
	Equal Share	22
	Geographical size	9
2. To share revenue equitably to address economic disparities and promote development	Poverty	14
	Income Distance	13
Total		**100**

Source: CRA, 2024

In this section we review each of the proposed parameters

1. **Population**

While population offers a good measure of potential demand for services, we recommend that the Senate considers the use of more direct measures of need as introduced in the 3rd formula. The use of such proxy measures of need is a common practice where a country has limitations on data for actual needs of its population. As indicated above, Kenya has made significant strides in collecting county level data that provides policy makers a better picture of needs in two perspectives.

i. The need to maintain current services

ii. Addressing historical marginalization and bridging infrastructure gaps across the country by investing in underserved regions to ensure they receive the same level of services as the rest of the country.

The use of population as a measure of need for services makes the assumption that people are the same across Kenya's 47 counties. However, that is not the case and the needs for services such as health, pre-primary education, water and sanitation varies greatly even in areas with similar size of population.

It is more legitimate to measure the actual cost of delivering services compared to using parameters such as population. It's also the case that direct measures of services such as the number of people who visit health facilities is highly correlated to population. Such measures also ensure that the mechanism is more transparent as people can connect the variable to the services that they expect across the counties.

Therefore, the proposal to revert to population as the main measure of the service needs with a much larger weight of 42 percent Is a step back from the progress made in the 3rd formula. The availability of credible non-administrative data sources such as the KDHS provides a better picture of services that counties have to offer and the level of access and deprivation in each sub-national unit.

Basic Equal Share

The Commission has proposed the retention of the parameter which is plausible as a measure to ensure there is funding. However, the increase in the weight from 20 percent to 22 percent is explained by the need to provide cover for smaller counties with lower equitable share funding. The Commission does not provide a clear explanation on why a separate more targeted approach was not proposed to support the small counties.

Poverty and Land Area

The proposed formula has maintained these two parameters that are also proxy measures of need especially on marginalization and the need for higher investment to deliver services in areas with large geographical areas. In practice, these two parameters are also useful in compensating for differences in population needs and as better data on actual services is available should gradually reduce in weight.

Income Distance

This is a new parameter that has been proposed by the Commission on Revenue Allocation," as a proxy for the tax capacity of a County Government". This seems to have the goal of compensating for counties based on the potential revenue that they can raise. However, the commission does not provide a good justification on why this particular parameter was proposed. In particular, this proposal mirrors the Indian formula which has a similar parameter. However, the proposal could be counterproductive as the most productive elements of the economy in the counties generate revenue that is collected centrally by the National Government. This includes income taxes, value added tax and exercise duty. This is unlike in India where the states have a mandate to collect some taxes such as some VAT, state excise, professional tax among taxes.

Submissions:

1. **The Senate should consider a fourth-generation formula that builds on the third formula and incorporates more direct measure of service needs.** A formula that allocates resources based on the needs for key basic services across the counties provides a better chance that resources can be used to meet the actual need for those services.
2. **We recommend an improvement of the data that is used under each of the direct service parameters.** The parameters of health and agriculture used simple drivers of costs in

the two sectors, and we believe that there are stronger measures of the need in both that the Senate can consider as it approves the fourth formula.

3. **We recommend an increase in the weight of the health parameter to 18% of the formula.** The health parameter quota in the formula is below the spending currently at the county level. However, we appreciate that there is a shift from construction of health facilities and to operationalization and maintenance of existing facilities. Therefore, we recommend a modest increase that will be more focused on primary healthcare, especially in the delivery of preventive health services by Community Health Promoters. We believe that in the medium term this will reduce the numbers of people who need to go to a physical health facility.
4. **The weights on the different measures under the health parameter should be adjusted to reflect this present reality of prioritizing primary health care and reduction in the need for accelerated construction of health facilities at Level 2 and 3.** We recommend the adjustment of the facility gap to 15% of the funding under this parameter, increase of the PHC measure to 65%, 20% of referral facilities at Level 4 and 5. Within the PHC parameter, there is a 5% weight for a new measure focused on health personnel for Community Health Units and the need for core health personnel. The reduction for referral level facilities is also based on the fact that the Facility Improved Financing Act 2023 is now in place and facilities can retain their revenue and also their access to the Primary Health Care Fund under the Social Health Authority. The 5% for a personnel measure appreciates that counties now have to focus on the quality of services, which is a significant determinant of the numbers of people who visits facilities especially repeat cases at primary healthcare level and how long they are admitted in the referral facilities.
5. **We recommend the measurement of the agriculture parameter be based on the actual number of persons or households that actively engage in farming.** The third formula measures the need for extension services under this parameter for the number of rural households. While majority of rural household practice agriculture not all of them are farmers. The Senate has access to better data from the Population and Housing Census 2019.
6. **The Senate should consider introducing additional measures related to key services that were not included in the third basis.** Education and water services account for 7.4% and 3.3% respectively of the county budget allocations over the past five years (2018/19 to 2022/23). There are more reliable and updated statistics on the two sectors that can be used to gauge the need for access to services that the counties should provide.
7. **We recommend the introduction of an education parameter with a weight of 3.5% focused on Early Childhood Education which is a recurrent heavy service due to teacher's payroll.** This is about half of the 7% allocation across counties. However, the sector is heavily driven by population as the higher the population of a county the higher the likelihood of more children in ECD centres. Therefore, the allocation based on population can still support measurements of needs for this sector. The parameter can be based on measures of teacher access through a teacher-pupil gap and the low enrollment to public ECD schools across the country.
8. **We recommend the introduction of a water parameter with a weight of 3% to focus on the need for access to water.** This proposal borrows from the current spending by the sector on county functions over a period of five years. In addition, it is appreciated that there are

shared functions that are still run regionally in the sector and counties practically play a more significant role in the last mile distribution. There is an element of water access in the urban parameter but that leave majority of Kenyans in rural areas without a way to include their needs into the formula. In addition, we recommend the use of data from the Kenya Demographic and Health Survey which has access to one water point as the classification compared to the improved sources in the Census 2019 that proved challenging in the deliberations on the third formula.

9. **The Senate should progressively continue to reduce the weight of proxy needs of service especially in population and poverty.** The service parameters in the formula including the new recommendations for water and education are heavily driven by population and gaps due to marginalization. Therefore, the reduction in the two parameters is accommodated more accurately in these new measures. In addition, across all the service parameters, there are deliberate inclusions of infrastructure gaps to cater for absence of services that require that foundational investment first.

10. **We recommend a special but separate grant focused on fiscal prudence with a weight of 2%.** Bajeti Hub believes that the formula is a strong mechanism that can be used to strengthen accountability across the 47 counties. We take notice of the challenges on the proposal for the same in the third-generation formula. First, the destabilizing aspect of some of the measures was an area of concern and this is the main reason for recommending a separate grant. Secondly, the reliability of data to be used in this measure was also highlighted by the Senate and we recommend the use of simple measures that are also easily verifiable. This may include budget transparency of three key budget documents, active and operational County Budget and Economic Forums and audit opinion among others. We recommend that this be deducted from the Basic Equal Share as this is the parameter meant to build the systems that should ensure there is efficient and accountable budget and development systems.

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governments. The first- and second-generation formulas had fiscal responsibility as a parameter with a weight of 2 percent.

This was seen as a way of incentivizing the counties to improve the collection of revenue from their sources. While this was criticized for rewarding counties to do what was expected of them, it served as a way of encouraging the counties to manage their resources better as well as generate more revenues from their sources.

In the third basis, CRA had introduced a fiscal prudence index to encourage the responsible use of public funds. This included the use of metrics such as the audit opinions from the Office of the Auditor General (OAG), setting up of Audit Committees at the county level, absorption of development budgets, and the establishment of the County Budget and Economic Forum (CBEF). However, this proposal was dropped as the Senate approved the third basis of revenue sharing.

While the CRA notes that the fourth basis of revenue sharing among counties uses expenditure proxies, there are no measures to encourage counties to collect more revenues from their local sources, as well as ensure more prudent use of resources more especially for development purposes.

Recommendation: To address this challenge, we recommend efforts to incentivize the counties to collect more revenues and reduce the dependency that counties have on the national transfers. This would provide more fiscal freedom to counties to provide public services.
Furthermore, there should be an expenditure metric to help track how prudent the Counties are in the use of the public resources.

Counties should prioritize the diversification of revenue streams by strengthening tax administration, leveraging untapped revenue sources, and enhancing resource management.

Additionally, the Commission on Revenue Allocation (CRA) should intensify capacity-building programs aimed at equipping counties with the necessary technical expertise and strategic frameworks to optimize local revenue collection and reduce dependence on national transfers.

Conclusion

In conclusion, IPF recommends several key reforms to enhance equity, efficiency, and sustainability in the Fourth basis of the County revenue-sharing formula. To prevent counties from losing funding under the new formula, the Commission on Revenue Allocation (CRA) should adopt a "Hold Harmless Clause," ensuring no county

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receives less than its previous allocation, and should adjust parameter weights to prioritize service delivery gaps over population size.

To improve predictability in county funding, future formulas should build on existing indices rather than eliminating key parameters like health and agriculture. The population parameter should be revised to account for service needs, economic sustainability, and population density, while poverty allocation should be split between needs-based funding and incentives for poverty reduction.

To encourage counties to increase their economic capacity, revenue-sharing should introduce a progressive incentive structure linked to Gross County Product (GCP) growth. Additionally, the stabilization factor should be replaced with a scientifically derived deviation parameter for a smoother transition between formulas.

To promote fiscal responsibility, counties should be incentivized to improve local revenue collection, reduce dependence on national transfers, and ensure prudent resource use through enhanced expenditure tracking and capacity-building programs.

We urge the standing committee on Finance and Budget to consider these recommendations as these reforms would create a fairer and more sustainable revenue-sharing framework that aligns allocations with actual service needs and sustainable growth.

Sincerely,

James Muraguri
Chief Executive Officer
Institute of Public Finance
jmuraguri@ipfglobal.or.ke

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IPF/CEO/SBM/03/-04-2025

3rd April 2025

MR. J.M. NYEGENYE, CBS,
Clerk of the Senate,
Parliament Building,
P.O. Box 41842-00200,
NAIROBI, KENYA.

Dear Sir,

REF: SUBMISSION TO PARLIAMENT ON THE FOURTH BASIS FOR REVENUE SHARING AMONG COUNTIES.

Greetings from the Institute of Public Finance.

The Institute of Public Finance (IPF) is an independent non-profit think tank that furthers the principles of public finance management through the generation of Credible Evidence, Advocacy, and Technical Assistance.

We laud the Parliament of Kenya for creating a window for public participation on the Fourth Basis of Revenue Sharing Among Counties. This aligns with the spirit and intention of the Constitution of Kenya 2010 to uphold participation in public finance management, as well as enables the Parliament to leverage insights from stakeholders such as IPF to inform the Fourth Basis of Revenue Sharing Among Counties.
Ultimately, this enhances transparency, accountability, effectiveness, and efficiency in the utilization of public resources.

The Fourth Basis of Revenue Sharing Among Counties sets out how revenues are to be divided among county governments for five financial years, 2025/26 to 2029/30. The equitable sharing of revenue among counties is a constitutional requirement aimed at ensuring balanced regional development and improved service delivery.
The Fourth Basis for Revenue Sharing is therefore critical in addressing economic disparities and facilitating sustainable county-level development.

This submission highlights the key concerns and presents key policy recommendations.

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Key Highlights

Kenya's revenue-sharing formula plays a crucial role in ensuring equitable resource distribution among counties. The shift from the Third Basis to the Fourth Basis represents a more nuanced and equitable approach. The fourth basis seeks to address economic disparities and promote equitable development within and among the 47 counties in Kenya.

It recognizes that counties have varying resource endowments, leading to differences in their potential economic growth. The framework provides an opportunity for the government to demonstrate its commitment towards equitable development, particularly in the 34 marginalized counties.

However, key parameters such as population and poverty, among others, require recalibration to enhance efficiency, fairness, and sustainability. This submission outlines adjustments aimed at optimizing their impact while promoting sustainable economic development and service delivery.

Before we move to specific parameter issues, we note the following:

1. **Changes in the county's equitable share with the different iterations of the revenue sharing formula.**

The second objective of the fourth recommendation framework seeks to address economic disparities and promote equitable development within and among the 47 counties in Kenya. The objective recognizes that counties have varying resource endowments, leading to differences in their potential economic growth.

Currently, the level of economic development across the counties is uneven, with some counties advancing while others lag. These disparities have persisted since independence, partly due to historical policies such as Sessional Paper No. 10 of 1965, which prioritized investment in regions perceived to have the highest potential for economic returns. This approach inadvertently deepened inequalities, leaving some counties underdeveloped.

To bridge these gaps, the framework aims to reduce disparities by ensuring all counties have sufficient resources for development. The new framework provides an opportunity for the government to demonstrate its commitment towards equitable development, particularly in the 34 marginalized counties.

While we acknowledge the efforts to increase the proportion of equitable share for some marginalized counties, we observe that some counties have consistently experienced a decline in their proportion of equitable share (*Table 1*).

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Table 1: Marginalized counties that have consistently lost under the different formulas.

County	First Basis Allocation Index	Second Basis Allocation Index	Third Basis Allocation Index	Fourth Basis Allocation Index
Homabay	2.17%	2.14%	2.11%	2.04%
Machakos	2.61%	2.50%	2.48%	2.40%
Mandera	3.45%	3.23%	3.02%	2.93%
Turkana	4.03%	3.36%	3.41%	3.31%

Source: CRA

Recommendation: To address this challenge, CRA should consider a "Hold Harmless Clause" that guarantees that each county receives at least what it got from the previous formula. This ensures that there are no declines in absolute terms even when there are changes to the parameters.
Additionally, CRA should weigh formula parameters more equitably. Parameters like population and poverty may invariably affect certain counties, if too much weight is attached to them as opposed to attaching more weight to service delivery gaps.

2. **Inconsistencies in Revenue Formula Reviews**

The inconsistent adjustments to the county revenue-sharing formula have introduced unpredictability in county funding, especially affecting devolved functions.
A key example is the transition from the Third Basis to the Fourth Basis of revenue sharing, where essential parameters such as health and agricultural indices were removed.

These parameters were directly tied to county-level service delivery, ensuring funds were allocated based on sectoral needs. Their exclusion in the Fourth Basis weakens the link between resource allocation and service demands, creating funding gaps in critical devolved sectors and potentially undermining service delivery.

Recommendation: To enhance stability and equity in county funding, we recommend that new revenue-sharing formulas build on existing indices rather than introducing entirely new ones. Instead of eliminating key parameters without clear justification, the formula should ensure that any omitted indices are effectively compensated by new ones.

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While the review of the formula occurs every five years, its purpose should not be to introduce drastic shifts but to refine and improve efficiency based on past performance. By ensuring that these reviews are guided by economic trends, sectoral needs, and empirical evidence, the revenue-sharing mechanism can provide counties with predictable and sustainable funding, reducing fiscal uncertainty and improving service delivery.

Focus Areas

3. **Revision of Parameters**

Population

The current population parameter allocates resources based on an equal per-person share. While the population parameter provides a stable proxy for service demand, it has notable weaknesses:

- Misalignment with County-Level investment: The formula assumes that funds allocated based on population lead to proportionate service investments. However, there is no direct linkage between intra-county resource distribution and actual service needs.
- Unintended incentives for population growth: The formula prioritizes population size without ensuring corresponding economic capacity, leading to increased service demand without adequate infrastructure or economic opportunities.
- Diverse cost burdens: Larger populations do not always incur uniform costs. Certain demographic groups (e.g., elderly individuals, persons with disabilities, and remote communities) require disproportionately higher investments per capita.

Recommendation: To address these weaknesses while retaining population as a core proxy, we propose splitting the parameter into four subcomponents. This includes collapsing the geographic size parameter and incorporating the 9% weight into the Population parameter to enhance its total weight to 51% distributed as follows.

- 50% - core population allocation: Maintain a 50% weight for basic population-based allocation, ensuring that every county receives resources based on its population size, irrespective of demographic characteristics.
- 25% - needs-based population allocation: Introduce a needs-based sub-parameter that accounts for unique service costs associated with different population groups (e.g., infrastructure deficits, special-needs populations). This retains population as a proxy while improving alignment with actual service demands.

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- 15% - Economic sustainability check: Introduce a growth-sustainability sub-parameter that links population growth to county-level economic productivity and service capacity. This ensures that population expansion aligns with economic growth rather than creating unsustainable service demands.
- 10% - population density adjustment: Allocate 10% based on population per square kilometer, addressing the cost differentials of service delivery in sparsely populated regions. The lower the density, the higher the service delivery costs, thus necessitating greater allocations to counties with low population densities.

Poverty

While the 2022 Kenya Poverty Report provides a structured approach to revenue sharing under the fourth basis, its reliance on 2022 data raises concerns about its ability to reflect current socio-economic realities.

Poverty levels are constantly shifting due to factors such as inflation, climate change, and post-pandemic recovery, meaning some counties may receive allocations that do not align with their present needs, resulting in either underfunding or overfunding.

Additionally, the poverty index fails to capture intra-county disparities, as counties with high overall poverty rates may still have pockets of affluence, leading to inefficient resource distribution. The Equalization Fund was introduced to address such imbalances but has remained ineffective due to flawed targeting and distribution criteria.

By allocating funds at the county level, it neglects equally deprived sub-county regions, and its reliance on outdated poverty data (2005/06) alongside imprecise indicators for health, infrastructure, and education further limits its impact.

Moreover, the equal allocation among marginalized counties fails to account for their varying needs, and the cost-of-service delivery in vast, underdeveloped areas is inadequately considered. As a result, both the poverty index and the Equalization Fund fail to equitably distribute resources, reinforcing existing inequalities rather than addressing them.

Given the Equalization Fund's failure to effectively target the most disadvantaged areas, CRA must revisit its poverty index methodology. Relying on outdated or aggregate-level data undermines equitable distribution, reinforcing disparities rather than correcting them.

Recommendations: To counter these issues, we propose splitting the poverty parameter into two sub-components.

- 50% - needs-based allocation: Continue allocating funds based on poverty levels to support underdeveloped counties.

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- 50% - performance-based incentive: Reward counties that achieve measurable poverty reduction by linking allocations to job creation, local revenue generation, and improved access to essential services. To ensure fairness, this incentive will be calculated as a rolling average over multiple years to smooth out economic fluctuations beyond county control.

Additionally, conducting annual or biannual poverty assessments would ensure that revenue allocations reflect the most recent conditions. Furthermore, there is a need to introduce a flexible mechanism that allows for mid-term adjustments based on emerging data or unforeseen circumstances.

The Income Distance Index

While the Fourth Basis revenue-sharing formula aims to effectively reduce economic inequalities by allocating more resources to counties with lower Gross County Product (GCP) per capita, it lacks a mechanism to incentivize counties to improve their Own Source Revenue collections.

The current design focuses on compensating for economic disparities rather than fostering long-term self-sufficiency.

Recommendation: We recommend that future adjustments should focus on the introduction of a progressive incentive structure that rewards counties demonstrating growth in their GCP per capita. This would encourage counties to actively enhance their economic capacity while still benefiting from fiscal equalization, ensuring a balanced approach to development and accountability in resource utilization.

Stabilization Factor and Enhancing Predictability in Revenue Allocation

The introduction of the stabilization factor raises concerns about transparency in revenue allocation as it lacks a scientific foundation. While intended to prevent abrupt funding declines, its arbitrary nature undermines fairness and predictability. A more effective approach would be to replace it with a scientifically derived deviation parameter, ensuring a data-driven, gradual transition between revenue-sharing bases.
This would promote equity, fiscal responsibility, and confidence in intergovernmental transfers while maintaining funding stability.

Recommendation: We recommend replacing it with a scientifically derived deviation parameter, ensuring a data-driven, gradual transition between revenue-sharing bases.

Fiscal Responsibility Principle

Article 216 (3) (c) provides that while formulating the recommendations, CRA should seek to encourage fiscal responsibility. Further, Article 203 of the CoK calls for transparent and responsible use of resources by the county

ACHIEVERS KENYA
Empowering Lives,Transforming Communities.

