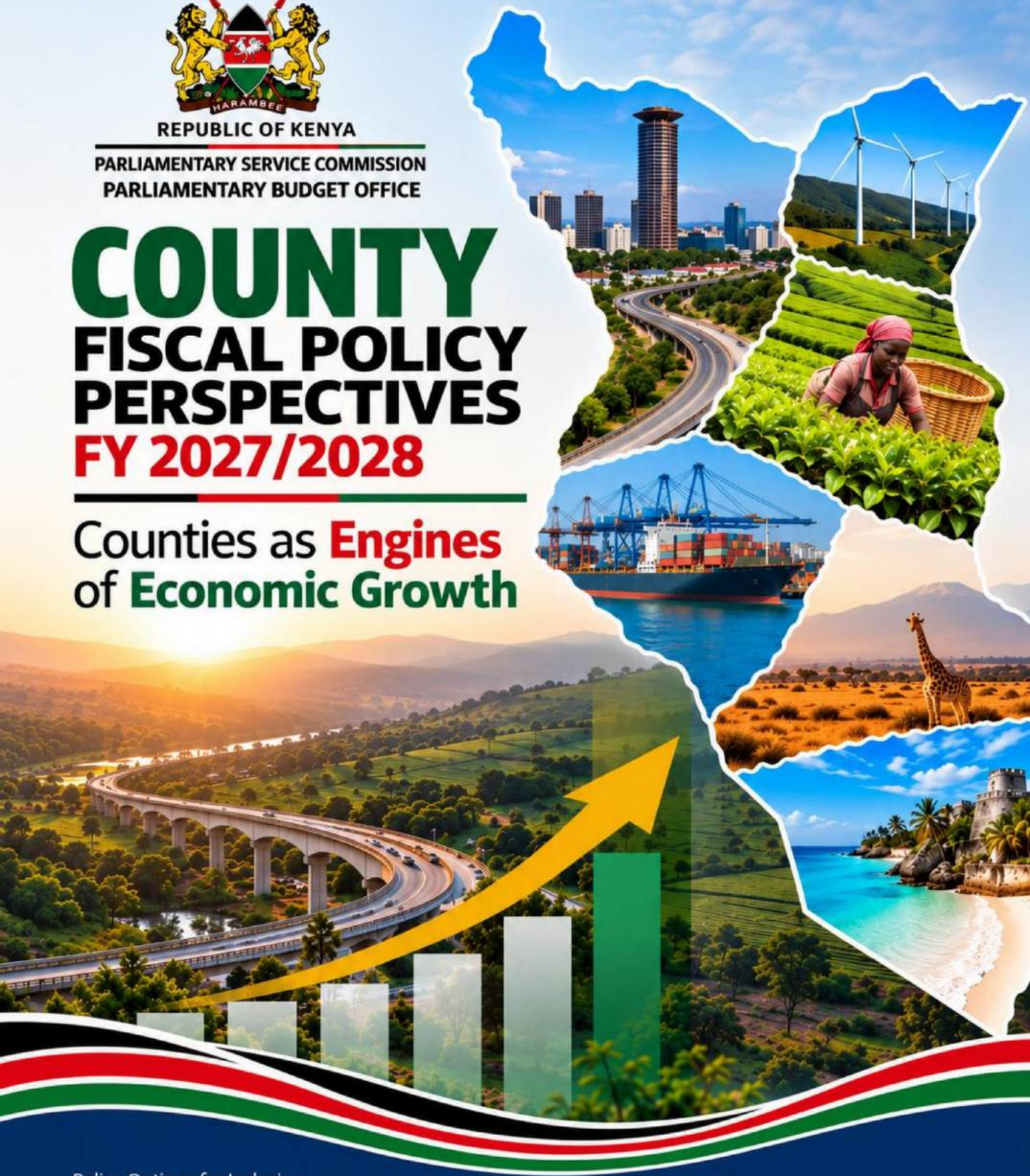
REPUBLIC OF KENYA

PARLIAMENTARY SERVICE COMMISSION

PARLIAMENTARY BUDGET OFFICE

# COUNTY FISCAL POLICY PERSPECTIVES FY 2027/2028

## Counties as Engines of Economic Growth



Policy Options for Inclusive, Productive and Resilient Counties

**November 2026**

Edition No. 1

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The County Fiscal Policy Perspectives extends this analytical approach to county governments, focusing on maximising the impact of devolved resources and unlocking the economic potential of counties. The publication proposes practical policy, budgetary and legislative interventions to address persistent fiscal and structural challenges, strengthen fiscal sustainability, enhance expenditure efficiency, optimise resource mobilisation and leverage county-specific economic advantages to stimulate economic growth. Ultimately, the publication seeks to reposition counties not merely as centres of public service delivery, but as **engines of economic growth and national development.**

The preparation of this inaugural edition was spearheaded by the Senate Affairs and Inter-Fiscal Relations Department, in collaboration with the Macroeconomic Analysis and Statistics Department. The technical team was jointly led by **CPA. Joash Kosiba**, Ag. Deputy Director and Deputy Head of the Senate Affairs & Inter-Fiscal Relations Department; and **Ms. Millicent Makina**, Senior Fiscal Analyst and Chief Editor, who coordinated the analytical work and editorial process.

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The team worked under the overall strategic guidance of **Dr. Martin Masinde, OGW**, Director of the Parliamentary Budget Office, and **Ms. Lucy Makara**, Senior Deputy Director and Head of the Senate Affairs & Inter-Fiscal Relations Department. Their guidance and oversight were instrumental in shaping the publication's analytical direction and ensuring its relevance to Parliament's legislative, budgetary and oversight mandates.

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# ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| **ADP** | Annual Development Plan |
| **AfDB** | African Development Bank |
| **ASAL** | Arid and Semi-Arid Lands |
| **BETA** | Bottom-Up Economic Transformation Agenda |
| **CAIPs** | County Aggregation and Industrial Park(s) |