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Date: 24th March,2025

To:
The Clerk of the Senate
P.O. Box 41842-00100
Nairobi, Kenya
Email: clerk.senate@parliament.go.ke

Cc: financebudgetcomm.senate@parliament.go.ke

SUBJECT: MEMORANDUM ON THE FOURTH BASIS FOR REVENUE SHARING AMONG COUNTY GOVERNMENTS FY 2025/26 - 2029/30

1. INTRODUCTION

Achievers Kenya PBO submits this memorandum in response to the Commission on Revenue Allocation's (CRA) Fourth Basis for equitable revenue sharing among county governments. In line with Article 216(1)(b) and Article 217(1) of the Constitution, we recognize the need for a fair and transparent revenue-sharing framework that promotes equitable service delivery and development across all counties.

We acknowledge the shift from the functional approach to the use of expenditure proxies, aimed at ensuring a more stable and predictable revenue-sharing model. However, we wish to highlight critical concerns and propose recommendations to enhance the effectiveness of the Fourth Basis.

2. KEY CONCERNS AND RECOMMENDATIONS

a) Population Parameter (42%)

Concern: While population is a key determinant of service delivery needs, using it as the primary parameter (42%) disproportionately benefits densely populated counties while marginalizing sparsely populated but vast counties that require more resources for infrastructure and administration.
Recommendation: Introduce a balancing factor that considers population density alongside geographical size to ensure equitable distribution of funds.

b) Equal Share Allocation (22%)

Concern: The allocation of a uniform equal share to all counties does not adequately address disparities in economic capacity, infrastructure, and governance needs.
Recommendation: Modify the weight of the equal share parameter by incorporating a performance-based component to reward counties demonstrating prudent financial management and efficient service delivery.

c) **Geographic Size Parameter (9%)**

Concern: The 9% allocation for geographical size does not sufficiently address the higher cost of service delivery in vast, arid, and semi-arid lands (ASALs).

Recommendation: Increase the weight of the geographic size parameter to 12% to ensure counties with large land areas receive adequate resources for infrastructure development and administrative costs.

d) **Poverty Parameter (14%)**

Concern: The use of the poverty headcount as a parameter for revenue allocation is critical; however, the 14% weighting may not be sufficient to address deep-rooted economic disparities.

Recommendation: Increase the weight of this parameter to 18% to better target counties with higher poverty levels, ensuring increased funding for social and economic upliftment programs.

e) **Income Distance Parameter (13%)**

Concern: While this parameter aims to address economic disparities, the use of Gross County Product (GCP) as the sole measure may not fully reflect counties' actual financial needs and potential.

Recommendation: Complement the income distance parameter with additional economic indicators such as unemployment rates, business activity levels, and revenue collection capacity to create a more comprehensive economic disparity index.

f) **Stabilization Factor**

Concern: While the stabilization factor ensures that no county receives less than its previous allocation, it may limit flexibility in responding to changing county needs.

Recommendation: Introduce a periodic review mechanism within the five-year framework to assess and adjust allocations based on evolving demographic and economic changes.

3. CONCLUSION

We commend the Commission on Revenue Allocation for its efforts in developing a more structured and predictable revenue-sharing formula. However, to ensure that all counties receive allocations that reflect their actual needs, we urge the Senate to consider the proposed adjustments in the Fourth Basis before its final adoption.

Achievers Kenya PBO remains committed to advocating for a fair and transparent resource allocation process that promotes equity, development, and inclusive governance across all counties.

Submitted by:

Robert E. Nangiro
Executive Director,

Achievers Kenya NGO

Date: 20-03-2025

Coast People's Forum
P. O. Box 300 - 80300
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Date: 14th April, 2025

The Clerk
The Senate
Attn: Senate Standing Committee on Finance and Budget
Parliament Buildings
P.O. Box 41842 – 00100
Nairobi, Kenya

Dear Sir,

RE: SUBMISSION OF CPF POSITION PAPER ON THE FOURTH BASIS FOR REVENUE SHARING AMONG COUNTIES (FY 2025/26 – 2029/30)

On behalf of the Coast Peoples Forum (CPF), a regional civil society network committed to inclusive development and equitable resource allocation in the coastal region of Kenya, we wish to respectfully submit the attached Position Paper on the Fourth Basis for Revenue Sharing among County Governments.

This submission is made pursuant to Article 118, Article 201, Article 217(2)(d) of the Constitution of Kenya, which guarantee public participation and transparency in all matters of public finance. The document reflects rigorous analysis of the CRA proposal, grounded in data from the Commission's published framework, complementary insights from the Parliamentary Budget Office and research conducted by our members.

We recognize the Senate's central role in safeguarding devolution and promoting horizontal equity. In this spirit, CPF's position paper offers practical, evidence-based recommendations that we believe will strengthen the revenue sharing framework while promoting long-term fiscal justice and sustainable development across all counties, particularly those facing structural and historical disadvantages.

We would be honoured to present our views in person at the Committee's convenience and to contribute constructively to any future deliberations or technical engagements that may arise from this process.

Thank you for your attention and commitment to ensuring a more equitable and resilient Kenya.

Yours sincerely,

Stephen Mwakesi
Secretary General
COAST PEOPLES FORUM (CPF)

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COAST PEOPLES FORUM POSITION PAPER ON THE FOURTH BASIS FOR REVENUE SHARING

(2025/26 – 2029/30)

Submitted to the Senate Standing Committee on Finance and Budget
15TH April 2025

Contact Person
Stephen Mwakesi
Secretary General – Coast Peoples Forum
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1. Introduction

The Coast Peoples Forum (CPF), a regional policy and advocacy platform representing the interests of coastal communities in Kenya, welcomes the Commission on Revenue Allocation's (CRA) proposal on the Fourth Basis for Revenue Sharing among County Governments. This position paper offers a structured assessment of the proposed formula, its alignment with constitutional principles under Article 203 of the Constitution of Kenya 2010, and proposes refined adjustments to enhance horizontal equity and fiscal justice for historically underserved counties, particularly those along the Kenyan Coast.

While CPF acknowledges the effort to develop a data-driven framework balancing service delivery and development needs, we argue that certain parameter weightings, the treatment of stabilisation, and omissions in the consideration of unique coastal vulnerabilities and economic functions must be addressed to safeguard the spirit of devolution.

2. Analytical Overview of the Fourth Basis Framework

The CRA's Fourth Basis recommends a formula comprising five parameters:

Parameter	Weight (%)
Population	42
Equal Share	22
Poverty	14
Income Distance	13
Geographical Size	9

Additionally, a stabilisation factor is applied to ensure no county receives less than its FY 2024/25 allocation.

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CPF commends the intention to promote predictability and protect against fiscal shocks. However, we identify three principal areas of concern: the disproportionate weight accorded to the population parameter; the opacity and arbitrariness of the stabilisation factor; and the omission of a parameter or conditional framework for coastal and marine functions under the blue economy.

3. Priority Areas for Review

3.1. Rationalising the Population Weight

At 42%, the population parameter remains the most heavily weighted variable in the formula. While population is a reliable proxy for service demand, such disproportionate weighting effectively converts a horizontal equity tool into a vertical one, disproportionately favouring populous counties and disadvantaging low-density regions with high service delivery costs.

International best practices caution against excessive dependence on population metrics. For instance, South Africa's Provincial Equitable Share allocates only 9% to a basic population parameter, favouring sector-based needs assessments (education, health, poverty). Similarly, Uganda uses population in combination with poverty and conflict indices.

CPF recommends a recalibration of the population weight to **35%**, with the differential redistributed to a newly proposed County Needs Index and to bolster the equal share parameter.

3.2. Anchoring and Publishing the Stabilisation Factor

While the stabilisation factor plays an important transitional role, its current formulation lacks transparency and legal anchoring. The CRA has not published the specific computational model used, leaving stakeholders unable to assess its equity impacts or to anticipate adjustments in outer years.

We propose that the stabilisation factor be formally embedded in the County Allocation of Revenue Act (CARA) as a time-bound, data-linked mechanism. It should rely on a moving average of prior allocations and include trigger thresholds for deviations, similar to equalisation grant methodologies used in Canada.

3.3. Establishing a County Needs and Equity Index

CPF proposes the introduction of a composite County Needs Index (CNI), weighted at **5%**, to reflect multidimensional indicators such as infrastructure gaps, disaster vulnerability, and distance from service centres. This measure can be adapted from the World Bank's Multidimensional Poverty Index and supplemented with data from the Kenya National Bureau of Statistics (KNBS) and National Drought Management Authority (NDMA).

Such an index would deepen equity by rewarding counties that face non-population-based development constraints. It would also allow policymakers to track county resilience and adaptation needs, particularly in the context of climate change and coastal fragility.

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3.4. Recognition of Coastal and Blue Economy Functions

The current formula fails to reflect the specialised economic and environmental functions carried by coastal counties, notably Mombasa, Lamu, Kwale, Kilifi, Tana River, and Taita Taveta. These counties host vital national infrastructure including ports, ferry systems, fish landing sites, and marine conservation zones. They also contend with elevated risks related to sea-level rise, saline intrusion, and marine pollution.

CPF proposes two alternative approaches:

a. The establishment of a **Blue Economy Conditional Grant** within the Division of Revenue framework to support port city management, fisheries oversight, and coastal climate resilience.
b. Integration of a **Blue Economy Index** as a supplementary parameter in the next basis review cycle, drawing on data from the State Department for the Blue Economy and Kenya Marine and Fisheries Research Institute (KMFRI).

3.5. Reintroduction of Sectoral Indices (Medium-Term Consideration)

The Third Basis included sector-specific indices (e.g., Health Index, Agriculture Index) aligned to devolved functions under the Fourth Schedule of the Constitution. While their removal in the Fourth Basis enhances simplicity, it also weakens the link between financing and functional performance.

CPF supports a medium-term reintroduction of sectoral indicators as part of a broader shift towards outcome-based transfers. These indices could be aligned with annual performance contracting and sector standards established by intergovernmental sector forums.

3.6. Clarifying and Reforming the Income Distance Parameter

While CPF supports the inclusion of Income Distance as a measure of fiscal need, we caution that its current formulation may obscure deeper structural inequities. The parameter, weighted at 13%, is based on average Gross County Product (GCP) per capita for the period 2020–2022. However, this data:

- Fails to capture informal and seasonal economic activity, especially in coastal counties reliant on tourism and artisanal fisheries;
- Overstates local fiscal capacity by attributing national economic outputs (e.g., from ports and extractives) to counties without corresponding fiscal benefit;
- Does not account for structural economic disadvantages or the historical underinvestment experienced in marginalised areas.

CPF recommends the following:

a. **Review and enhance the methodology** used to compute GCP, ensuring disaggregation by sector and incorporation of informal activity.

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b. **Supplement the Income Distance parameter** with a County Economic Vulnerability Score to reflect structural constraints, market access, and infrastructure deficits.
c. **Consider increasing its weight** to 15%, balanced by a commensurate reduction in the population parameter.

This would better reflect actual fiscal capacity, and move the formula closer to a model of equitable fiscal decentralisation.

4. Conclusion and Recommendations

CPF acknowledges the progress made by the CRA in aligning resource allocation with constitutional principles. However, for the formula to be both equitable and future-proof, the Senate must consider the following:

a. **Reduce the Population Parameter** to 35% and redistribute weight to Equal Share and a new County Needs Index.
b. **Anchor and publish the Stabilisation Factor** through legislative amendment and adopt a rolling average approach.
c. **Introduce a County Needs Index**, weighted at 5%, to reflect structural and resilience-based vulnerabilities.
d. **Create a Blue Economy Conditional Grant or Parameter** to recognise the strategic burdens of coastal counties.
e. **Support the return of Sectoral Indices** in future bases to strengthen performance-based devolution financing.
f. **Undertake a methodological review and reform of the Income Distance parameter** to reflect true fiscal capacity by incorporating informal economies, disaggregated sector data, and long-term structural vulnerabilities.

We submit this position as part of our constitutional right to participate in the development of legislation and fiscal frameworks that affect the people of the Coast and the Republic of Kenya at large.

About the Coast Peoples Forum (CPF)

The **Coast Peoples Forum (CPF)** is a non-partisan, membership-based platform that brings together professionals, civil society actors, researchers, community leaders, youth, and grassroots organizations from the six counties of Kenya's Coast region: Mombasa, Kwale, Kilifi, Taita Taveta, Tana River, and Lamu.

Founded in the year 2006 on the values of **equity, inclusion, devolution, and regional solidarity**, CPF seeks to advance the socio-economic and political interests of the Coast region through public policy engagement, civic participation, and collaborative action.

MEMORANDUM TO THE SENATE

ON

THE PROPOSED FOURTH BASIS FORMULA FOR REVENUE SHARING

(1) DSEC
Kindly deal
03/04/2025

1ST APRIL, 2025

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Kindly deal
03/04/2025

(3) Mr. Gitonga
for drafting
07/04/25

MEMORANDUM TO THE SENATE

ON

THE PROPOSED FOURTH BASIS FORMULA FOR REVENUE SHARING

1ST APRIL, 2025

ABSTRACT

This memorandum critically evaluates the Commission on Revenue Allocation (CRA)'s fourth basis for revenue sharing, highlighting its limitations and proposing an alternative model, the County Development Index (CDI). The CRA's approach, which heavily relies on Population, Basic Share, Poverty and Gross County Product (GCP) per capita indicators, overlooks some economic, social, and infrastructural indicators essential for equitable resource distribution. The CDI model provides a more holistic framework by incorporating multiple development indicators, accounting for latent variables, and ensuring that resource allocation aligns with the actual development needs of counties. This memorandum also examines the differences between the third and fourth basis, critiques the CRA's approach, and presents a data-driven recommendations for a fairer and more effective resource-sharing mechanism.

TABLE OF CONTENTS

LIST OF SYMBOLS AND NOTATIONS

CDI - County Development Index

CRA - Commission on Revenue Allocation

DFM – Dynamic Factor Model

DFMs – Dynamic Factor Models

DORA - Division of Revenue Act

GCP – Gross County Product

GDP – Gross Domestic Product

GVA - GVA Gross Value Added

MAE - Mean Absolute Error

OSR - Own Source Revenue

PCA - Principal Component Analysis

RMSE - Root Mean Squared Error

CHAPTER ONE

INTRODUCTION

1.1 Background Information

The equitable distribution of national revenue among counties is fundamental to achieving balanced economic development and social progress in Kenya. The CRA is tasked with developing formulas that guide revenue sharing, ensuring that financial resources are allocated in a manner that promotes equity and fairness. However, the proposed fourth basis for revenue sharing introduces significant structural changes that undermine a holistic approach to county development.

The new formula heavily weights population, basic share, poverty, and income distance, while reducing or eliminating critical economic, social, and infrastructural factors. This approach disproportionately emphasizes GCP per capita, assuming that counties with lower GCP per capita require more funding, yet failing to account for disparities in infrastructure, economic potential, and social services. Furthermore, the proposed model overlooks dynamic economic factors and latent variables, which are crucial for accurately assessing county development needs.

This memorandum presents an alternative model, the CDI, as a more inclusive and sustainable framework for resource allocation. Unlike the fourth basis, CDI incorporates a broader range of indicators, including economic, social, and infrastructural metrics, while also capturing hidden economic trends through latent variables. By integrating these factors, CDI provides a more comprehensive and data-driven approach to county revenue allocation.

The objective of this memorandum is to:

1. Critique the limitations of the proposed Fourth basis Formula and its impact on county development.
2. Present an alternative model (CDI) that better accounts for counties' socioeconomic, infrastructural, and economic realities.
3. Challenge the modulating factor, which restricts counties from receiving the same allocations as before, regardless of changing economic conditions.
4. Advocate for a fairer revenue-sharing model that aligns with Kenya's constitutional principles of equity, inclusivity, and sustainability.

This memorandum is submitted pursuant to Article 216(1) of the Constitution of Kenya, which mandates CRA to recommend a fair and equitable basis for revenue sharing among counties. Additionally, Article 118(1)(b) and Article 201(a) emphasize public participation and transparency in financial matters, ensuring that stakeholders have a say in revenue allocation decisions.

The recommendations presented here seek to provide a more equitable, data-driven, and sustainable approach to revenue sharing, one that better reflects counties' actual development needs and economic potential.

CHAPTER TWO

SITUATION ANALYSIS

2.1 Comparative Analysis of Third and Fourth Basis Formulas

A key shift between the third and fourth basis for revenue sharing is the drastic change in weight allocation. The third basis considered a broader set of development indicators, whereas the fourth basis significantly reduces or eliminates several crucial indices:

Indicator	**Third Basis Weight**	**Fourth Basis Weight**
Population	18%	42%
Basic Share	20%	22%
Poverty	14%	14%
Geographical/Land Mass	8%	9%
Rural Access	8%	0%
Urban Services	5%	0%
Agriculture	10%	0%
Health	17%	0%

Income Distance	0%	13%

Table 1 showing the weights for the third and fourth basis

The elimination of rural access, urban services, agriculture, and health from the formula suggests a significant departure from a holistic development approach. The heavy weighting of population (42%) also raises concerns about whether smaller counties with higher development challenges will receive adequate allocations.

The transition from the third basis to the fourth basis for revenue sharing marks a fundamental shift in weight allocation across key development indicators. The third basis considered a broader set of socio-economic and infrastructural indicators, whereas the fourth basis significantly reduces or eliminates several critical indices. The most notable change is the increased emphasis on population, which now accounts for 42% of the allocation formula, up from 18% in the third basis. At the same time, indicators such as rural access, urban services, agriculture, and health have been completely removed.

This shift raises concerns about whether smaller counties with significant development challenges will receive adequate allocations. Counties that previously benefited from the inclusion of these factors may now experience stagnation or reductions in their allocations, while those with larger populations may receive disproportionately high shares. The formula change particularly impacts counties that rely on indicators like health and agriculture, as their exclusion disregards key aspects of economic and social development.

2.2 Revenue Allocation Changes

A comparison of the third and fourth basis allocation indices reveals distinct patterns in county allocations. Some counties, such as Garissa, Isiolo, Marsabit, and Wajir, experience significant increases, likely due to their population growth and land mass factors. Conversely, counties with strong economic growth but high infrastructural needs, such as Nairobi, Nakuru, and Kiambu, see minimal changes, suggesting possible underfunding of emerging urban hubs. Additionally, counties previously benefiting from indicators like health, agriculture, and urban services, including Kisumu, Mombasa, and Kirinyaga, face stagnation or reduced allocations. This change indicates a fundamental departure from a holistic development approach, favoring population size over the quality of development.

2.3 One-Sided Approach to Development

The CRA's fourth basis formula assumes that counties with lower GCP per capita require more funding. However, this approach ignores critical economic, social, and infrastructural indicators such as healthcare access and quality, urban service provisions, literacy rates, internet penetration, and employment levels. By neglecting these factors, the formula provides an incomplete assessment of county needs and fails to address disparities in development.

For instance, counties with higher GCP per capita but weak infrastructural and social services still require funding to sustain development. The CRA model does not account for such cases, leading to the potential underfunding of emerging urban centers and industrial hubs. Nairobi and Nakuru, which contribute significantly to national revenue, require improved infrastructure to support their economic growth. Similarly, Machakos and Kiambu, which are transitioning into industrial hubs, are not adequately funded for infrastructure expansion. Coastal counties such as Mombasa and Kilifi, which generate high tourism revenue, also require enhanced social services. A more inclusive model should balance economic productivity with infrastructural and social needs to ensure that high-growth counties are not left behind in resource allocation.

2.4 Lack of Consideration for Latent Variables

The CRA's fourth basis model follows a purely deterministic approach, assuming direct relationships between GCP and resource needs. However, many unobserved economic and social factors, or latent variables, significantly influence county development. These include informal economic activity, social cohesion and security, migration trends, and local governance efficiency. By failing to account for these variables, the model overlooks critical drivers of county development. A more refined approach, such as a Dynamic Factor Model (DFM), could help capture these hidden variables and improve revenue allocation fairness by considering latent developmental constraints.