| **CBR** | Central Bank Rate |
| **CBK** | Central Bank of Kenya |
| **CCAPs** | County Climate Action Plans |
| **CCCF** | County Climate Change Fund |
| **CCIS** | County Climate Institutional Support |
| **CCRIG** | County Climate Resilience Investment Grant |
| **CHPs** | Community Health Promoter(s) |
| **CIDPs** | County Integrated Development Plan(s) |
| **COB** | Controller of Budget |
| **CRF** | County Revenue Fund |
| **EMDEs** | Emerging Market and Developing Economies |
| **FIF** | Facility Improvement Financing |
| **FLLoCA** | Financing Locally Led Climate Action |
| **GCP** | Gross County Product |
| **GDP** | Gross Domestic Product |
| **GoK** | Government of Kenya |
| **ICT** | Information and Communication Technology |
| **ILO** | International Labour Organization |
| **IMF** | International Monetary Fund |
| **KESONIA** | Kenya Shilling Overnight Index Average |
| **KNBS** | Kenya National Bureau of Statistics |
| **KSHS.** | Kenya Shillings |
| **MDAs** | Ministry, Department and Agency / Ministries, Departments and Agencies |
| **MITI** | Ministry of Investments, Trade and Industry |
| **MSMEs** | Micro, Small and Medium Enterprise(s) |
| **MTP IV** | Fourth Medium Term Plan |
| **O&M** | Operations and Maintenance |
| **OGW** | Order of the Grand Warrior (Kenya National Honour) |
| **OSR** | Own Source Revenue |
| **PBO** | Parliamentary Budget Office |

| | |
|---|---|
| **PFM** | Public Finance Management |
| **RBCPM** | Risk-Based Credit Pricing Model |
| **SHA** | Social Health Authority |
| **SMEs** | Small and Medium Enterprises |
| **TFP** | Total Factor Productivity |
| **UHC** | Universal Health Coverage |
| **USD** | United States Dollar |

# FOREWORD

County governments are central to Kenya's economic transformation, yet their potential to drive productivity, employment and inclusive growth remains largely untapped. Despite significant investments in devolved functions over the past decade, persistent fiscal pressures, expenditure inefficiencies and structural constraints continue to limit the economic returns from county resources. Unlocking this potential requires a shift from budgets that are predominantly focused on financing government operations and service delivery towards productive investments that stimulate local economies and improve livelihoods.