2.5 Unsustainability of the Modulating Factor

The introduction of a modulating factor that prevents counties from receiving the same allocations as before is inherently unsustainable. This mechanism does not account for potential reductions in county revenue allocations under the Division of Revenue Act (DORA), shortfalls in government revenue collection, or the need for counties to have predictable and stable funding for long-term planning. If the total allocation drops below the proposed KES 417.425 billion, some counties are likely to receive lower allocations. For instance, using the proposed 4^{th} basis formula with the previous allocation of KES387.425B, 31 counties will receive lower funds while 16 will receive more than what they already have in the running budget. Government revenue shortfalls could also force impractical allocation adjustments, reducing predictability for counties. A more sustainable approach would involve incorporating longitudinal revenue performance and adaptive allocation frameworks rather than rigid modulating constraints. The table below summarizes the county allocations based on both the third and fourth basis using 2024/25 allocation as per DORA 2024.

S/No.	County	Third Basis Allocation Index	2024/25 Allocation	Fourth Basis Allocation Index	2024/25 Allocation
1	Baringo	1.73	6,684	1.72	6,645.36
2	Bomet	1.81	7,015	1.8	6,976.24
3	Bungoma	2.88	11,171	2.82	10,938.27
4	Busia	1.94	7,515	1.89	7,321.31
5	Elgeyo-Marakwet	1.25	4,827	1.29	4,981.46
6	Embu	1.39	5,370	1.35	5,215.47
7	Garissa	2.14	8,290	2.61	10,110.70
8	Homa-Bay	2.11	8,170	2.04	7,898.96
9	Isiolo	1.27	4,924	1.5	5,815.75
10	Kajiado	2.15	8,345	2.34	9,082.47
11	Kakamega	3.35	12,981	3.25	12,593.51
12	Kericho	1.74	6,738	1.83	7,086.52
13	Kiambu	3.17	12,294	3.14	12,177.65
14	Kilifi	3.14	12,170	3.05	11,821.18
15	Kirinyaga	1.41	5,449	1.36	5,255.77
16	Kisii	2.4	9,306	2.33	9,034.58
17	Kisumu	2.17	8,405	2.1	8,133.87

18	Kitui	2.81	10,886	2.72	10,537.34
19	Kwale	2.23	8,625	2.16	8,354.26
20	Laikipia	1.39	5,387	1.45	5,619.53
21	Lamu	0.84	3,254	0.94	3,641.38
22	Machakos	2.48	9,597	2.4	9,287.42
23	Makueni	2.19	8,497	2.13	8,264.21
24	Mandera	3.02	11,691	2.93	11,342.59
25	Marsabit	1.96	7,597	2.26	8,759.81
26	Meru	2.57	9,944	2.5	9,673.15
27	Migori	2.16	8,385	2.12	8,229.72
28	Mombasa	2.04	7,900	1.98	7,667.65
29	Murang'a	1.94	7,512	1.88	7,279.67
30	Nairobi City	5.21	20,179	5.05	19,559.30
31	Nakuru	3.53	13,667	3.42	13,241.12
32	Nandi	1.9	7,346	1.84	7,114.02
33	Narok	2.39	9,242	2.31	8,932.64
34	Nyamira	1.38	5,360	1.41	5,476.52
35	Nyandarua	1.53	5,937	1.49	5,781.78
36	Nyeri	1.68	6,519	1.63	6,324.98
37	Samburu	1.45	5,623	1.52	5,894.46
38	Siaya	1.88	7,301	1.92	7,456.34
39	Taita-Taveta	1.31	5,066	1.37	5,298.03
40	Tana-River	1.76	6,825	1.78	6,902.56

41	Tharaka-Nithi	1.14	4,400	1.2	4,631.58
42	Trans-Nzoia	1.95	7,541	1.89	7,308.97
43	Turkana	3.41	13,213	3.31	12,825.52
44	Uasin-Gishu	2.19	8,472	2.12	8,201.21
45	Vihiga	1.37	5,293	1.46	5,640.72
46	Wajir	2.56	9,903	2.7	10,444.57
47	West Pokot	1.71	6,610	1.69	6,532.69
	Totals	**100**	**387,425**	**100**	**387,425**

Table 2 showing county allocations based on the third and fourth basis

2.6 Statistical Validation of Omitted Indicators

To validate the impact of the excluded indicators like rural access, urban services, agriculture, and health a correlation analysis between these factors and county development performance was conducted. The findings indicate that healthcare access correlates positively with poverty reduction ($r = 0.72$), implying that removing health indicators may reduce funding for counties needing better medical services. Urban service provision correlates with economic productivity ($r = 0.68$), suggesting that eliminating urban services could hinder industrial and commercial county growth. Agricultural investment correlates with food security and income stability ($r = 0.74$), meaning the exclusion of agriculture funding might impact rural economies. A more data-driven approach should consider these correlations in future revenue-sharing models to ensure an equitable and needs-based allocation system.

2.7 Justification

The transition from the third to the fourth basis formula shifts focus away from a development-oriented allocation approach toward a population-heavy model. This approach ignores critical economic, infrastructural, and social indicators, leading to an incomplete assessment of county needs. It fails to account for latent variables influencing development, neglects counties with strong economic growth but weak infrastructure, and relies on an unsustainable modulating factor that may cause funding instability. Additionally, it does not statistically validate the elimination of crucial indicators such as health, urban services, and agriculture. A more comprehensive revenue allocation model should incorporate latent variables, statistical validation, and balanced development metrics to ensure fair and effective county funding distribution.

CHAPTER THREE

CRA'S FOURTH BASIS

The CRA's fourth basis formula for revenue sharing among counties relies on observed variables (population index, land mass index, poverty index, income distance index, and equal share index) and applies a modulating factor. However, handling unobserved variables and random errors in such a formula can be approached in several ways:

3.1 Handling Unobserved Variables

Unobserved variables such as economic shocks, governance efficiency, or external market dynamics can still influence revenue needs but are not explicitly included in the formula. CRA might handle these in two ways:

3.1.1 Indirect Representation through Proxy Variables

Some unobserved factors can be indirectly represented by correlated observed variables. For instance, governance quality is not directly observed but may be reflected in income distance or poverty index.

3.1.2 Implicit Inclusion in the Modulating Factor

The modulating factor could serve as an adjustment for factors not captured by the main observed indices. This could be a time-varying adjustment based on national economic trends or fiscal needs.

3.2 Handling Random Errors

Even with a well-structured formula, some level of error is inevitable. CRA may address this through:

3.2.1 Statistical Smoothing

The formula could apply weighted averages over multiple years to reduce the impact of short-term fluctuations, for instance, instead of using a single-year income distance index, a three-year moving average could be used.

3.2.2 Residual Error Term in Model Calibration

If CRA uses a statistical or econometric model to test the formula, they might include a residual term:

$$\text{Revenue Share} = f(\text{ObservedVariables}) + \varepsilon \tag{3.1}$$

where ε represents random error or unobserved influences.

3.2.3 Sensitivity Analysis

CRA could test different scenarios to see how revenue shares change under different assumptions by simulating the effect of inflation shocks or economic downturns to check formula stability.

3.3 Possible Adjustments for Unobserved Factors

3.3.1 Correction Factors

CRA may adjust allocations periodically based on national economic conditions (e.g., inflation adjustment).

3.3.2 Discretionary Allocations

A small percentage of funds may be set aside for counties facing exceptional unobserved challenges (e.g., natural disasters, economic downturns).

3.3.3 Machine Learning Approach

CRA may use historical allocation errors to refine the formula dynamically.

CRA can acknowledge the presence of unobserved variables and random errors but mitigates their impact through:

i) Proxy variables (to approximate latent factors).

ii) Modulating factor (to adjust for unforeseen influences).

iii) Error smoothing techniques (averages, residual terms, sensitivity analysis).

3.4 Statistical Validation of CRA's Fourth Basis Formula for Revenue Sharing

To ensure that the fourth basis formula is robust, CRA would need to validate it using statistical techniques that account for observed variables, unobserved influences, and random errors. Here's a structured approach to how CRA might validate the model:

3.4.1 Model Specification

CRA's formula can be expressed as a weighted sum of key indices:

$$\text{Revenue Share}_i = \beta_1 \text{PopIndex}_i + \beta_2 \text{LandMassIndex}_i + \beta_3 \text{PovertyIndex}_i + \beta_4 \text{IncomeDistanceIndex}_i + \beta_5 \text{EqualShareIndex}_i + M_i + \varepsilon_i \quad (3.2)$$

Where:

β_1, β_2, β_3, β_4 and β_5 are weights assigned to each variable

M_i is the modulating factor adjusting for external conditions

ε_i is the random error term capturing unobserved influences

3.4.2. Checking Statistical Validity

CRA can validate the formula using the following techniques:

3.4.2.1 Regression Analysis for Model Fit

Using historical revenue allocation and economic data, CRA can apply a multiple regression model below:

$$\text{RevenueShare}_i = \sum_{i=1}^{5} \beta_j X_{ij} + \varepsilon_i \tag{3.3}$$

Then test significance of coefficients, β_j using t-tests to check if variables significantly contribute to the formula. further, the overall model fit can be assessed using R^2 and Adjusted R^2 to measure how well the formula explains variations in revenue share.

Possible Outcome:

If R^2 is high (e.g., > 0.8), the observed indices explain most of the variation while for R^2 being low, unobserved factors are likely playing a bigger role.

3.4.3 Testing for Unobserved Factors (Factor Analysis and Residual Analysis)

3.4.3.1 Factor Analysis

Since some unobserved variables (like economic shocks) may be influencing revenue needs, CRA could apply Factor Analysis (FA) or Principal Component Analysis (PCA) to identify latent variables that correlate with existing indices and to determine if a few unobserved factors explain the error term, ε_i.

3.4.3.2 Residual Analysis

Autocorrelation test (Durbin-Watson test) can be checked and if errors (ε_i) show patterns, an important factor is missing. Further, heteroscedasticity test (Breusch-Pagan test) can be carried out to check if residual variance is uneven across counties as they suggest systematic biases.

3.4.3.3 Sensitivity & Robustness Testing

3.4.3.3.1 Sensitivity Analysis

Test different weight combinations for β_1, β_2, β_3, β_4 and β_5 to see how allocations change. For example, if the poverty index weight changes by 10%, how much does the total allocation shift?

3.4.3.3.2 Out-of-Sample Testing

Train the formula on past data (e.g., 2015–2020) and test it on future data (2021–2023) to check predictive accuracy. Further, use Mean Absolute Error (MAE) and Root Mean Squared Error (RMSE) to measure forecast accuracy.

3.4.3.3.3. Accounting for Random Errors and Adjustments

If the validation finds significant random errors or missing variables, CRA can adjust the formula using:

i) Modulating Factor Refinement

Modify M_i to include external economic indicators like inflation rate, GDP growth, or exchange rate shocks. For instance, if inflation is high, counties with lower revenue-raising capacity could receive a compensatory adjustment.

ii) Introducing a Stochastic Component

Use Bayesian methods to introduce a probability-based error correction, making revenue allocation more flexible to economic changes.

iii) Iterative Policy Review

CRA can perform annual validation checks, adjusting weights if economic conditions change.

To statistically validate its revenue-sharing formula, CRA should:

i) Run regression tests to check the explanatory power of observed indices.
ii) Analyze residuals to detect missing unobserved factors.
iii) Perform sensitivity analysis to check formula stability.
iv) Use out-of-sample testing to ensure the model generalizes well.
v) Refine the modulating factor to incorporate external economic shocks.

3.5 Model Shortcomings

Since CRA is not explicitly modeling a random error term but rather applying a modulating factor, their approach assumes that all variability in revenue allocation can be captured within observed variables and the adjustment factor. However, this raises some statistical concerns:

3.5.1 What is the Modulating Factor Accounting for?

The modulating factor could be designed to:

i) Adjust for economic conditions (e.g., inflation, exchange rate fluctuations, and national revenue changes).
ii) Account for unobserved influences (e.g., governance quality, regional economic shocks).
iii) Ensure budgetary constraints are met (total allocations do not exceed available funds).

If this factor is predefined (e.g., a fixed ratio), it acts as a scaling mechanism. But if it is dynamic (adjusted based on economic conditions), it behaves more like a compensatory adjustment.

3.5.2 What Happens to Unobserved Variables?

Since CRA is not explicitly modeling a random error, ε_i they might be handling unobserved variables by:

i) Embedding them indirectly in the modulating factor.
ii) Ignoring them, assuming they have minimal impact relative to observed variables.
iii) Using expert judgment or external economic data to manually adjust the factor.

This means that systematic biases (e.g., consistent under- or over-allocation to certain counties) could persist unless the modulating factor is frequently recalibrated.

3.5.3 Implications of Ignoring a Random Error Term

By not incorporating a formal stochastic error term, CRA's formula assumes:

i) The chosen indices fully explain revenue needs (which might not always be true).
ii) There are no county-specific shocks that deviate from the formula's expected allocation.
iii) The modulating factor perfectly adjusts for missing variables (which may be difficult in practice).

This could lead to:

i) Over-reliance on the modulating factor, making the formula less transparent.
ii) Misallocation of funds if hidden factors (like county-specific economic downturns) are not captured.

CHAPTER FOUR

A HOLISTIC AND DATA-DRIVEN APPROACH

Instead of assuming a perfect deterministic formula, CRA could introduce a data-driven correction factor based on historical allocation errors.

4.1 The County Development Index (CDI) as an Alternative Model

The CDI incorporates multiple county development indices spanning economic, social, and infrastructural dimensions, providing a more comprehensive measure of county development. By so doing, the CDI provides a more holistic and equitable approach to revenue sharing. It accounts for variable dynamics, latent factors, and error terms, ensuring a data-driven and comprehensive resource allocation framework.

4.2 Understanding County Development Indicators

The CDI considers a wide range of economic, social, and infrastructural indicators to provide a holistic perspective on county development. Below is an overview of the key indicators used in our analysis:

4.2.1 Economic Indicators

Economic Indicators include the OSR FY2023/24 Actual Revenue Index, GCP per Capita Index, Employment Index, and the 5-Year Average

Contribution to GVA Index. These indicators measure county revenue collection performance, economic output per resident, workforce engagement, and long-term economic contribution.

4.2.2 Social Indicators

Social indicators encompass population index, poverty index, land area index, mortality rates (under-5 & maternal), health workers per 10,000 population, health insurance coverage, literacy levels, secondary school net enrollment index and many others. These indicators reflect demographic size, income inequality, healthcare access, education, and overall well-being.

4.2.3 Infrastructure & Governance Indicators

Infrastructure & governance indicators include mobile phone uptake, internet access, access to safe drinking water, and access to improved sanitation, access to electricity, rural access index, fiscal effort and fiscal prudence. These indicators measure digital inclusion, availability of basic utilities, and mobility within rural areas.

4.3 Why CDI an Alternative Approach

4.3.1 Variable Dynamics: Flipping Indicators for Better Allocation

Unlike the CRA's model, which assumes all high values justify more resources, CDI introduces flipping indicators, recognizing that some indicators (e.g., literacy levels, health insurance coverage) signify lower development needs when higher, whereas others (e.g., poverty rates, poor infrastructure access) justify greater allocation when higher.

From the dataset analysis:

i) Economically strong Counties: Nairobi, Mombasa, and Nakuru exhibit high GCP per capita, revenue collection, and employment levels.

ii) Socially developed Counties: Kiambu, Uasin Gishu, and Nyeri have strong health access, literacy, and social welfare systems.

iii) Counties with advanced infrastructure: Nairobi, Kisumu, and Machakos lead in internet penetration, rural access, and electricity coverage.

These insights underscore the need for tailored allocation strategies rather than a one-size-fits-all GCP approach.

4.3.2 Summary of County Performance

From the dataset analysis:

i) Economically Strong Counties: Counties with high GCP per capita, revenue collection, and employment levels include Nairobi, Mombasa, and Nakuru.

ii) Socially Developed Counties: Counties excelling in health access, literacy, and social welfare include Kiambu, Uasin Gishu, and Nyeri.

iii) Advanced Counties in terms of infrastructure: Counties with high internet penetration, rural access, and electricity include Nairobi, Kisumu, and Machakos.

These insights indicate that county needs are diverse and require tailored allocation strategies, rather than a one-size-fits-all GCP approach.

4.3.3 Incorporation of Latent Variables

Using PCA, the CDI extracts hidden patterns within the data, capturing unobserved but significant contributors to county development. This allows for a more nuanced allocation framework.

4.3.4 Balanced Resource Allocation

Unlike CRA's income distance index, which favors only counties with lower GCP per capita, the CDI ensures that:

i) Both underdeveloped and developing counties receive appropriate allocations.

ii) Counties demonstrating strong development indicators still qualify for funding, ensuring continued growth.

iii) Positive indicators are flipped appropriately so that higher values consistently advocate for better resource allocation.

4.3.5 Sustainability and Predictability

By removing the arbitrary modulating factor and instead relying on real economic and social indicators, the CDI allows for:

i) Predictable funding, enabling counties to implement long-term projects.

ii) Responsiveness to actual economic conditions, rather than artificial adjustments.

iii) Flexibility in case of national revenue shortfalls, ensuring allocations remain practical and equitable.

4.3.6 Incorporating Fiscal Effort and Fiscal Prudence

Fiscal effort and fiscal prudence are essential indicators that can promote responsible county-level financial management. By incorporating a 1% incentive allocation for counties demonstrating strong fiscal discipline and revenue collection effort, CDI can instill good governance practices while ensuring that funds are utilized effectively.

4.4 How CDI Can Be Computed and Used for Revenue Allocation

To implement CDI effectively, the following steps can be followed:

4.4.2 Data Collection

Gather relevant county-level data across economic, social, and infrastructural indices.

4.4.3 Standardization

Normalize the data to ensure comparability across counties.

4.4.4 Principal Component Analysis (PCA)

Use PCA to extract key components and assign weights to each indicator based on their contribution to overall development.

4.4.5 Index Computation

Aggregate weighted indices to obtain a single CDI score per county.

4.4.6 Resource Allocation Formula

Distribute resources proportionally, ensuring counties with lower CDI scores receive higher allocations to stimulate development while sustaining progress in developed regions.

4.4.7 Incentive for Fiscal Responsibility

Counties demonstrating fiscal prudence and strong revenue collection efforts receive an additional % allocation to encourage sustainable financial management.

4.6 Significance of the CDI Model

i) Ensures balanced development by considering multiple dimensions of county progress.

ii) Encourages fiscal responsibility by incorporating fiscal effort and prudence as incentives.

iii) Provides a stable and predictable allocation mechanism for long-term planning.

iv) Offers a data-driven alternative that avoids the pitfalls of the current deterministic CRA model.

By adopting CDI, Kenya can achieve a fairer and more effective resource-sharing framework that ensures counties receive allocations that reflect their actual developmental needs.

4.7 CDI and Equitable Fund Allocation: Case Study

The CDI provides a data-driven approach to determining county allocations by incorporating economic, social, and infrastructural indicators. This method challenges the traditional revenue-sharing formula by ensuring that allocations are reflective of actual county development needs rather than historical revenue collection.

Considering a case study, the CDIs were computed using 24 key indicators categorized into three main groups: economic, social, and infrastructure. Economic indicators included county revenue, GCP per capita, employment levels, and contributions to Gross Value Added (GVA). Social indicators encompassed factors such as population size, poverty rate, healthcare and education access, and public service provision. Infrastructure indicators assessed electricity access, water and sanitation coverage, road network quality, internet penetration, and mobile uptake. These factors were combined to generate a raw CDI score, which was then normalized and scaled for comparability across counties.

County	CDI	CDI Normalized	CDI Proportional	CDI Proportional Normalized to 100
Nairobi City	4.10	4.02	8.51	4.01
Nyeri	3.85	3.78	8.27	3.90
Kiambu	3.47	3.40	7.89	3.72
Mombasa	3.15	3.09	7.58	3.58
Uasin Gishu	2.78	2.73	7.22	3.40
Kirinyaga	2.35	2.31	6.80	3.20
Embu	1.81	1.77	6.26	2.95
Nakuru	1.76	1.72	6.22	2.93
Tharaka-Nithi	1.62	1.59	6.08	2.87
Laikipia	1.25	1.23	5.72	2.70
Taita/Taveta	1.18	1.16	5.65	2.66
Meru	1.16	1.14	5.63	2.65
Trans Nzoia	1.12	1.10	5.59	2.64
Bungoma	1.07	1.05	5.54	2.61

Kakamega	0.84	0.83	5.32	2.51
Machakos	0.72	0.70	5.19	2.45
Lamu	0.69	0.68	5.17	2.44
Murang'a	0.53	0.52	5.01	2.36
Kisumu	0.45	0.44	4.93	2.33
Nandi	0.42	0.41	4.90	2.31
Kajiado	0.41	0.41	4.90	2.31
Nyandarua	0.40	0.40	4.89	2.30
Kisii	0.36	0.35	4.84	2.28
Busia	0.32	0.32	4.81	2.27
Baringo	0.21	0.21	4.70	2.22
Vihiga	0.04	0.04	4.53	2.14
Kericho	-0.08	-0.07	4.42	2.08
Nyamira	-0.09	-0.08	4.41	2.08
Makueni	-0.43	-0.42	4.07	1.92
Bomet	-0.55	-0.54	3.95	1.86
Kitui	-0.60	-0.59	3.90	1.84
Elgeyo/ Marakwet	-1.03	-1.01	3.48	1.64
Siaya	-1.04	-1.02	3.47	1.64
Isiolo	-1.13	-1.10	3.39	1.60
Kilifi	-1.27	-1.24	3.25	1.53
Homa Bay	-1.36	-1.33	3.16	1.49

Migori	-1.46	-1.44	3.05	1.44
Narok	-1.68	-1.65	2.84	1.34
Kwale	-1.71	-1.68	2.81	1.33
Samburu	-1.97	-1.93	2.56	1.21
Garissa	-2.54	-2.49	2.00	0.94
West Pokot	-2.62	-2.57	1.92	0.91
Marsabit	-2.76	-2.71	1.78	0.84
Wajir	-2.95	-2.90	1.59	0.75
Mandera	-3.05	-2.99	1.50	0.71
Tana River	-3.20	-3.14	1.35	0.64
Turkana	-3.56	-3.49	1.00	0.47
Total	**1.02**	**1.00**	**212.05**	**100.00**
Maximum	**4.10**	**4.02**	**8.51**	**4.01**
Minimum	**-3.56**	**-3.49**	**1.00**	**0.47**
STD	**1.88**	**1.85**	**1.85**	**0.87**
Mean	**0.02**	**0.02**	**4.51**	**2.13**

Table 3 showing CDI Proportional for counties

From the CDI computations, Nairobi, Nyeri, and Kiambu emerge as the most developed counties, with the highest scores due to strong economic productivity, infrastructure, and population concentration. Conversely, counties such as Turkana, Tana River, and Mandera score the lowest, highlighting significant economic and infrastructural challenges. To ensure equitable distribution, the CDI values are proportionally adjusted to sum to 100, making them a reliable basis for resource allocation.

Applying the CDI proportional scores to the total county allocation of KES 387.425 billion from the 2024 DORA provides a transparent and equitable distribution of funds. Nairobi, for instance, receives KES 15.55 billion, Nyeri KES 15.10 billion, and Kiambu KES 14.42 billion, reflecting their strong economic performance and development status. On the other hand, counties with lower CDI scores, such as Turkana, Tana River, and Mandera, receive KES 1.83 billion, KES 2.47 billion, and KES 2.74 billion, respectively.

This approach ensures that county allocations align with actual development needs, reducing disparities and enhancing transparency. While the model accounts for economic and social realities, additional interventions, such as an Equalization Fund, may still be necessary to support marginalized counties with historically low development indices. Ultimately, the CDI-based allocation model presents a fair and forward-looking alternative to traditional revenue-sharing formulas, ensuring that county funds are distributed in a way that promotes balanced regional growth.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

A fair and sustainable revenue-sharing formula is essential for equitable county development. The proposed fourth basis formula, while well-intended, does not fully address the disparities in economic and infrastructural development across counties. We strongly recommend the adoption of a CDI as a basis for revenue allocation to promote economic equity, fiscal sustainability, and data-driven decision-making.

We appreciate the opportunity to present this memorandum and welcome further engagement on this matter.

5.2 Recommendations to the Senate

In light of the challenges and limitations posed by the proposed fourth basis for revenue sharing, we urge the Senate to **reject** its adoption for the FY 2025/26 and instead **revert to the third basis** while directing the CRA to undertake a comprehensive review. Specifically, we humbly request the Senate to consider the following recommendations:

1. Refer the fourth basis formula to CRA for review

The Senate should instruct CRA to conduct a thorough review of the proposed Fourth basis, addressing its sustainability challenges and ensuring that it aligns with national revenue dynamics and county-level economic realities.

2. Mandate CRA to study CDI integration

   CRA should commission a technical study to assess the feasibility of incorporating the CDI into the revenue allocation framework. This study should explore how CDI can enhance equity by considering economic, social, and infrastructural disparities across counties.

3. Require CRA to incorporate socioeconomic and infrastructure indicators

   The Senate should direct CRA to revise the revenue-sharing framework by including key socioeconomic and infrastructural indicators, such as poverty levels, business density, healthcare access, road networks, and internet penetration. These factors will ensure that revenue allocation is based on actual county needs rather than static historical metrics.

4. Phase out the modulating factor in favor of a flexible approach

CRA should be tasked with designing a more adaptable, data-driven mechanism to replace the modulating factor. The revised approach should ensure that revenue allocation reflects evolving economic conditions while maintaining fairness and predictability for counties.

By implementing these recommendations, the Senate will ensure that CRA develops a more inclusive, data-driven, and sustainable revenue-sharing framework, promoting balanced growth across all counties.

MEMORANDUM SUBMISSION INFORMATION

SUBMITTED BY the County Assembly of Bomet Budget Office on behalf of:

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MEMORANDUM IN RESPONSE TO THE CALL FOR SUBMISSIONS ON THE FOURTH BASIS FOR REVENUE ALLOCATION

Submitted by : John Kangani

Mobile Number: 0720349665

Subject: Proposal for Optimized Revenue Allocation Based on Constitutional Criteria

1. Introduction

This memorandum responds to the Senate's invitation for public input on the fourth basis of equitable revenue sharing under Article 203 of the Constitution of Kenya (2010). I am submitting the results of an optimization-based approach aimed at identifying the most equitable allocation of national revenue across counties, grounded in empirical data and constitutional criteria.

The constitutional criteria as per article 203 are:

- Economic disparities within and among counties and the need to remedy them;
- The need for affirmative action in respect of disadvantaged areas and groups;
- The need for economic optimisation of each county and to provide incentives for each county to optimise its capacity to raise revenue;
- The desirability of stable and predictable allocations of revenue; and
- The need for flexibility in responding to emergencies and other temporary needs, based on similar objective criteria.

2. Motivation and Objective

The Constitution emphasizes the need to remedy economic disparities, ensure equity, enable counties optimize their own source revenues, stable and predictable allocations and sufficient funding of county governments. To this end, I developed a mathematical model to optimize the allocation weights using five parameters, with the objective of minimizing deviation from the County Allocation of Revenue Act (CARA) 2024/2025 allocation index while improving fairness and simplicity.

3. Methodology

The methodology used is a modification of ridge regression. Ridge Regression, also known as Tikhonov regularization, is a technique used to analyze data afflicted by multicollinearity, a phenomenon where independent variables in a linear regression model are highly correlated. When multicollinearity is present, the estimated regression coefficients can become unstable, and the analysis overly sensitive to small variations in the data.

Unlike ordinary linear regression, which seeks to minimize the sum of the squares of the residuals, Ridge Regression adds a penalty term to the calculation. This penalty term is proportional to the square of the model coefficients, also known as the L2 norm of the coefficients. This prevents overfitting or underfitting.

Instead of penalizing coefficients, I have put a penalty on the data. In a matrix equation $Ax = b$, ridge regression puts a penalty on x, in my approach I am putting a penalty on A. This results in optimized data which when multiplied with optimized weights (coefficients) gives an allocation index very close to the existing allocation index.

Table 1: Original Data

Following the Garissa High Court ruling on the 28th January 2025 and the annulment of the 2019 Kenya National Bureau of Statistics (KNBS) Census results for Mandera, Wajir, and Garissa counties, I have used the 2009 census and 2009 poverty data. The latest data that I have used here are own source revenue (OSR) and gross county product (GCP).

County	Population	Poverty	Land Area	OSR	GCP 2022
Baringo	555,561	57.6	10,976	378,201,635	93,334,000,000
Bomet	730,129	47.2	2,531	238,930,420	194,798,000,000
Bungoma	1,375,063	47.1	3,024	1,120,909,349	255,699,000,000
Busia	743,946	58.4	1,696	369,203,975	115,548,000,000
Elgeyo/Marakwet	369,998	52.3	3,032	258,505,138	120,745,000,000
Embu	516,212	39.5	2,821	746,494,074	187,934,000,000
Garissa	623,060	63.9	44,736	248,969,049	68,481,000,000
Homa Bay	963,794	48.1	3,153	1,200,495,831	162,195,000,000
Isiolo	143,294	61.9	25,351	285,197,344	31,486,000,000
Kajiado	687,312	27.9	21,871	1,048,356,435	187,411,000,000
Kakamega	1,660,651	47.8	3,020	1,347,833,279	276,484,000,000
Kericho	752,396	44.7	2,436	841,927,978	204,443,000,000
Kiambu	1,623,282	22.8	2,539	4,575,831,607	721,205,000,000
Kilifi	1,109,735	64.1	12,540	1,208,619,997	254,799,000,000
Kirinyaga	528,054	25.9	1,478	651,105,565	160,909,000,000
Kisii	1,152,282	52.0	1,323	1,180,162,037	257,751,000,000
Kisumu	968,909	42.2	2,085	1,443,607,988	312,651,000,000
Kitui	1,012,709	54.8	30,430	517,049,816	161,668,000,000
Kwale	649,931	61.2	8,267	427,377,928	151,362,000,000
Laikipia	399,227	41.4	9,532	1,061,020,098	119,575,000,000
Lamu	101,539	36.3	6,253	209,102,758	40,164,000,000
Machakos	1,098,584	43.8	6,043	1,549,348,477	378,446,000,000
Makueni	884,527	49.3	8,170	1,044,674,948	120,539,000,000
Mandera	1,025,756	88.5	25,940	168,047,287	63,146,000,000
Marsabit	291,166	78.2	70,944	145,092,550	73,863,000,000
Meru	1,356,301	29.6	7,006	961,934,279	407,419,000,000
Migori	917,170	50.2	2,614	512,566,310	158,115,000,000
Mombasa	939,370	25.6	220	5,585,024,010	564,147,000,000
Murang'a	942,581	33.3	2,524	1,116,795,730	247,592,000,000
Nairobi City	3,138,369	21.2	704	12,542,094,418	3,379,354,000,000
Nakuru	1,603,325	38.9	7,462	3,321,300,479	600,518,000,000
Nandi	752,965	41.8	2,856	630,727,156	193,180,000,000
Narok	850,920	40.2	17,950	4,753,670,486	217,130,000,000
Nyamira	598,252	45.4	897	369,796,343	144,676,000,000
Nyandarua	596,268	41.1	3,286	515,740,772	198,389,000,000
Nyeri	693,558	33.9	3,325	1,407,546,107	243,035,000,000
Samburu	223,947	76.8	21,065	266,583,924	33,901,000,000
Siaya	842,304	42.2	2,530	610,737,745	136,809,000,000
Taita Taveta	284,657	48.4	17,152	461,186,652	70,392,000,000
Tana River	240,075	68.2	37,951	92,568,520	35,159,000,000
Tharaka-Nithi	365,330	41.9	2,564	417,346,035	77,999,000,000
Trans Nzoia	818,757	41.3	2,495	476,638,172	190,466,000,000
Turkana	855,399	93.5	68,233	530,645,056	128,697,000,000
Uasin Gishu	894,179	38.6	3,392	1,421,327,951	295,698,000,000
Vihiga	554,622	48.1	564	338,057,178	101,182,000,000

County	Population	Poverty	Land Area	OSR	GCP 2022
Wajir	661,941	84.4	56,773	164,953,671	61,950,000,000
West Pokot	512,690	67.4	9,123	185,294,701	84,985,000,000

Table 2: Rationalised data

County	Population	Poverty	Land Area	Fiscal Incentive	Equal Share
Baringo	0.01438901	0.02494694	0.01889627	0.01782637	0.02127660
Bomet	0.01891031	0.02044264	0.00435704	0.00539593	0.02127660
Bungoma	0.03561408	0.02039932	0.00520575	0.01928506	0.02127660
Busia	0.01926817	0.02529343	0.00292024	0.01405670	0.02127660
Elgeyo/Marakwet	0.00958293	0.02265148	0.00521970	0.00941845	0.02127660
Embu	0.01336987	0.01710771	0.00485594	0.01747433	0.02127660
Garissa	0.01613723	0.02767552	0.07701465	0.01599391	0.02127660
Homa Bay	0.02496223	0.02083243	0.00542714	0.03256137	0.02127660
Isiolo	0.00371131	0.02680930	0.04364198	0.03984809	0.02127660
Kajiado	0.01780135	0.01208368	0.03765189	0.02460897	0.02127660
Kakamega	0.04301080	0.02070250	0.00519904	0.02144597	0.02127660
Kericho	0.01948703	0.01935987	0.00419383	0.01811683	0.02127660
Kiambu	0.04204294	0.00987483	0.00437029	0.02791199	0.02127660
Kilifi	0.02874209	0.02776214	0.02158755	0.02086755	0.02127660
Kirinyaga	0.01367658	0.01121746	0.00254495	0.01780125	0.02127660
Kisii	0.02984406	0.02252155	0.00227759	0.02014284	0.02127660
Kisumu	0.02509471	0.01827710	0.00359009	0.02031276	0.02127660
Kitui	0.02622912	0.02373425	0.05238549	0.01406980	0.02127660
Kwale	0.01683319	0.02650613	0.01423211	0.01242152	0.02127660
Laikipia	0.01033996	0.01793062	0.01641003	0.03903576	0.02127660
Lamu	0.00262986	0.01572177	0.01076528	0.02290352	0.02127660
Machakos	0.02845328	0.01897007	0.01040273	0.01801045	0.02127660
Makueni	0.02290921	0.02135216	0.01406461	0.03812704	0.02127660
Mandera	0.02656704	0.03832994	0.04465631	0.01170753	0.02127660
Marsabit	0.00754119	0.03386894	0.12213285	0.00864167	0.02127660
Meru	0.03512814	0.01281996	0.01206160	0.01038684	0.02127660
Migori	0.02375467	0.02174196	0.00449924	0.01426121	0.02127660
Mombasa	0.02432965	0.01108753	0.00037857	0.04355241	0.02127660
Murang'a	0.02441281	0.01442245	0.00434550	0.01984342	0.02127660
Nairobi City	0.08128363	0.00918186	0.00121179	0.01632736	0.02127660
Nakuru	0.04152605	0.01684785	0.01284679	0.02433109	0.02127660

County	Population	Poverty	Land Area	Fiscal Incentive	Equal Share
Nandi	0.01950176	0.01810386	0.00491636	0.01436345	0.02127660
Narok	0.02203879	0.01741089	0.03090209	0.09631384	0.02127660
Nyamira	0.01549470	0.01966304	0.00154473	0.01124464	0.02127660
Nyandarua	0.01544332	0.01780068	0.00565645	0.01143651	0.02127660
Nyeri	0.01796313	0.01468232	0.00572411	0.02547847	0.02127660
Samburu	0.00580022	0.03326259	0.03626434	0.03459401	0.02127660
Siaya	0.02181564	0.01827710	0.00435514	0.01963901	0.02127660
Taita Taveta	0.00737261	0.02096236	0.02952779	0.02882258	0.02127660
Tana River	0.00621793	0.02953788	0.06533316	0.01158261	0.02127660
Tharaka-Nithi	0.00946203	0.01814717	0.00441471	0.02353893	0.02127660
Trans Nzoia	0.02120577	0.01788731	0.00429558	0.01100908	0.02127660
Turkana	0.02215480	0.04049547	0.11746542	0.01813908	0.02127660
Uasin Gishu	0.02315920	0.01671792	0.00583980	0.02114586	0.02127660
Vihiga	0.01436469	0.02083243	0.00097060	0.01469828	0.02127660
Wajir	0.01714425	0.03655420	0.09773695	0.01171386	0.02127660
West Pokot	0.01327865	0.02919139	0.01570592	0.00959180	0.02127660

Table 3: Optimised weights

The weights are obtained using Sequential Least SQuares Programming (SLSQP) to minimize a function of several variables with any combination of bounds, equality and inequality constraints.

Parameter	Weights (%)
Population	62
Economic Disparity	22
Land Area	7
Fiscal Incentive	3
Equal Share	6
Total	100

Table 4: Optimised Data

This is the optimized data using a modified ridge regression.

County	Population	Poverty	Land Area	Fiscal Incentive	Equal Share
Baringo	0.01397681	0.02480068	0.01884973	0.01780643	0.02127660
Bomet	0.01911077	0.02051376	0.00437967	0.00540563	0.02127660
Bungoma	0.03567769	0.02042189	0.00521294	0.01928814	0.02127660
Busia	0.01924499	0.02528520	0.00291763	0.01405558	0.02127660
Elgeyo/Marakwet	0.00903053	0.02245547	0.00515733	0.00939172	0.02127660
Embu	0.01289875	0.01694054	0.00480275	0.01745153	0.02127660
Garissa	0.01353299	0.02675143	0.07672062	0.01586790	0.02127660
Homa Bay	0.02269430	0.02002768	0.00517109	0.03245163	0.02127660
Isiolo	0.00227262	0.02629880	0.04347955	0.03977847	0.02127660
Kajiado	0.02231627	0.01368574	0.03816164	0.02482743	0.02127660
Kakamega	0.04300996	0.02070220	0.00519895	0.02144593	0.02127660
Kericho	0.01798602	0.01882725	0.00402437	0.01804420	0.02127660
Kiambu	0.04355951	0.01041297	0.00454152	0.02798537	0.02127660
Kilifi	0.03449626	0.02980394	0.02223721	0.02114598	0.02127660
Kirinyaga	0.01527289	0.01178390	0.00272518	0.01787849	0.02127660
Kisii	0.02775384	0.02177986	0.00204160	0.02004170	0.02127660
Kisumu	0.02506418	0.01826627	0.00358665	0.02031128	0.02127660
Kitui	0.02799469	0.02436074	0.05258483	0.01415523	0.02127660
Kwale	0.02156874	0.02818649	0.01476677	0.01265066	0.02127660
Laikipia	0.01027329	0.01790696	0.01640250	0.03903254	0.02127660
Lamu	0.00346894	0.01601951	0.01086002	0.02294412	0.02127660
Machakos	0.02903607	0.01917687	0.01046853	0.01803865	0.02127660
Makueni	0.02238147	0.02116490	0.01400502	0.03810150	0.02127660
Mandera	0.02729824	0.03858940	0.04473886	0.01174291	0.02127660
Marsabit	0.00386232	0.03256354	0.12171749	0.00846366	0.02127660
Meru	0.03319920	0.01213549	0.01184382	0.01029351	0.02127660
Migori	0.02391383	0.02179843	0.00451721	0.01426891	0.02127660
Mombasa	0.02469279	0.01121639	0.00041957	0.04356999	0.02127660
Murang'a	0.02286387	0.01387283	0.00417062	0.01976848	0.02127660
Nairobi City	0.07819788	0.00808691	0.00086340	0.01617804	0.02127660
Nakuru	0.04565093	0.01831151	0.01331250	0.02453068	0.02127660
Nandi	0.02068308	0.01852304	0.00504974	0.01442061	0.02127660
Narok	0.02208258	0.01742642	0.03090704	0.09631596	0.02127660
Nyamira	0.01292233	0.01875027	0.00125431	0.01112017	0.02127660
Nyandarua	0.01518374	0.01770858	0.00562715	0.01142395	0.02127660
Nyeri	0.01798658	0.01469064	0.00572676	0.02547960	0.02127660
Samburu	0.00402975	0.03263436	0.03606444	0.03450834	0.02127660
Siaya	0.02058423	0.01784015	0.00421611	0.01957942	0.02127660
Taita Taveta	0.00692800	0.02080460	0.02947759	0.02880107	0.02127660
Tana River	0.00772304	0.03007194	0.06550310	0.01165543	0.02127660
Tharaka-Nithi	0.00833842	0.01774847	0.00428785	0.02348456	0.02127660
Trans Nzoia	0.02187409	0.01812445	0.00437103	0.01104141	0.02127660
Turkana	0.02415795	0.04120627	0.11769158	0.01823600	0.02127660
Uasin Gishu	0.02529667	0.01747637	0.00608112	0.02124929	0.02127660
Vihiga	0.01208467	0.02002339	0.00071318	0.01458795	0.02127660
Wajir	0.01491021	0.03576148	0.09748472	0.01160576	0.02127660
West Pokot	0.01291402	0.02906200	0.01566475	0.00957416	0.02127660
	1.00000000	1.00000000	1.00000000	1.00000000	1.00000000

4. Results

Table 5: Comparison between allocation for 2024/2025 and the resulting allocation

From the table, the county with the highest loss is Lamu, losing Kshs 995. Nairobi gains Kshs 3,269. The loss looks negligible.