It is against this background that I am pleased to present the inaugural edition of the County Fiscal Policy Perspectives for FY 2027/2028, prepared by the Parliamentary Budget Office (PBO) under the theme, "**Counties as Engines of Economic Growth**." Building on the PBO's established national *Budget Options* series, the publication provides evidence-based policy, budgetary and legislative proposals to address county fiscal and economic challenges and unlock their growth potential.

The publication examines the macroeconomic environment, county resource mobilisation, expenditure priorities and sector-specific interventions, recognising that counties possess diverse economic endowments and require differentiated development strategies to leverage their comparative advantages.

Transforming counties into engines of economic growth requires deliberate investment in sectors with the greatest potential to enhance productivity, create employment and expand household incomes. The publication proposes targeted interventions in agriculture and agro-processing, healthcare, education and vocational training, climate resilience, water services, trade and industrialisation. Particular emphasis is placed on strengthening agricultural value chains, improving commercial viability of County Aggregation and Industrial Parks, reducing non-revenue water, and leveraging county-specific economic advantages to stimulate economic investment.

As Kenya approaches the 2027 General Elections, there is an opportunity to reset county development priorities towards fiscal sustainability, expenditure efficiency and productive investments. The policy options are intended to inform parliamentary deliberations and support evidence-based decisions that translate public spending into higher productivity and sustainable economic growth.



**FA Dr. MARTIN MASINDE, OGW**
**DIRECTOR, PARLIAMENTARY BUDGET OFFICE**

# EXECUTIVE SUMMARY

**The County Fiscal Policy Perspectives for FY 2027/28 is the first edition of a new annual publication by the Parliamentary Budget Office.** Under the theme "Counties as Engines of Economic Growth", it sets out policy, budgetary and legislative options that Parliament may consider when guiding county financing and spending in the coming financial year. The options aim to help counties move from budgets that mainly finance operations towards budgets that raise productivity, create jobs and improve household incomes.

## Economic context

**Kenya's economy remains resilient, but growth is slowing and costs are rising.** Real GDP growth averaged 5.6 percent in 2021–2025 and is projected at 4.6 percent in 2026 and 4.4 percent in 2027. Inflation rose to 7.3 percent in October 2026, mainly because of higher energy costs. The Central Bank Rate eased to 8.75 percent, and the exchange rate and foreign reserves remained stable. Labour force participation and total factor productivity have declined over the past decade, and the primary sector received only 4.5 percent of private sector credit in July 2026. For counties, this outlook means higher input costs and modest revenue growth. It also raises the value of investments that lift productivity.

**County economies differ widely, so a uniform approach will not work.** Nairobi City accounts for 27.5 percent of Gross County Product, and only a few counties record output per person above national GDP per capita of Kshs.309,460. Agriculture is the largest activity, at 24.4 percent of county output in 2024, while trade and manufacturing contribute 8.1 percent and 7.9 percent. The paper groups counties into five economic typologies: metropolitan, industrial and service economies; agricultural and agro-processing economies; tourism and blue economies; arid and semi-arid and livestock economies; and emerging and diversifying economies. It proposes that county investment be tailored to each.

## Financing county governments

**An equitable share of Kshs.448.3 billion is proposed as an indicative benchmark for FY 2027/28.** Since FY 2020/21, allocations to counties have averaged 17.8 percent of ordinary revenue. The paper proposes that the equitable share be informed by county expenditure needs. Adjusting the FY 2026/27 allocation of Kshs.428 billion by a weighted cost increase of 4.74 percent gives Kshs.448.3 billion. This amount preserves the purchasing power of the current allocation. The affordable allocation may be lower, given revenue risks in an election year and competing national obligations.