County	Resulting Allocation Index	Allocation Index 2024_2025	Deviation	Resuting Allocation	Allocation 2024_2025	Difference
Lamu	0.00840015	0.00840016	0.00000000	3,254,429,728	3,254,430,723	-995
Isiolo	0.01270828	0.01270828	0.00000000	4,923,506,241	4,923,507,187	-946
Tana River	0.01761558	0.01761559	0.00000000	6,824,717,984	6,824,718,834	-850
Samburu	0.01451436	0.01451437	0.00000000	5,623,227,673	5,623,228,509	-836
Marsabit	0.01960934	0.01960935	0.00000000	7,597,150,434	7,597,151,194	-760
Taita Taveta	0.01307643	0.01307644	0.00000000	5,066,137,638	5,066,138,383	-745
Elgeyo/Marakwet	0.01245849	0.01245849	0.00000000	4,826,731,404	4,826,732,019	-615
Tharaka-Nithi	0.01135577	0.01135577	0.00000000	4,399,507,701	4,399,508,312	-611
Laikipia	0.01390471	0.01390472	0.00000000	5,387,034,151	5,387,034,732	-581
West Pokot	0.01706068	0.01706068	0.00000000	6,609,735,282	6,609,735,714	-432
Embu	0.01386048	0.01386048	0.00000000	5,369,896,426	5,369,896,832	-406
Kirinyaga	0.01406536	0.01406536	0.00000000	5,449,272,318	5,449,272,719	-401
Baringo	0.01725204	0.01725204	0.00000000	6,683,872,855	6,683,873,223	-368
Vihiga	0.01366180	0.01366180	0.00000000	5,292,921,309	5,292,921,648	-339
Nyandarua	0.01532302	0.01532302	0.00000000	5,936,521,354	5,936,521,652	-298
Kwale	0.02226344	0.02226344	0.00000000	8,625,411,317	8,625,411,603	-286
Garissa	0.02139884	0.02139884	0.00000000	8,290,447,082	8,290,447,365	-283
Nyamira	0.01383490	0.01383490	0.00000000	5,359,987,720	5,359,987,994	-274
Wajir	0.02556056	0.02556056	0.00000000	9,902,798,789	9,902,799,041	-252
Kajiado	0.02153969	0.02153969	0.00000000	8,345,013,386	8,345,013,610	-224
Nyeri	0.01682547	0.01682547	0.00000000	6,518,609,092	6,518,609,255	-163
Bomet	0.01810704	0.01810704	0.00000000	7,015,121,636	7,015,121,755	-119
Busia	0.01939714	0.01939714	0.00000000	7,514,935,478	7,514,935,582	-104
Nandi	0.01896127	0.01896127	0.00000000	7,346,071,013	7,346,071,107	-94
Kericho	0.01739295	0.01739295	0.00000000	6,738,465,230	6,738,465,302	-72
Turkana	0.03410540	0.03410540	0.00000000	13,213,283,282	13,213,283,320	-38
Trans Nzoia	0.01946312	0.01946312	0.00000000	7,540,500,925	7,540,500,922	3
Narok	0.02385458	0.02385458	0.00000000	9,241,860,553	9,241,860,519	34
Siaya	0.01884616	0.01884616	0.00000000	7,301,473,483	7,301,473,431	52
Uasin Gishu	0.02186849	0.02186849	0.00000000	8,472,399,054	8,472,398,961	93
Makueni	0.02193278	0.02193278	0.00000000	8,497,308,366	8,497,308,272	94
Migori	0.02164310	0.02164310	0.00000000	8,385,076,538	8,385,076,399	139
Mombasa	0.02039020	0.02039020	0.00000000	7,899,674,218	7,899,674,038	180
Murang'a	0.01938922	0.01938922	0.00000000	7,511,867,230	7,511,867,031	199
Kisumu	0.02169537	0.02169537	0.00000000	8,405,328,789	8,405,328,573	216
Homa Bay	0.02108868	0.02108868	0.00000000	8,170,281,025	8,170,280,800	225
Kitui	0.02809826	0.02809826	0.00000000	10,885,968,332	10,885,968,099	233
Mandera	0.03017518	0.03017518	0.00000000	11,690,618,805	11,690,618,560	245
Kilifi	0.03141213	0.03141213	0.00000000	12,169,843,813	12,169,843,476	337
Machakos	0.02477183	0.02477182	0.00000000	9,597,224,327	9,597,223,940	387
Kisii	0.02401971	0.02401971	0.00000000	9,305,836,173	9,305,835,688	485
Bungoma	0.02883313	0.02883313	0.00000000	11,170,674,375	11,170,673,599	776
Meru	0.02566778	0.02566778	0.00000000	9,944,341,256	9,944,340,480	776
Nakuru	0.03527650	0.03527650	0.00000000	13,666,998,701	13,666,997,646	1,055
Kiambu	0.03173181	0.03173181	0.00000000	12,293,697,794	12,293,696,674	1,120
Kakamega	0.03350456	0.03350456	0.00000000	12,980,504,492	12,980,503,320	1,172

County	Resulting Allocation Index	Allocation Index 2024_2025	Deviation	Resuting Allocation	Allocation 2024_2025	Difference
Nairobi City	0.05208418	0.05208418	0.00000001	20,178,715,226	20,178,711,957	3,269
	1.00	1.00	0.00	387,425,000,000	387,425,000,000	0.00

Table 6: Parameter Allocation

This is parameter allocation and total for each county.

County	Population	Poverty	Land Area	Fiscal Incentive	Equal Share	Total
Baringo	3,357,279,119	2,113,848,908	511,200,056	206,959,665	494,585,106	**6,683,872,855**
Bomet	4,590,472,833	1,748,459,886	118,775,514	62,828,297	494,585,106	**7,015,121,636**
Bungoma	8,569,905,101	1,740,629,497	141,373,499	224,181,171	494,585,106	**11,170,674,375**
Busia	4,622,714,167	2,155,146,454	79,125,265	163,364,486	494,585,106	**7,514,935,478**
Elgeyo/Marakwet	2,169,165,163	1,913,957,975	139,865,519	109,157,641	494,585,106	**4,826,731,404**
Embu	3,098,325,424	1,443,901,799	130,249,304	202,834,792	494,585,106	**5,369,896,426**
Garissa	3,250,671,123	2,280,118,123	2,080,644,074	184,428,656	494,585,106	**8,290,447,082**
Homa Bay	5,451,250,592	1,707,029,531	140,238,597	377,177,198	494,585,106	**8,170,281,025**
Isiolo	545,892,380	2,241,539,080	1,179,154,444	462,335,230	494,585,106	**4,923,506,241**
Kajiado	5,360,447,158	1,166,483,923	1,034,934,193	288,563,006	494,585,106	**8,345,013,386**
Kakamega	10,331,143,538	1,764,521,102	140,994,098	249,260,647	494,585,106	**12,980,504,492**
Kericho	4,320,304,473	1,604,712,631	109,139,807	209,723,213	494,585,106	**6,738,465,230**
Kiambu	10,463,147,124	887,533,774	123,164,823	325,266,967	494,585,106	**12,293,697,794**
Kilifi	8,286,122,640	2,540,293,966	603,067,656	245,774,445	494,585,106	**12,169,843,813**
Kirinyaga	3,668,601,156	1,004,382,708	73,906,096	207,797,251	494,585,106	**5,449,272,318**
Kisii	6,666,570,217	1,856,373,450	55,367,698	232,939,701	494,585,106	**9,305,836,173**
Kisumu	6,020,503,687	1,556,898,106	97,268,933	236,072,958	494,585,106	**8,405,328,789**
Kitui	6,724,422,379	2,076,350,819	1,426,087,370	164,522,658	494,585,106	**10,885,968,332**
Kwale	5,180,886,777	2,402,432,820	400,471,172	147,035,442	494,585,106	**8,625,411,317**
Laikipia	2,467,679,233	1,526,272,653	444,831,723	453,665,437	494,585,106	**5,387,034,151**
Lamu	833,250,744	1,365,399,080	294,520,992	266,673,806	494,585,106	**3,254,429,728**
Machakos	6,974,565,194	1,634,511,462	283,903,807	209,658,758	494,585,106	**9,597,224,327**
Makueni	5,376,108,137	1,803,958,143	379,812,747	442,844,233	494,585,106	**8,497,308,366**
Mandera	6,557,132,639	3,289,109,428	1,213,306,763	136,484,868	494,585,106	**11,690,618,805**

County	Population	Poverty	Land Area	Fiscal Incentive	Equal Share	Total
Marsabit	927,742,200	2,775,504,273	3,300,947,853	98,371,001	494,585,106	7,597,150,434
Meru	7,974,565,228	1,034,350,708	321,201,344	119,638,869	494,585,106	9,944,341,256
Migori	5,744,185,322	1,857,956,610	122,505,477	165,844,021	494,585,106	8,385,076,538
Mombasa	5,931,295,394	956,012,127	11,378,541	506,403,050	494,585,106	7,899,674,218
Murang'a	5,491,982,101	1,182,429,750	113,106,227	229,764,045	494,585,106	7,511,867,230
Nairobi City	18,783,405,657	689,275,977	23,415,118	188,033,367	494,585,106	20,178,715,226
Nakuru	10,965,513,424	1,560,754,391	361,031,783	285,113,997	494,585,106	13,666,998,701
Nandi	4,968,147,962	1,578,783,134	136,947,632	167,607,179	494,585,106	7,346,071,013
Narok	5,304,312,818	1,485,315,174	838,191,114	1,119,456,341	494,585,106	9,241,860,553
Nyamira	3,103,988,442	1,598,150,746	34,016,455	129,246,971	494,585,106	5,359,987,720
Nyandarua	3,647,187,808	1,509,364,002	152,606,774	132,777,665	494,585,106	5,936,521,354
Nyeri	4,320,438,296	1,252,134,461	155,308,197	296,143,031	494,585,106	6,518,609,092
Samburu	967,960,924	2,781,541,088	978,058,706	401,081,849	494,585,106	5,623,227,673
Siaya	4,944,403,405	1,520,578,305	114,339,913	227,566,754	494,585,106	7,301,473,483
Taita Taveta	1,664,130,816	1,773,249,086	799,424,994	334,747,637	494,585,106	5,066,137,638
Tana River	1,855,100,038	2,563,137,085	1,776,427,564	135,468,191	494,585,106	6,824,717,984
Tharaka-Nithi	2,002,917,816	1,512,764,189	116,285,391	272,955,198	494,585,106	4,399,507,701
Trans Nzoia	5,254,232,661	1,544,810,265	118,541,311	128,331,582	494,585,106	7,540,500,925
Turkana	5,802,824,935	3,512,154,582	3,191,766,153	211,952,506	494,585,106	13,213,283,282
Uasin Gishu	6,076,347,849	1,489,572,426	164,918,520	246,975,152	494,585,106	8,472,399,054
Vihiga	2,902,779,048	1,706,663,752	19,341,287	169,552,116	494,585,106	5,292,921,309
Wajir	3,581,485,170	3,048,076,271	2,643,761,337	134,890,904	494,585,106	9,902,798,789
West Pokot	3,101,991,687	2,477,056,281	424,824,159	111,278,048	494,585,106	6,609,735,282
Total	240,203,500,000	85,233,500,000	27,119,750,000	11,622,750,000	23,245,500,000	387,425,000,000

6. Recommendation

I respectfully recommend that the Senate considers incorporating optimization-based evaluation into future revenue-sharing frameworks. The above solution demonstrates how such a data-driven model can better align allocations with national equity goals.

ANNEX 4- CRA RECOMMENDATIONS

COMMISSION ON REVENUE ALLOCATION

Promoting an Equitable Society

RECOMMENDATION CONCERNING THE FOURTH BASIS FOR REVENUE SHARING AMONG COUNTY GOVERNMENTS FOR FINANCIAL YEARS 2025/26 - 2029/30

TRANSMITTAL LETTER

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COMMISSION ON REVENUE ALLOCATION

OUR REF: CRA/EA/HF/02/Vol.1/(21) **DATE:** 31st December 2024

Clerk, Senate
Clerk, National Assembly
Cabinet Secretary, The National Treasury and Economic Planning
Chairperson, Council of Governors
CEO, County Assemblies Forum

Dear all,

RECOMMENDATION ON THE FOURTH BASIS FOR REVENUE SHARING AMONG COUNTY GOVERNMENTS FOR THE FINANCIAL YEARS 2025/26 TO 2029/30

Pursuant to Article 216 (1)(b) of *The Constitution of Kenya 2010*, the Commission on Revenue Allocation is mandated to make recommendations concerning the basis for the equitable sharing of revenue raised nationally among the county governments. Further, Article 217 (1) mandates the Senate to, once every five years, by resolution, determine the basis for allocating among the counties the share of national revenue that is annually allocated to the county level of government. Article 217(2) requires that in determining the basis for revenue sharing, the Senate shall consider recommendations from the Commission.

The Commission hereby submits the recommendation on *The Fourth Basis for Revenue Sharing among County Governments* for financial years 2025/26 to 2029/30. The Fourth Basis has been prepared in accordance with the criteria provided in Article 203(1). Further, the Commission undertook a comprehensive review of the Third Basis and held consultations with various stakeholders.

The framework for the Fourth Basis is based on the following two objectives: to share revenues equitably to facilitate service delivery and to address economic disparities to promote development among county governments. In addressing the first objective the Fourth Basis has considered three parameters, namely: population; basic share and geographical size of the county. The second objective is addressed through the use of poverty and economic activity parameters.

To address the effects on revenue sharing among county governments that are occasioned by the change in the approach, parameters and data, the Commission recommendation on the Fourth Basis has an inbuilt cushioning and stabilisation factor. This factor ensures that no county receives an allocation less than the amount received in the financial year 2024/25.

Yours sincerely,

CPA Mary Wanyonyi Chebukati
COMMISSION CHAIRPERSON

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ACKNOWLEDGEMENT

The completion of the *Fourth Recommendation on The Basis for Revenue Sharing Among County Governments* was a result of a collective effort by many institutional and individual stakeholders. The Commission appreciates the technical, political, and moral support provided by all stakeholders throughout the entire process.

The Commission acknowledges the critique provided by the following institutions on the *Third Basis for Revenue Sharing*: county governments through Regional Economic Blocs, County Assemblies Forum, *Bajeti* Hub (formerly the International Budget Partnership); Supreme Council of Kenya Muslims-Meru Branch; *Maendeleo Ya Wanawake*- Meru Branch and World Vision. The proposals from these institutions provided input to the preparation of the *Fourth Recommendation on The Basis for Revenue Sharing Among County Governments.*

The Commission appreciates the involvement of The Senate, National Assembly, the Council of Governors, through the process. Further, the Commission appreciates the support of the Kenya National Bureau of Statistics, County Governments, Regional Economic Blocks, Ministries, State Departments, and Government Agencies that availed data, information and technical input during sectoral discussions. The Commission particularly appreciates the insights of the National Treasury and Economic Planning and Parliamentary Budget Office for their invaluable contribution.

Since it is not possible to thank everyone in person, the Commission appreciates all the invaluable inputs provided by all stakeholders throughout the process of developing this recommendation.

CPA, Roble Nuno

Ag. COMMISSION SECRETARY/CEO

ACRONYMS AND ABBREVIATIONS

CRA	Commission on Revenue Allocation
FAO	Food and Agriculture Organisation
GCP	Gross County Product
KIHBS	Kenya Integrated Household Budget Survey
KNBS	Kenya National Bureau of Statistics
KPHC	Kenya Population and Housing Census
OSR	Own Source Revenue
PFMA	Public Finance Management Act
RAI	Rural Access Index
WHO	World Health Organisation

EXECUTIVE SUMMARY

The Commission on Revenue Allocation has developed a recommendation on the Fourth Basis for revenue sharing among county governments. This is in line with the Commission's principal mandate in Article 216(1) of the Constitution of Kenya, 2010. The Fourth Basis is expected to share revenues among county governments for five financial years, 2025/26 to 2029/30.

The recommendation was developed following extensive consultations with stakeholders from the national government, county governments, Parliament and non-state actors. The recommendation also builds on lessons learnt from a comprehensive review of the implementation of the Third Basis.

The stakeholders concern on the Third Basis were on: implementation of the Basis that provided for inclusion of the Second Basis in the Third Basis; multiple use of population-based measures; the need to include additional measures in health and an incentive parameter for economic optimization. The stakeholders also proposed the inclusion of other devolved functions to include: water and sanitation; blue economy; environment performance index and; fiscal effort and prudence.

In developing the Fourth Basis framework, the Commission has shifted from the functional approach adopted in the Third Basis to the use of expenditure proxies. The shift was informed by availability, credibility and statistical soundness of data, and the need to ensure that the revenue sharing remains stable and predictable.

The Fourth Basis framework is based on two objectives, namely; to share revenues equitably to facilitate service delivery and to address economic disparities to promote development. To facilitate service delivery, the recommendation provides for a minimum allocation that is shared equally among county governments, and uses population, and geographical size of each county as the transfer parameters. To address economic disparities to promote development, the income distance and poverty parameters are used.

The weights assigned to each of the parameters is based on information on the objectives of Kenya's fiscal transfer system and county aggregate priorities. The framework for the Fourth Basis recommendation for revenue sharing among county governments is summarised in Table 0-1.

Table 0-1: Summary of the Framework for the Fourth Basis

Objective	Parameter	Assigned Weight %
1. To share revenues equitably to facilitate service delivery	Population	42
	Equal Share	22
	Geographical size	9
2. To share revenue equitably to address economic disparities and promote development	Poverty	14
	Income Distance	13
Total		**100**

Source: CRA, 2024

To address the effects on revenue sharing among county governments that are occasioned by the change in the approach, parameters and data, the Commission recommendation on the Fourth Basis has an inbuilt stabilisation factor. This factor ensures that no county receives an allocation less than the amount received in the financial year 2024/25.

1.0. INTRODUCTION

1.1. Legal Framework

The Commission on Revenue Allocation (the Commission) is principally mandated by Article 216(1)(b) to make recommendations on the basis for equitable sharing of revenue raised nationally among county governments. In fulfillment of this mandate, the Commission has developed and submitted to Parliament three recommendations since inception of devolution in 2013. This is the fourth recommendation that the Commission has prepared. Once determined by Parliament, the Fourth Basis will be used to share revenue among county governments for five financial years from 2025/26 to 2029/30.

1.2. Kenya's Intergovernmental Fiscal Transfer System

The Constitution of Kenya, 2010 in Article 6 establishes a two-tier government; the national and 47 county governments. The two levels of government are distinct and inter-dependent and are therefore meant to conduct their relations on the basis of consultation and cooperation.

The Fourth Schedule of the Constitution assigns functions to each level of government. The National Government has largely been assigned the roles of policy formulation; legislation and setting of norms and standards; courts and provision of services on functions such as internal security, defence, foreign diplomacy, immigration and citizenship; basic and higher education; national elections; and capacity building and technical assistance to the county governments. The county governments' roles are policy implementation and provision of services within their transferred functions. They can also formulate policies and make laws necessary for effective performance of functions and exercise of their powers. The county government laws and policies are required to be consistent with prevailing national policies and legislations.

Revenue raising powers are assigned to the two levels of government by Article 209. The national government is mandated to impose income tax, value added tax, excise tax, and custom duties, and other duties on imports and exports of goods. County governments are mandated to collect property and entertainment taxes. In addition both levels of governments may impose charges for the services rendered. The assigned taxes to county governments are inadequate to finance all the devolved functions.

Therefore, the Constitution in Article 202 provides for the sharing of nationally raised revenue[1] between the National and County governments.

Two processes are vital in sharing of nationally raised revenue: sharing of revenue between the national and county governments through the Division of Revenue Acts and the sharing of revenues among county governments through the County Allocation of Revenue Acts (CARA). The CARA is based on a revenue sharing basis determined by Parliament once every five years, in line with Article 217. This notwithstanding, Article 217 (8) provides that the Senate by resolution supported by at least two thirds of its members can amend the resolution at any time after it has been approved.

Article 203(1) stipulates the criteria to be taken into account in determining the equitable shares as provided under Article 202 and in all national legislation concerning county government. These include:

- *i.* *the need to ensure that county governments are able to perform functions allocated to them;*
- *ii.* *the fiscal capacity and efficiency of county governments;*
- *iii.* *developmental and other needs of counties;*
- *iv.* *economic disparities within and among counties and the need to remedy them;*
- *v.* *the need for affirmative action in respect of disadvantaged areas and groups;*
- *vi.* *the need for economic optimisation of each county and to provide incentives for each county to optimise its capacity to raise revenue;*
- *vii.* *the desirability of stable and predictable allocations of revenue*

---

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

This recommendation has been informed by the criteria in Article 203 (1), review of the previous bases, analysis of utilisation of funds by county governments and proposals from stakeholders. The recommendation is structured as follows: section two presents the allocation of revenue among county governments based on the previous bases; section three presents the review of the Third Basis; section four presents the recommendation on the Fourth Basis and section five the application of Article 203.

2.0. EQUITABLE SHARE TRANSFERS TO COUNTY GOVERNMENTS

2.1. Introduction

Since the advent of devolution in 2013, Parliament has approved three revenue sharing bases, which have been used for 12 financial years (2013/14 to 2024/25) and the last quarter of 2012/13 to share revenue among county governments. In total, these bases have been used to share Ksh. 3,741,060 million.

As provided in Section (16) of the Sixth Schedule of the Constitution, the first and the second revenue sharing bases were transitional and meant to share revenue among county governments for three years each. The Third Basis and subsequent bases are determined by Parliament every five years in line with the provisions in Article 217.

2.2. The First Basis for Revenue Sharing

The First Basis for sharing revenue among county governments was approved by the National Assembly in November 2012. This basis was used to share Ksh. 966,519.2 million for the fourth quarter of financial year 2012/13 and financial years 2013/14 to 2016/17. The basis sought to achieve two objectives based on Article 203 (1):

a) To provide service delivery; and
b) To redistribute resources to address economic disparities and development needs of county governments.

To address the above objectives, the basis used five parameters, namely; population, poverty, land area, basic equal share and fiscal index to share revenues among the 47 county governments. The service delivery objective was addressed by four parameters, namely; population, equal share, land area, and fiscal responsibility. The poverty parameter was used as a measure to address the economic disparities and development needs of county governments. Table 2-1 summarizes the First Basis.

Table 2-1: First Revenue Sharing Basis

Objective	Parameter	Weights (%)
Service Delivery	Population	45
	Basic Equal Share	25
	Land Area	8
	Fiscal Responsibility	2
Redistribution	Poverty	20
Total		100

Source: CRA,2012

Based on the criteria for the First Basis, Ksh. 966,519.2 million was shared among county governments for financial years 2013/14 to 2016/17 and the final quarter of 2012/13 as shown in Table 2.2.

Table 2-2: County Allocations based on the First Basis (Ksh. Millions)

	County	2012/13	2013/14	2014/15	2015/16	2016/17	Total
1	Baringo	167	3,248	3,875	4,441	4,791	16,522
2	Bomet	177	3,443	4,123	4,725	5,079	17,547
3	Bungoma	289	6,181	6,698	7,676	8,282	29,125
4	Busia	205	3,412	4,747	5,440	5,870	19,675
5	Elgevo Marakwet	123	2,392	2,854	3,270	3,529	12,168
6	Embu	145	2,807	3,349	3,838	4,141	14,280
7	Garissa	217	4,221	5,036	5,772	6,228	21,475
8	Homa Bay	212	4,121	4,917	5,635	6,080	20,966
9	Isiolo	115	2,236	2,667	3,057	3,298	11,373
10	Kajiado	166	3,227	3,850	4,413	4,761	16,417
11	Kakamega	335	6,516	7,773	8,908	9,612	33,144
12	Kericho	170	3,295	3,915	4,487	4,861	16,728
13	Kiambu	281	5,459	6,512	7,464	8,053	27,768
14	Kilifi	280	5,443	6,492	7,441	8,029	27,685
15	Kirinyanga	133	2,588	3,087	3,538	3,818	13,164
16	Kisii	267	5,188	6,190	7,094	7,654	26,393
17	Kisumu	214	4,155	4,957	5,681	6,130	21,138
18	Kitui	274	5,315	6,340	7,267	7,841	27,038
19	Kwale	193	3,749	4,473	5,126	5,531	19,071
20	Laikipia	130	2,523	3,010	3,450	3,722	12,834
21	Lamu	77	1,501	1,790	2,052	2,214	7,634
22	Machakos	255	4,951	5,906	6,769	7,303	25,183
23	Makueni	225	4,366	5,209	5,970	6,441	22,211
24	Mandera	337	6,550	7,814	8,956	9,663	33,320
25	Marsabit	195	3,796	4,528	5,189	5,599	19,308
26	Meru	245	4,749	5,666	6,494	7,007	24,160
27	Migori	220	4,269	5,093	5,837	6,298	21,717
28	Mombasa	196	3,802	4,535	5,198	5,609	19,339
29	Muranga	202	3,917	4,673	5,356	5,779	19,927
30	Nairobi	489	9,506	11,340	12,997	14,024	48,356
31	Nakuru	306	5,936	7,082	8,116	8,758	30,198
32	Nandi	179	3,478	4,149	4,755	5,131	17,692
33	Narok	199	3,868	4,614	5,288	5,706	19,674
34	Nyamira	156	3,039	3,625	4,155	4,483	15,458
35	Nyandarua	162	3,150	3,758	4,307	4,647	16,025
36	Nyeri	168	3,254	3,882	4,449	4,801	16,554
37	Samburu	134	2,598	3,099	3,552	3,833	13,216
38	Siaya	188	3,654	4,358	4,995	5,390	18,585
39	Taita	125	2,421	2,887	3,310	3,571	12,313
40	Tana River	150	2,914	3,476	3,985	4,299	14,824
41	Tharaka Nithi	118	2,295	2,737	3,138	3,385	11,673
42	Trans Nzoia	192	3,730	4,450	5,100	5,503	18,974
43	Turkana	395	7,664	9,143	10,479	11,307	38,988
44	Uasin Gishu	196	3,797	4,530	5,191	5,601	19,314
45	Vihiga	146	2,832	3,379	3,871	4,177	14,405
46	Wajir	272	5,290	6,311	7,233	7,804	26,910
47	West Pokot	162	3,155	3,763	4,314	4,655	16,049
	Total	**9,784**	**190,000**	**226,661**	**259,775**	**280,300**	**966,519**

Source of Data: CARA, Various

The First Basis was reviewed after three years. A number of proposals were made by stakeholders to include: the need to incorporate a measure of fiscal effort to incentivise revenue collection by county governments, use of the latest poverty data (the 2009 rather than the 2005/06 data), uncapping of the land area measure, and increase of the basic share allocation to cushion counties that were receiving the lowest allocations. Some of these proposals were incorporated in the development of the Second Basis.

2.3. The Second Basis for Revenue Sharing

The Second Basis for revenue sharing, which was approved by Parliament in November 2016 was meant to achieve two objectives drawn from the criteria in Article 203 (1). These were, to:

a) Provide adequate funding to enable county governments to undertake functions assigned to them;
b) Correct for economic disparities and minimize the development gap; and
c) Stimulate economic optimisation and incentivise counties to optimise capacity to raise revenue.

The Second Basis used six parameters, namely; population, poverty, basic equal share, land area, fiscal effort and development factor. To ensure counties were allocated adequate funds to perform assigned functions, the Commission used population, basic equal share, and land area parameters. To address economic disparities and development needs among counties, poverty and development factor parameters were used. To incentivize counties to optimize capacity to raise revenue, a parameter on fiscal effort was used. Table 2-3 summarises the Second Basis for revenue sharing among counties.

Table 2-3: Second Revenue Sharing Basis

Objective	Parameter	Weights (%)
1.Provide adequate funds to perform assigned functions	Population	45
	Basic Equal Share	26
	Land Area	8
2.Correct economic disparities and minimise development gap	Poverty	18
	Development Factor	1
3.Incentivise counties to optimise capacity to collect more revenue	Fiscal Effort	2
TOTAL		**100**

Source: CRA,2016

The Second Basis shared a total of Ksh. 932,500 million for financial years 2017/18 to 2019/20 among the county governments. This is shown in Table 2-4.

Table 2-4: Allocations to Counties based on the Second Basis- Ksh. Million

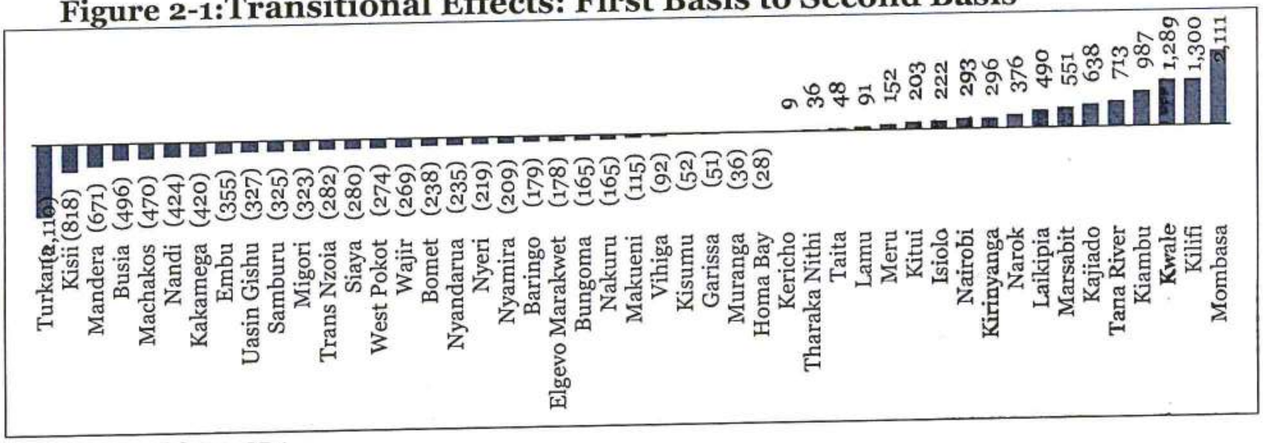
	County	2017/18	2018/19	2019/20	Total
1	Baringo	4,983	5,087	5,096	**15,165**
2	Bomet	5,255	5,935	5,507	**16,697**
3	Bungoma	8,758	8,949	8,894	**26,601**
4	Busia	5,829	5,966	6,014	**17,808**
5	Elgevo Marakwet	3,624	3,768	3,861	**11,253**
6	Embu	4,107	4,459	4,304	**12,870**
7	Garissa	6,659	6,939	7,026	**20,625**
8	Homa Bay	6,523	6,688	6,741	**19,953**
9	Isiolo	3,775	3,925	4,241	**11,941**
10	Kajiado	5,768	5,997	6,425	**18,191**
11	Kakamega	9,936	10,331	10,413	**30,679**
12	Kericho	5,225	5,715	5,381	**16,320**
13	Kiambu	9,664	9,357	9,432	**28,453**
14	Kilifi	9,951	10,833	10,445	**31,228**
15	Kirinyanga	4,409	4,113	4,241	**12,764**
16	Kisii	7,429	7,693	7,786	**22,908**
17	Kisumu	6,553	6,908	6,836	**20,298**
18	Kitui	8,652	8,729	8,830	**26,212**
19	Kwale	7,248	7,536	7,786	**22,570**
20	Laikipia	4,500	4,113	4,178	**12,791**
21	Lamu	2,476	3,548	2,595	**8,620**
22	Machakos	7,399	8,321	7,754	**23,474**
23	Makueni	6,825	7,128	7,406	**21,359**
24	Mandera	9,740	10,142	10,223	**30,105**
25	Marsabit	6,584	7,002	6,773	**20,359**
26	Meru	7,701	8,007	8,039	**23,747**
27	Migori	6,463	6,720	6,773	**19,956**
28	Mombasa	8,154	8,227	7,058	**23,439**
29	Muranga	6,191	6,249	6,298	**18,738**
30	Nairobi	15,402	15,794	15,920	**47,116**
31	Nakuru	9,271	9,451	10,476	**29,199**
32	Nandi	5,104	5,369	5,349	**15,822**
33	Narok	6,523	6,374	8,039	**20,937**
34	Nyamira	4,621	4,773	4,811	**14,204**
35	Nyandarua	4,772	4,930	4,874	**14,576**
36	Nyeri	4,953	5,024	5,412	**15,389**
37	Samburu	3,805	4,427	4,621	**12,854**
38	Siaya	5,527	6,029	5,792	**17,347**
39	Taita	3,896	4,051	4,241	**12,188**
40	Tana River	5,345	5,558	5,855	**16,758**
41	Tharaka Nithi	3,684	3,642	3,925	**11,251**
42	Trans Nzoia	5,647	5,621	5,760	**17,028**
43	Turkana	10,072	10,770	10,539	**31,381**
44	Uasin Gishu	5,708	5,935	6,330	**17,972**
45	Vihiga	4,409	4,459	4,653	**13,521**
46	Wajir	8,139	8,478	8,546	**25,162**
47	West Pokot	4,741	4,930	5,001	**14,672**
	GRAND TOTAL	**302,000**	**314,000**	**316,500**	**932,500**

Source of Data: CARA, Various

2.4. Transition Effects of the First and Second Revenue Sharing Bases

Although the First and the Second revenue sharing bases looked similar in terms of the parameters used, the change in the data used in some of the parameters occasioned substantial changes in revenue allocations across county governments. The changes resulted from changing data on poverty from 2005/06 to 2009; increase in the weight of the basic equal share parameter, uncapping of the land area parameter in the Second basis, and change in the measure of the fiscal effort parameter to consider growth in county own source revenue per capita in the Second Basis. The overall transition effect arising from these data changes is shown in Figure 2-1.

Figure 2-1:Transitional Effects: First Basis to Second Basis



Source of data: CRA

From Figure 2-1, transition from the First Basis to the Second Basis occasioned 18 counties to gain equitable shares ranging from Ksh. 9 million for Kericho county to Ksh. 2,111 million for Mombasa County. These changes also led to a decline in equitable shares allocations to 29 counties ranging from Ksh.28 million for Homa Bay County to Ksh. 2,110 million for Turkana County.

2.5. The Third Basis for Revenue Sharing

The Third Basis was approved by the Parliament in September, 2020 and used to share revenues for the financial years 2020/21 to 2024/25. The Basis used a sectoral approach to revenue sharing. This was guided by key functions assigned to County Governments in the Fourth Schedule of the Constitution and the principle in Article 187(2) that *finance should follow functions*. The sector-based approach was aimed at ensuring that the financing of County Governments is aligned to service delivery and that counties are adequately compensated for the services they offer to promote balanced development.

Specifically, the Third Basis sought to achieve two objectives:

a) To enhance equitable service delivery and;
b) To promote balanced development

To enhance equitable service delivery among counties, the Third Basis used population, health, agriculture and basic share parameters. To promote balanced development across the counties, the framework used parameters on poverty, land area, urban and roads.

To ensure that the equitable shares among county governments remained stable and predictable in line with the provision of Article 203 (1)(j), Parliament approved that the Basis be implemented as follows:

i. The equitable share among county governments for the financial year 2020/21 remained the same as that for the financial year 2019/20. This was informed by the fact that the equitable share allocation for the two financial years remained constant due to non-performance of nationally raised revenues;
ii. Equitable share among county governments for the financial year 2021/22 to 2024/25 was based on;
    a) The allocation ratio, based on 50 percent of financial year 2019/20 allocation to county government. In effect, the Second Basis for revenue sharing was used to share Ksh. 158,250 million among counties,
    b) The balance of the annual equitable share, (net of Ksh. 158,250 million) was shared based on the formula component of the Third Basis for the financial years 2020/21 to 2024/25. The formula component is summarised in Table 2-5.

Table 2-5: Summary of the Third Basis

No	Indicator of Expenditure Need	Assigned Weight (%)
1	Health index	17
2	Agricultural index	10
3	Population index	18
4	Urban services index	5
5	Basic share index	20
6	Land area index	8
7	Rural access index	8
8	Poverty head count index	14
Total		**100**

Source: CRA, 2020

The Third Basis (the allocation ratio and the formula component) was used to share a total of Ksh. 1,842,042 million for financial years 2020/21 to 2024/25 among county governments as shown in Table 2-6.

Table 2-6: Allocation to Counties based on the Third Basis (Ksh. Millions)

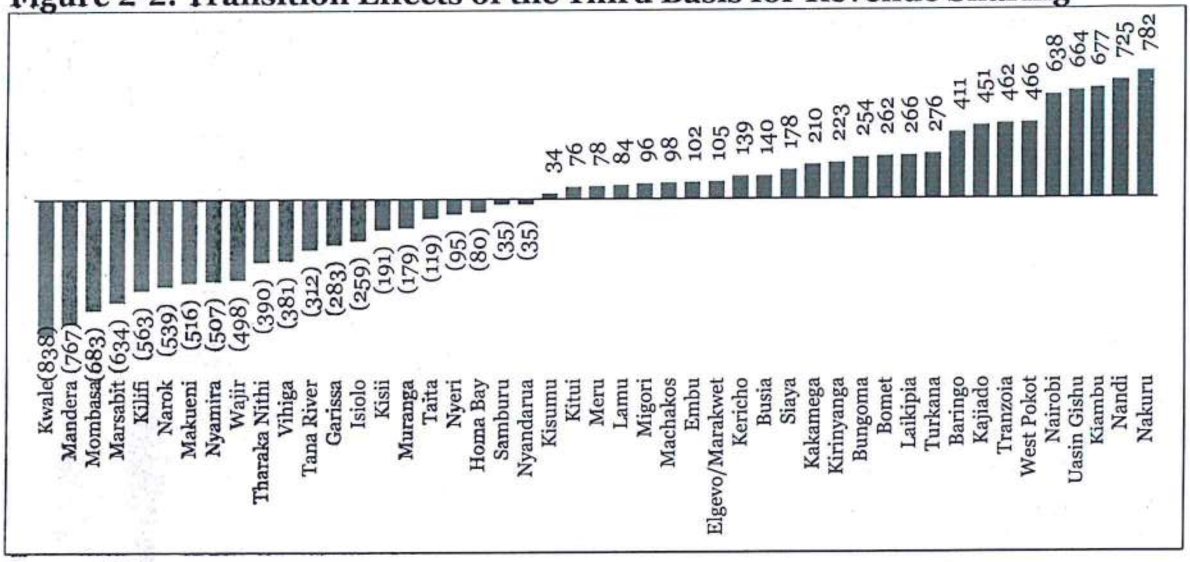
	County	2020/21	2021/22	2022/23	2023/24	2024/25	Total
1	Baringo	5,096	6,369	6,369	6,648	6,913	31,395
2	Bomet	5,507	6,691	6,691	6,978	7,251	33,118
3	Bungoma	8,894	10,659	10,659	11,112	11,543	52,867
4	Busia	6,014	7,172	7,172	7,476	7,765	35,599
5	Elgevo/Marakwet	3,861	4,607	4,607	4,801	4,987	22,863
6	Embu	4,304	5,125	5,125	5,342	5,548	25,444
7	Garissa	7,026	7,927	7,927	8,249	8,555	39,684
8	Homa Bay	6,741	7,805	7,805	8,128	8,436	38,915
9	Isiolo	4,241	4,710	4,710	4,899	5,079	23,639
10	Kajiado	6,425	7,955	7,955	8,300	8,629	39,264
11	Kakamega	10,413	12,389	12,389	12,913	13,411	61,515
12	Kericho	5,381	6,431	6,431	6,703	6,963	31,909
13	Kiambu	9,432	11,718	11,718	12,228	12,713	57,809
14	Kilifi	10,445	11,642	11,642	12,109	12,555	58,393
15	Kirinyanga	4,241	5,196	5,196	5,420	5,634	25,687
16	Kisii	7,786	8,894	8,894	9,259	9,606	44,439
17	Kisumu	6,836	8,026	8,026	8,362	8,681	39,931
18	Kitui	8,830	10,394	10,394	10,829	11,244	51,691
19	Kwale	7,786	8,266	8,266	8,584	8,887	41,789
20	Laikipia	4,178	5,136	5,136	5,358	5,570	25,378
21	Lamu	2,595	3,106	3,106	3,237	3,363	15,407
22	Machakos	7,754	9,162	9,162	9,547	9,914	45,539
23	Makueni	7,406	8,133	8,133	8,455	8,763	40,890
24	Mandera	10,223	11,190	11,190	11,633	12,055	56,291
25	Marsabit	6,773	7,277	7,277	7,560	7,830	36,717
26	Meru	8,039	9,494	9,494	9,893	10,273	47,193
27	Migori	6,773	8,005	8,005	8,341	8,662	39,786
28	Mombasa	7,058	7,567	7,567	7,862	8,142	38,196
29	Muranga	6,298	7,180	7,180	7,474	7,754	35,886
30	Nairobi	15,920	19,250	19,250	20,072	20,855	95,347
31	Nakuru	10,476	13,026	13,026	13,593	14,134	64,255
32	Nandi	5,349	6,991	6,991	7,305	7,605	34,241
33	Narok	8,039	8,845	8,845	9,196	9,531	44,456
34	Nyamira	4,811	5,135	5,135	5,334	5,524	25,939
35	Nyandarua	4,874	5,670	5,670	5,906	6,130	28,250
36	Nyeri	5,412	6,229	6,229	6,485	6,730	31,085
37	Samburu	4,621	5,371	5,371	5,594	5,807	26,764
38	Siaya	5,792	6,967	6,967	7,263	7,545	34,534
39	Taita	4,241	4,842	4,842	5,040	5,229	24,194
40	Tana River	5,855	6,528	6,528	6,791	7,041	32,743
41	Tharaka Nithi	3,925	4,214	4,214	4,378	4,535	21,266
42	Tranzoia	5,760	7,186	7,186	7,500	7,799	35,431
43	Turkana	10,539	12,609	12,609	13,144	13,653	62,554
44	Uasin Gishu	6,330	8,069	8,069	8,426	8,766	39,660
45	Vihiga	4,653	5,067	5,067	5,267	5,457	25,511
46	Wajir	8,546	9,475	9,475	9,854	10,215	47,565
47	West Pokot	5,001	6,297	6,297	6,574	6,837	31,006
	TOTAL	**316,500**	**370,000**	**370,000**	**385,425**	**400,117**	**1,842,042**

Source of Data: CARA, Various

2.6. Transition Effects of the Third Basis

The change from the Second Basis to the Third Basis resulted from the change of the revenue sharing framework that incorporated additional parameters, namely: health; agriculture, livestock and fisheries; urban services; and roads; the change of data for population from 2009 to 2019 and the change of poverty data from 2009 to 2015/16. The transition from the Second Basis to the Third Basis occasioned the net effects shown in Figure 2.

Figure 2-2: Transition Effects of the Third Basis for Revenue Sharing



Source: CRA ,2020

2.7. Expenditures of County governments

Table 2-7 presents an analysis of how county governments have utilised revenues allocated to them as equitable shares transfers, conditional transfers and own source revenues for the financial years 2014/15 to 2021/22. As shown in Table 2-7, revenue utlisation across counties for the various functions differ substantially, an indication of economic disparities, and variation in development needs and spending priorities across county governments.

Table 2-7: Average Utilisation of Funds by Counties % (2014/15 - 2021/22)

County	Agriculture, Rural & Urban Development	County Assembly	Education	Energy, Infrastructure and Information Communications Technology	Environmental Protection, Water and Natural Resources	General Economic & Commercial Affairs	Health	Public Service & Administration	Social Protection, Culture and Recreation
Baringo	9.6	10.8	8.7	7.8	7.9	2.8	37.2	13.5	1.6
Bomet	12.2	9.5	9.5	11.6	5.9	1.4	20.1	25.3	4.5
Bungoma	10.6	9.8	10.1	11.7	1.5	4.1	23.4	27.3	1.4
Busia	8.4	12.3	6.5	11.8	4.8	0.7	24.2	29.1	2.4
Elgeyo/Marakwet	7.9	12.5	8.8	9.7	6.7	2.3	36.0	13.7	2.4
Embu	8.0	9.8	6.4	12.3	2.2	1.7	36.9	21.2	1.5
Garissa	8.3	8.7	6.6	10.7	11.0	1.4	25.8	26.5	0.9
Homa Bay	5.7	14.2	7.8	11.2	4.9	4.2	27.6	24.2	0.3
Isiolo	7.3	12.5	4.7	6.3	7.0	3.1	24.2	33.2	1.8
Kajiado	7.2	10.8	9.2	9.9	4.8	2.7	25.9	28.3	1.2
Kakamega	5.8	8.3	5.1	15.8	1.6	2.3	18.0	41.2	1.9
Kericho	7.6	11.6	8.2	13.8	4.5	1.7	33.3	19.3	-
Kiambu	9.8	9.0	8.1	11.1	3.2	2.2	34.8	20.4	1.5
Kilifi	10.1	9.0	12.0	15.9	8.8	2.2	25.3	16.2	0.4
Kirinyaga	7.1	11.4	5.1	9.8	5.8	1.7	31.5	25.9	1.6
Kisii	7.5	9.9	6.9	11.9	3.2	1.4	32.4	25.2	1.6
Kisumu	5.3	6.9	5.0	4.2	1.9	1.4	23.8	50.7	0.6
Kitui	25.5	8.4	6.7	0.7	3.0	4.1	25.5	24.5	1.7
Kwale	6.5	9.8	16.7	6.5	7.0	3.5	28.5	18.0	3.5
Laikipia	1.9	9.0	2.0	4.7	3.6	1.4	9.2	68.2	0.1
Lamu	18.8	17.0	8.4	-	-	1.8	28.6	25.4	-
Machakos	7.1	9.1	2.2	13.3	3.4	2.6	15.2	46.8	0.2
Makueni	9.5	9.1	6.9	7.5	8.5	2.4	31.9	21.2	2.9
Mandera	6.7	6.0	6.9	16.1	16.7	2.0	17.0	27.6	0.9
Marsabit	7.2	8.9	6.0	8.7	11.1	3.5	21.4	31.6	1.4
Meru	7.5	12.2	6.8	8.7	8.1	2.6	31.3	20.6	2.2
Migori	8.3	12.8	4.6	13.7	2.9	1.4	21.8	34.5	-
Mombasa	3.8	3.8	5.7	16.7	4.4	3.7	24.6	34.5	2.7
Murang'a	8.6	9.1	6.6	15.7	0.1	2.2	32.9	21.1	3.7
Nairobi	3.1	6.1	6.6	8.6	7.2	1.8	20.5	46.1	-
Nakuru	7.6	9.7	5.6	9.3	4.2	1.8	39.6	21.5	0.8
Nandi	10.1	10.9	7.6	12.7	3.0	2.3	26.6	25.1	1.6
Narok	8.1	6.5	13.7	18.2	3.2	2.6	17.4	30.2	-
Nyamira	8.0	11.5	8.8	9.9	4.9	1.7	31.6	21.8	1.9
Nyandarua	8.2	14.7	4.4	15.1	5.1	2.5	16.9	32.3	0.9
Nyeri	8.7	10.2	4.2	9.3	3.5	1.1	40.1	21.5	1.3
Samburu	9.5	12.4	10.5	15.9	2.9	6.7	19.1	21.2	2.0
Siaya	7.0	12.3	8.4	14.3	4.4	3.3	29.1	21.2	-
Taita Taveta	3.8	14.7	8.4	3.6	3.8	2.0	13.3	48.4	1.9
Tana River	6.7	12.0	7.1	18.0	3.8	6.2	20.1	24.8	1.2
Tharaka-Nithi	11.0	10.2	5.5	14.0	3.6	3.3	33.3	18.8	0.3
Trans Nzoia	10.3	9.8	6.8	11.7	4.1	0.2	32.4	22.6	2.0
Turkana	5.8	9.7	7.5	7.0	7.1	2.8	11.5	48.7	-
Uasin Gishu	8.9	8.8	8.2	17.4	7.7	3.1	24.8	19.5	1.5

County	Agriculture, Rural & Urban Development	County Assembly	Education	Energy, Infrastructure and Information Communications Technology	Environmental Protection, Water and Natural Resources	General Economic & Commercial Affairs	Health	Public Service & Administration	Social Protection, Culture and Recreation
Vihiga	6.6	13.9	9.2	12.0	2.4	1.3	25.2	26.8	2.7
Wajir	7.6	8.0	7.6	14.5	14.7	3.2	20.2	23.4	0.8
West Pokot	10.8	11.3	12.1	8.6	3.7	3.3	24.2	24.9	1.1
Average Allocations	**8.0**	**9.5**	**7.3**	**11.1**	**5.6**	**2.4**	**25.3**	**29.5**	**1.3**

Source of Data: Office of the Controller of Budget, County Reports, Various

As revealed in Table 2-7, on average counties allocate 25.3 percent 8.0 percent and of their resources to health; and agriculture, rural and urban development, respectively. This is different from the weights summarised in the Third Basis for revenue sharing among county governments presented in Table 5. The Basis provided for the equitable share transfer of 15 per cent (10 percent for agriculture and 5 percent for urban) for agriculture, rural and urban development and 17 percent for health in each financial year to each county government.

The analysis on the utilisation of funds by county governments confirms that the revenue sharing bases provide a revenue allocation framework for sharing of revenues among county governments and not a budgeting framework. The County Government Act, 2012 gives discretion to county governments to consider their development needs and budget for the revenues available to them. Therefore, the revealed average expenditure spending patterns by county governments cannot be used to guide resource sharing. The spending patterns reflect the distinctive county government priorities.

3.0 REVIEW OF THE THIRD BASIS FOR REVENUE SHARING

3.1. Introduction

In reviewing the Third Basis, the Commission invited various stakeholders to submit their critique on the Third Basis and make proposals for consideration in developing the Fourth Basis. The Commission also held open fora with the stakeholders.

3.2. Critique on the Third Basis for Revenue Sharing

The Stakeholders raised the following issues on the Third Basis:

i. *Implementation of the Basis*

The implementation of the Third Basis was in two parts, an allocation factor and a formula. This was meant to cushion counties and ensure that no county received a lower allocation in the subsequent years. The implementation of the Third Basis has the following shortcomings: the use of different sets of data for the same parameters, for example, the allocation factor has population weighted at 45 percent based on the 2009 census while the formula has population weighted at 18 percent based on the 2019 census; the land parameter has different measures and though Parliament removed the fiscal and prudence measures from the Third Formula, inclusion of the allocation factor in the Third Basis retained the unstable measure of the fiscal effort from the Second Basis.

ii. *Multiple use of Population Based Measures*

A number of population-based measures are used in the Third Basis. The Basis directly used a weight of 18 percent on the population parameter and indirectly used population in other parameters such as: health (inpatient and outpatient visits), agriculture (proportion of rural households); roads (proportion of rural population not able to access a motorable road within two kilometres), urban services (proportion of urban households) and poverty (number of poor people). The multiple use of population-based indicators posed the challenge of overcompensating populous counties without considering other unique characteristics of counties that impact on the cost of service delivery.

iii. *Use of Poverty Measure*

The various bases have used a poverty parameter as a measure of economic disparities and therefore developmental needs of counties. The parameter is used to redistribute resources to encourage counties to implement pro-poor programmes that address development needs of their citizens. The changing data on the parameter is disincentivising to counties. It penalizes county governments that have successfully implemented pro-poor programmes over time and rewards counties with higher levels of poverty, some of which, have not initiated any programmes to address poverty despite receiving resources over many years.

iv. Use of Land *Area Measure*

The Third Basis used a land area parameter to allocate funds to counties based on the geographical size of a county to cater for the additional costs of service delivery from the centre to the extremities. The measure however, did not consider terrain or topography of a county, which also affects the cost of service delivery.

v. *Roads Measure*

The roads parameter was meant to allocate funds to enable counties to focus on opening and maintaining roads to enhance service provision. While the measure considered the distance travelled to access a motorable road, it did not consider the soil type and climatic conditions of the different regions which impacts on the cost of building and maintaining a road.

vi. *Measure of the Health Parameter*

The health parameter considered three measures, namely: facility gap; outpatient visits; and inpatient days as indicators of expenditure needs. However, the measure did not consider the differential state of health in a population brought about by the health care outcomes such as the disease burden or mortality rates which also impact the cost of health care. Additionally, the measure did not consider distance to the nearest facility, given that the measure used to establish the facility gap only considers the population based norms.

vii. *Incentive parameter for Economic Optimisation*

Inclusion of the incentive parameter is in line with Article 203 (1)(i) which provides that in determining the equitable shares to county governments, consideration be given to the need for economic optimisation of each county and the need to provide incentives for each county to optimise capacity to raise revenue. In determining the Third Basis, consideration was not given for inclusion of an incentive parameter.

viii. *Exclusion of other Devolved Functions*

Part 2 of the Fourth Schedule, assigns county governments 14 functions. The Third Basis contained parameters in: health; agriculture; roads and urban services. The inclusion of these parameters in the Basis was informed by the availability of credible data and the fact that the role of the county governments on these functions are clearly articulated in the Constitution. The Third Basis, however, excluded parameters on other devolved functions such as; water, environment and, pre-primary education and village polytechnics.

3.3. Stakeholder Proposals on the Fourth Basis for Revenue Sharing

During consultations with the national government, Parliament, county governments, and civil society organisations, proposals were made for consideration in the preparation of the Fourth Basis. The proposals made were largely drawn from the functional approach adopted by the Third Basis. This are summarised below.

i. *Health*

Healthcare is expected to promote access to affordable and quality essential health products and technologies; digitize health services and records; and expand health infrastructure and personnel among others. Some stakeholders noted that the weight of the health parameter in the Third Basis was below the actual county health spending levels and therefore recommended that the weight be increased. The increased health allocation would enable county governments direct more resources to primary healthcare, especially in the delivery of preventive health services by Community Health Promoters.

The stakeholders therefore recommended that the weights on the different measures under the health parameter be adjusted to reflect prioritisation of primary health care and reduction in the need for accelerated construction of health facilities at Level 2 and 3 to 15 per cent. The following parameters were proposed for consideration in the Fourth Basis:

i. health facilities by level per county;
ii. health facility workload based on data for 2020 -2023;
iii. disease prevalence;
iv. outcome measures such as maternal and child mortality; and
v. human resources for health including.

ii. Agriculture, Livestock and Fisheries

The role of the county governments in the Agriculture, Livestock and Fisheries sector includes: provision of extension services; addressing food security; construction of grain storage facilities; availing farm inputs including certified seeds and fertilizers; communal dipping and spraying; disease control; and fisheries monitoring, control and surveillance; among others. The priority is to enhance agriculture, livestock and fisheries through value chains.

The stakeholders noted that the agriculture parameter does not fully capture the diversity of agricultural activities in different counties, leading to unfair resource distribution. They recommended increment of the weight of the parameter to enable county governments to optimise the agricultural potential of each county. However, other stakeholders proposed a reduction on the weight of the parameter given that actual county expenditure on agriculture has remained relatively low at five percent over the last ten years notwithstanding the fact that the Third Basis allocated 10 percent to the sector.

Further, the stakeholders recommended that the measurement of the parameter be based on the need for extension services based on the actual number of persons or households that are actively engaged in farming rather than the proportion of the rural households. Although a majority of rural household practice agriculture, others do not. The following proposals were made for inclusion in the Fourth Basis:

a) Number of farmers who benefit from the provision of agriculture, livestock and fisheries services from the county government;
b) Livestock - number of animals;
c) Output from the agriculture sector; and
d) Urban households who practice peri- urban agriculture.

iii. Roads

Infrastructure development is a pre-requisite to economic development. It targets to enhance transport and connectivity by constructing feeder roads as well as maintenance of existing urban and rural road networks. Stakeholders gave varied views on the weight of the roads parameter.

Some proposed that the weight and measurement of the parameter be left unchanged. Others proposed that the weight be reduced. The following parameters were proposed for consideration in the Fourth Basis:

a) An infrastructure needs index based on indicators on: access to piped water, electricity, and mobile network coverage;
b) Length of paved and unpaved road network in each county;
c) Climatic conditions;
d) Soil type; and
e) Proportion of population not accessing a motorable road.

iv. Water

Stakeholders noted that the objective of government is to ensure water availability and access throughout the country. This is to be achieved through: construction of big regional dams and small dams; water pans; water harvesting; water tower rehabilitation and conservation; and development of water and irrigation infrastructure. Stakeholders advocated for inclusion of a water parameters in the Fourth Basis.

v. Urban

The Urban Areas and Cities Act, 2011 establishes three types of urban local bodies namely; cities, municipalities and towns. The Act assigns established urban institutions the responsibility for functions to include solid waste management, refuse collection, street lighting, streets and parks, storm water drainage, water and sanitation. The stakeholders proposed that the Fourth Basis recommendation consider the following parameters:

a) The proportion of the urban population; and
b) The number of cities and urban centres in each county.

vi. Education

The Fourth Schedule of the Constitution assigns county governments the role of providing: pre- primary education, village polytechnics, home craft centers, and childcare facilities. Stakeholders noted that delivery of quality education is crucial to socio-economic development. They recommended introduction of a parameter on education owing to the fact that expenditure on education services accounted for 7.4 per cent of the county allocations over the past five years (2018/19 to 2022/23).

vii. Poverty

Stakeholders proposed progressive reduction of the weight of the parameter on poverty since it is a proxy for economic disparities. Proposals were made for consideration of more comprehensive parameters such as the deprivation index or the multi-dimensional poverty index instead of the poverty headcount. Further, stakeholders recommended that more direct measures of development needs be developed.

viii. Land Area

Various stakeholders noted that while it is true that land size affects the cost of service delivery, they also noted that topography or terrain also impact on the cost of service delivery. Further, some areas are covered by deserts, game parks, game reserves, private ranches and plantations. The following proposals were made to improve the parameter:

a) Terrain index which combines slope and elevation;
b) Capping of the land parameter be capped from below to take care of costs associated with terrain for small counties; and
c) Use of the latest data on land area.

ix. Population

The stakeholder proposed that population be retained in the Fourth Basis and should also consider a measure on transient population and population density and the unique needs of the populace.

x. Basic Share

Stakeholders noted that the basic share is a good parameter that should be retained in the Fourth Basis. They proposed that the measure should be allocated a higher weight. The sharing of the basic share allocation should not be equal but based on a county's administration needs.

xi. Other Recommendations

Some stakeholders recommended a special annual separate grant focused on fiscal prudence. The grant will be used as an incentivise to strengthen accountability across the 47 county governments. The need to shift from a parameter to a grant will also ensure that the revenue sharing Basis remains stable and predictable.

The following parameters were also proposed for consideration for inclusion into the Fourth Basis:

1. Incentive parameter based on economic output;
2. Blue economy;
3. Fiscal effort;
4. Fiscal prudence;
5. Environmental performance index;
6. Security; and
7. Infrastructure needs index.

4.0. THE RECOMMENDATION ON THE FOURTH BASIS FOR REVENUE SHARING

4.1. Introduction

In formulating this recommendation, the Commission reviewed the previous revenue sharing frameworks and actual spending patterns by the county governments. Further, the Commission consulted with various stakeholders and took into account the criteria provided in Article 203 (1) (d) to (k), which include:

i. *the need to ensure that county governments are able to perform the functions allocated to them;*
ii. *the fiscal capacity and efficiency of county governments;*
iii. *developmental and other needs of counties;*
iv. *economic disparities within and among counties and the need to remedy them;*
v. *the need for affirmative action in respect of disadvantaged areas and groups;*
vi. *the need for economic optimisation of each county and to provide incentives for each county to optimise its capacity to raise revenue; and*
vii. *the desirability of stable and predictable allocations of revenue.*

In addition, the Commission considered lessons learnt from a review of the Third Basis and proposals from various stakeholders.

4.2. Framework for the Fourth Basis

The framework for sharing revenue among the county governments is based on the following two objectives:

Objective One: Share revenues equitably to facilitate service delivery

The Fourth Schedule of the Constitution outlines the functions and powers of county governments. Article 187 (2) of the Constitution provides that, if a function or power is transferred from a government at one level to the other level, then arrangements shall be put in place to ensure that resources necessary for the performance of the function or exercise of the power are transferred to the recipient government.

The objective of enhancing service delivery considers county population; basic minimum equal allocation, the geographical size of the county.

Objective Two: Address economic disparities to promote development

Article 203(f) and (g) (h) provides that the criteria for determining equitable share among county governments consider the developmental needs and economic disparities within and among counties. Counties have diverse resource endowments and therefore different potentials for economic growth. The level of economic development also varies across the counties with some counties having relatively more developed infrastructure while others still lag behind. In addressing economic disparities across counties, the Fourth Basis has considered county poverty levels and the income distance parameters.

4.3. Definition of Parameters of the Fourth Basis

The number of parameters used in this general-purpose transfer framework has been guided by the objectives of the transfers and the functions of the county governments. The Fourth Basis is based on parameters informed by: objectives of the Fourth Basis; lessons learned from the review of previous bases, stakeholder consultations and comparable international revenue transfer frameworks. The following section discusses the recommended parameters for the Fourth Basis.

i. *Population Parameter*

County governments offer services which include: Healthcare, water and sanitation, agriculture, urban services; pre-primary education; village polytechnics; homecraft centres; cultural activities, public entertainment and public amenities; fire-fighting services and disaster management; and control of drugs and pornography, among others. These services are largely population-based and therefore the total county population is considered an appropriate measure of expenditure needs. In line with Article 203(1)(j), the population provides for a stable and predictable allocations of revenues to counties. In addition, the population measure ensures equal per person transfers to all counties. A county's proportion of population is based on the Kenya Population and Housing Census (KPHC) 2019 with a weight of 42 per cent and is defined as follows:

$$\text{Population index}_{\mathrm{i}} = \frac{\text{Population in county i}}{\sum_{\mathrm{i=1}}^{47} \text{Population in county i}}$$

ii. Equal Share Parameter

The equal share allocation guarantees all counties a minimum allocation to fund common key functions that are similar across all counties irrespective of the size of their population and geographical size of a county. These include costs such as costs of establishing and running administrative structures of government and coordinating participation of communities in county planning and governance at the local level. The weight of the equal share parameter has been enhanced as an affirmative action to increase allocation to the counties with the lowest allocations.

iii. Geographic Size of the County Parameter

The allocation of revenues based on geographical size of the county is meant to provide counties with adequate resources to cater for additional costs related to service delivery. This is informed by the fact that a county with a larger size incurs additional administrative costs to deliver comparable standards of service to its citizens.

The measure used for this parameter in the Fourth Basis is the county's proportion of the geographical size. However, due to marginal incremental costs, the Commission has capped the maximum proportion of size of the county at ten per cent and assigned the parameter a weight of nine per cent. The index is computed as follows:

$$\text{Geographic Size index}_{\text{i}} = \frac{\text{Geographic Size in county i}}{\sum_{\text{i}}^{47} \text{Geographic Size in county i}}$$

iv. Poverty Parameter

The poverty measure is highly correlated with measures of underdevelopment and is therefore used as a proxy for development needs and economic disparities among county governments. The poverty measure is a redistributive parameter meant to promote the constitutional goal of ensuring that all Kenyans have access to basic services, irrespective of where they live. The parameter uses poverty head count which is defined as a county's proportion of poor people as provided in the Kenya Poverty Report 2022 by Kenya National Bureau of Statistics (KNBS). The parameter is assigned a weight of 14 per cent and the index computed as follows;

$$\text{Poverty index}_i = \frac{\text{No. of poor people in county i}}{\sum_{i=1}^{47} \text{No. of poor people in county i}}$$

v. Income Distance

The per capita income distance parameter uses the Gross County Product (GCP) to allocate resources among county governments. It provides a monetary measure of the market value of all the final goods and services produced within each of the 47 counties and therefore is a good proxy of the tax capacity of county governments. The Fourth Basis uses the proportion of the three-year average GCP per capita[2] for 2020, 2021 and 2022 assigned a weight of 13 percent, computed as follows;

$$\text{Income Distance index}_i = \frac{\text{Per capita GCP of Nairobi} - \text{Per Capita GCP of County i}}{\sum(\text{Per capita GCP of Nairobi} - \text{Per Capita GCP of County i})}$$

4.4. The Framework for the Fourth Basis

The objectives of the Fourth Basis, the selected parameters and the assigned weights are summarised in Table 4-1.

Table 4-1: Summary of the Framework for the Fourth Basis

Objective	Parameter	Assigned Weight %
1.To share revenues equitably to facilitate service delivery	Population	42
	Equal Share	22
	Geographical Size	9
2. To share revenues equitably to address economic disparities and promote development	Poverty	14
	Income Distance	13
Total		**100**

Source: CRA, 2024

4.5. Implementation of the Fourth Basis

In implementing the Fourth Basis, a stabilisation factor has been inbuilt in the framework to ensure no county government will get less than what they were allocated in financial year 2024/25.

[2] *Nairobi County takes the least income distance index of Mombasa*

Stability in revenue sharing is important to ensure county programmes and projects continue without disruption that may be occasioned by sudden budget cuts arising from change of the revenue sharing framework. The stabilisation factor is computed from the output of the five parameters used in the revenue sharing framework.

4.6. The Fourth Basis for Revenue Sharing

The aggregate Allocation Framework for the Fourth Basis is summarised as:

$$\begin{aligned}\text{County Allocation}_i &\\ = (0.42 * \text{Population Index}_i &+ 0.22 * \text{Equal Share Index}_i \\ + 0.14 * \text{Poverty Index}_i &+ 0.09 * \text{Geographical Size Index}_i \\ + 0.13 * \text{Income Distance Index}_i) &* \text{Stabilisation factor}_i\end{aligned}$$

The summary of the allocations based on the Fourth basis for revenue sharing by county is presented in Table 4.2:

Table 4-2: Summary of the Fourth Basis for Revenue Sharing by County

No	County	Population	Equal Share	Poverty	Income Distance	Geographic size	Stabilisation factor	Allocation Factor
		42%	22%	14%	13%	9%		
1	Baringo	1.40	2.13	1.7	2.38	1.97	0.97	1.72
2	Bomet	1.84	2.13	2.2	2.09	0.45	0.97	1.80
3	Bungoma	3.51	2.13	4.4	2.34	0.54	0.97	2.82
4	Busia	1.88	2.13	2.5	2.44	0.30	0.97	1.89
5	Elgeyo-Marakwet	0.96	2.13	1.3	1.77	0.54	0.97	1.29
6	Embu	1.28	2.13	0.8	1.74	0.51	0.97	1.35
7	Garissa	1.77	2.13	3.0	2.59	8.02	0.97	2.61
8	Homa-Bay	2.38	2.13	1.7	2.38	0.57	0.99	2.04
9	Isiolo	0.56	2.13	0.8	2.45	4.54	0.97	1.50
10	Kajiado	2.35	2.13	2.2	2.29	3.92	0.97	2.34
11	Kakamega	3.93	2.13	3.8	2.36	0.54	1.08	3.25
12	Kericho	1.90	2.13	2.3	2.05	0.44	0.97	1.83
13	Kiambu	5.08	2.13	2.5	1.81	0.46	0.97	3.14
14	Kilifi	3.06	2.13	4.1	2.25	2.25	1.08	3.05
15	Kirinyaga	1.28	2.13	0.7	1.93	0.26	0.98	1.36
16	Kisii	2.66	2.13	2.2	2.16	0.24	1.06	2.33
17	Kisumu	2.43	2.13	2.4	1.90	0.37	1.00	2.10
18	Kitui	2.39	2.13	3.5	2.35	5.45	0.99	2.72
19	Kwale	1.82	2.13	2.3	2.26	1.48	1.09	2.16
20	Laikipia	1.09	2.13	1.0	2.06	1.71	0.97	1.45
21	Lamu	0.30	2.13	0.3	1.84	1.12	0.97	0.94
22	Machakos	2.99	2.13	2.9	1.88	1.08	0.97	2.40
23	Makueni	2.08	2.13	2.3	2.41	1.46	1.01	2.13

No	County	Population	Equal Share	Poverty	Income Distance	Geographic size	Stabilisation factor	Allocation Factor
		42%	22%	14%	13%	9%		
24	Mandera	1.82	2.13	3.3	2.62	4.65	1.19	2.93
25	Marsabit	0.97	2.13	1.6	2.29	10.41	0.97	2.26
26	Meru	3.25	2.13	2.8	1.89	1.26	0.97	2.50
27	Migori	2.35	2.13	2.7	2.39	0.47	0.97	2.12
28	Mombasa	2.54	2.13	1.7	1.09	0.04	1.03	1.98
29	Murang'a	2.22	2.13	1.7	2.01	0.45	0.97	1.88
30	Nairobi City	9.24	2.13	3.8	1.09	0.13	1.00	5.05
31	Nakuru	4.55	2.13	4.3	1.83	1.34	1.02	3.42
32	Nandi	1.86	2.13	1.8	2.11	0.51	1.01	1.84
33	Narok	2.43	2.13	1.6	2.22	3.22	1.01	2.31
34	Nyamira	1.27	2.13	1.3	2.01	0.16	0.97	1.41
35	Nyandarua	1.34	2.13	1.2	1.79	0.59	1.00	1.49
36	Nyeri	1.60	2.13	1.0	1.65	0.60	1.05	1.63
37	Samburu	0.65	2.13	1.2	2.49	3.78	0.97	1.52
38	Siaya	2.09	2.13	2.0	2.40	0.45	0.97	1.92
39	Taita-Taveta	0.72	2.13	0.7	2.06	3.07	0.97	1.37
40	Tana-River	0.66	2.13	1.1	2.47	6.80	0.97	1.78
41	Tharaka-Nithi	0.83	2.13	0.7	2.16	0.46	0.97	1.20
42	Trans-Nzoia	2.08	2.13	2.0	2.15	0.45	0.97	1.89
43	Turkana	1.95	2.13	4.1	2.39	10.41	1.07	3.31
44	Uasin-Gishu	2.45	2.13	2.4	1.95	0.61	0.99	2.12
45	Vihiga	1.24	2.13	1.5	2.26	0.10	0.97	1.46
46	Wajir	1.64	2.13	2.7	2.61	10.18	0.97	2.70
47	West Pokot	1.31	2.13	2.0	2.35	1.64	0.97	1.69

Source of Data: CRA, 2024

4.7. Allocation of Equitable Shares Based on the Fourth Basis

The Commission has recommended an equitable share allocation to County governments of Ksh 417.4 billion for the financial year 2025/26. Based on this allocation the sharing among county governments is presented in Table 4.3.

Table 4-3: Sharing of Revenue Among County Governments

	County	Third Basis Allocation Index	2024/25 Allocation	Fourth Basis Allocation Index	2025/26 Allocation
1	Baringo	1.73	6,684	1.72	7,185
2	Bomet	1.81	7,015	1.80	7,528
3	Bungoma	2.88	11,171	2.82	11,766
4	Busia	1.94	7,515	1.89	7,893
5	Elgeyo-Marakwet	1.25	4,827	1.29	5,374
6	Embu	1.39	5,370	1.35	5,616
7	Garissa	2.14	8,290	2.61	10,894
8	Homa-Bay	2.11	8,170	2.04	8,536
9	Isiolo	1.27	4,924	1.50	6,241
10	Kajiado	2.15	8,345	2.34	9,767
11	Kakamega	3.35	12,981	3.25	13,562
12	Kericho	1.74	6,738	1.83	7,653
13	Kiambu	3.17	12,294	3.14	13,094
14	Kilifi	3.14	12,170	3.05	12,715
15	Kirinyaga	1.41	5,449	1.36	5,693
16	Kisii	2.40	9,306	2.33	9,723
17	Kisumu	2.17	8,405	2.10	8,782
18	Kitui	2.81	10,886	2.72	11,374
19	Kwale	2.23	8,625	2.16	9,012
20	Laikipia	1.39	5,387	1.45	6,039
21	Lamu	0.84	3,254	0.94	3,935
22	Machakos	2.48	9,597	2.40	10,027
23	Makueni	2.19	8,497	2.13	8,878
24	Mandera	3.02	11,691	2.93	12,214
25	Marsabit	1.96	7,597	2.26	9,427
26	Meru	2.57	9,944	2.50	10,454
27	Migori	2.16	8,385	2.12	8,838
28	Mombasa	2.04	7,900	1.98	8,253
29	Murang'a	1.94	7,512	1.88	7,852
30	Nairobi City	5.21	20,179	5.05	21,082
31	Nakuru	3.53	13,667	3.42	14,279
32	Nandi	1.90	7,346	1.84	7,675
33	Narok	2.39	9,242	2.31	9,656
34	Nyamira	1.38	5,360	1.41	5,885
35	Nyandarua	1.53	5,937	1.49	6,202
36	Nyeri	1.68	6,519	1.63	6,811
37	Samburu	1.45	5,623	1.52	6,352
38	Siaya	1.88	7,301	1.92	8,019
39	Taita-Taveta	1.31	5,066	1.37	5,711
40	Tana-River	1.76	6,825	1.78	7,433
41	Tharaka-Nithi	1.14	4,400	1.20	5,028
42	Trans-Nzoia	1.95	7,541	1.89	7,878
43	Turkana	3.41	13,213	3.31	13,805
44	Uasin-Gishu	2.19	8,472	2.12	8,852
45	Vihiga	1.37	5,293	1.46	6,077
46	Wajir	2.56	9,903	2.70	11,283
47	West Pokot	1.71	6,610	1.69	7,070
	Totals	**100.00**	**387,425**	**100.00**	**417,425**

Source of Data: CRA, 2024

5.0. THE APPLICATION OF ARTICLE 203

5.1. Introduction

Article 216 (3) provides that in determining the basis for revenue sharing among counties, the Commission should take into account the criteria set out in Article 203. The criteria in Article 203(1) can be divided into two; Article 203 (1) (a) to (c), which are applicable in determining the equitable shares between the national government and the county governments and Article 203 (1) (d) to (k) which are applicable in determining the equitable shares among the county governments. Section 5.2 explains how the parameters selected for the Fourth Basis for revenue sharing meet the requirements of Article 203 (1) (d) to (k).

5.2. Application of Article 203

i. *Article 203(1)(d): Ability of county governments to perform functions assigned to them*

The functions assigned to county governments as specified in the Fourth Schedule include: health, water, agriculture, urban services, pre-primary education, village polytechnics, cultural activities, environmental conservation and sanitation. The Basis has considered financing of these functions within the service delivery component. Further, the Basis has provided for a minimum equal allocation to each county.

ii. *Article 203 (1) (e)f) (g) and (h) and (i): on Fiscal capacity and efficiency of county governments; Developmental needs and economic disparities within and among counties and the need to remedy them through affirmative action; and, the need to incentivize counties to optimize capacity to raise revenue*

The Fourth Basis has incorporated two parameters, poverty and income distance. Allocations through these parameters are intended to redistribute revenue among counties to address development needs and economic disparities within and among of counties and incentivize counties to optimise revenue collection.

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

The Fourth Basis recommendation has selected stable parameters on the various measures of expenditure needs of county governments.

Once approved, the basis will be used to share revenues for a period of five financial years from 2025/26 to 2029/2030. Over this period, revenues allocated to counties on account of the Basis will remain stable and predictable, promote multi-year planning and overall budget certainty. Further, the Fourth Basis has a stabilisation factor inbuilt in the framework to ensure no county government will get less than what they were allocated in financial year 2024/25.

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

The basis allocates a lump sum amount to all counties thereby preserving their budget autonomy. Lump sum allocation provides county governments spending discretion including flexibility in responding to emergencies and other temporary needs.

Appendix I: Data used in Developing the Fourth Basis

No	Source of Data	2019 Census Report	Kenya Poverty Report 2022		Gross County Product (GCP), Report 2023 Current Prices, Ksh million			2019 Census Report
	County	Population	Poverty Head Count (%)	Poor People ('000')	2020	2021	2022	Geographic Size (Sq. kms),
1	Baringo	666,763	46.9	334	75,459	85,220	93,334	10,976
2	Bomet	875,689	47.1	441	151,153	167,404	194,798	2,531
3	Bungoma	1,670,570	49.2	880	205,542	224,815	255,699	3,024
4	Busia	893,681	52.7	502	88,731	99,351	115,548	1,696
5	Elgeyo-Marakwet	454,480	53.0	258	117,229	130,394	120,745	3,032
6	Embu	608,599	24.3	158	149,912	166,292	187,934	2,821
7	Garissa	841,353	67.8	607	58,634	65,788	68,481	44,736
8	Homa-Bay	1,131,950	28.2	340	120,751	147,449	162,195	3,153
9	Isiolo	268,002	55.6	157	26,555	29,616	31,486	25,351
10	Kajiado	1,117,840	37.3	443	150,709	159,737	187,411	21,871
11	Kakamega	1,867,579	38.2	764	214,365	245,768	276,484	3,020
12	Kericho	901,777	47.8	461	163,543	182,708	204,443	2,436
13	Kiambu	2,417,735	19.9	513	554,515	622,560	721,205	2,539
14	Kilifi	1,453,787	53.0	821	199,953	229,804	254,799	12,540
15	Kirinyaga	610,411	23.1	150	123,709	139,785	160,909	1,478
16	Kisii	1,266,860	32.9	445	198,192	217,312	257,751	1,323
17	Kisumu	1,155,574	39.0	478	247,324	272,238	312,651	2,085
18	Kitui	1,136,187	58.3	707	154,345	143,268	161,668	30,430
19	Kwale	866,820	51.1	471	119,001	134,865	151,362	8,267
20	Laikipia	518,560	38.0	208	94,639	100,202	119,575	9,532
21	Lamu	143,920	35.6	53	32,747	36,447	40,164	6,253
22	Machakos	1,421,932	38.3	580	309,164	349,897	378,446	6,043
23	Makueni	987,653	44.7	469	110,207	123,610	120,539	8,170
24	Mandera	867,457	72.9	674	56,964	62,984	63,146	25,940
25	Marsabit	459,785	66.1	317	60,486	69,447	73,863	70,944
26	Meru	1,545,714	34.1	562	329,977	378,832	407,419	7,006
27	Migori	1,116,436	45.7	543	120,639	140,719	158,115	2,614
28	Mombasa	1,208,333	27.0	345	468,749	528,400	564,147	220
29	Murang'a	1,056,640	30.1	340	200,539	226,526	247,592	2,524
30	Nairobi City	4,397,073	16.5	767	2,682,701	2,996,494	3,379,354	704
31	Nakuru	2,162,202	38.2	872	483,938	569,453	600,518	7,462
32	Nandi	885,711	39.1	371	149,117	164,688	193,180	2,856
33	Narok	1,157,873	26.2	323	165,462	185,167	217,130	17,950
34	Nyamira	605,576	38.8	252	116,992	125,574	144,676	897
35	Nyandarua	638,289	34.5	235	149,707	162,097	198,389	3,286
36	Nyeri	759,164	26.0	210	209,626	224,365	243,035	3,325
37	Samburu	310,327	71.9	236	29,090	31,057	33,901	21,065
38	Siaya	993,183	38.3	407	103,899	119,951	136,809	2,530
39	Taita-Taveta	340,671	39.3	141	63,592	72,997	70,392	17,152
40	Tana-River	315,943	66.7	225	29,460	35,662	35,159	37,951
41	Tharaka-Nithi	393,177	36.1	151	61,461	71,181	77,999	2,564
42	Trans-Nzoia	990,341	37.3	395	165,700	177,505	190,466	2,495
43	Turkana	926,976	82.7	818	107,450	111,628	128,697	68,233
44	Uasin-Gishu	1,163,186	39.9	492	227,871	268,877	295,698	3,392
45	Vihiga	590,013	47.9	302	83,773	90,585	101,182	564
46	Wajir	781,263	64.7	539	49,159	58,924	61,950	56,773
47	West Pokot	621,241	60.1	399	79,417	83,816	84,985	9,123
	Total	**47,564,296**	**39.8**	**20,156**	**9,864,168**	**11,033,480**	**12,287,451**	**580,877**

Source of Data: Kenya National Bureau of Statistics

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