**Own-source revenue can be made more predictable.** Collections reached Kshs.96.1 billion in FY 2025/26, or 90.2 percent of target, largely on account of Facility Improvement Financing. Two options are proposed. First, anchor the major revenue streams in primary

legislation instead of annual finance laws, which could raise the performance of ordinary own-source revenue from the current 67–77 percent of target towards 90 percent. Second, limit annual revenue projections to growth of 5 percent over the previous year's actual collections, or the inflation rate, whichever is lower.

### Expenditure priorities

**Four measures would improve the quality of county spending.** First, raise development spending from about 25.5 percent of budgets to the statutory 30 percent, which requires an additional Kshs.24.4 billion in FY 2027/28. Second, bring the wage bill, estimated at Kshs.235.9 billion in FY 2025/26, within the ceiling of 35 percent of revenue. Immediate compliance would require an adjustment of Kshs.33–41 billion. A gradual alternative holds the wage bill at its FY 2025/26 level and allows revenue growth to bring the ratio to about 34.9 percent by FY 2030/31. Third, settle pending bills, which stood at Kshs.172.5 billion in June 2026, through a three-year programme starting in FY 2027/28, with a conditional matching arrangement for Nairobi City County, which holds Kshs.86.9 billion of the stock. Fourth, complete the 189 stalled projects reported by 22 counties, which need about Kshs.6.3 billion, before starting new ones.

### Additional allocations

**Additional allocations should support operations and arrive on time.** For County Aggregation and Industrial Parks, about Kshs.37.5 billion is proposed over the medium term to equip the parks, connect them to roads, install weighbridges and complete the remaining facilities. For Universal Health Coverage workers, whose annual payroll is Kshs.8.61 billion, a phased arrangement is proposed. In FY 2027/28, half of the payroll would be added to the equitable share and half provided as a conditional grant based on actual payroll. For Community Health Promoters, the monthly stipend would rise in phases from Kshs.5,000 to Kshs.8,000 by FY 2029/30, shared equally by the two levels of government. Parliament could also consider amending the Public Finance Management Act to focus the Additional Allocations Bill on development partner loans and grants, and to set a 30-day period for the second House to consider the Bill.

### Sector options

**Education.** Education took 6.88 percent of county expenditure in FY 2025/26. The options are to cost and finance minimum standards for early childhood education, to consider allocating at least 10 percent of county expenditure to education, to redirect bursary spending on non-devolved functions to early childhood education and vocational training, and to report the two functions separately.

**Health.** Counties allocated Kshs.156.6 billion to health in FY 2025/26 and spent 81.6 percent of it, with lower absorption of the development budget. County-owned facilities increased from 6,108 in 2019 to 7,034 in 2025, and arrears owed to KEMSA reached Kshs.5.1 billion.

The options are to ring-fence health development budgets and complete ongoing projects, align county laws with the Facility Improvement Financing Act, 2023, budget adequately for medical supplies while clearing verified arrears, and strengthen implementation of the National Equipment Service Programme.

**Agriculture.** Agriculture accounts for 22.5 percent of GDP, and counties spent 73.0 percent of their agriculture budgets in FY 2025/26. The options are to complete ongoing irrigation projects, improve last-mile access to subsidised inputs, invest in post-harvest handling and agro-processing in line with each county's comparative advantage, and make better use of conditional allocations.

**Climate action.** County contributions made up 39.4 percent of the Kshs.11.74 billion in climate resilience investment financing in FY 2025/26. The options are to raise county counterpart financing in phases from 1.5 percent to 3 percent of development budgets, automate transfers to Special Purpose Accounts, and budget for the operation and maintenance of completed investments.

**Water.** Non-revenue water rose to 48 percent of production in FY 2024/25, against a regulatory benchmark of 25 percent. Reaching the benchmark could unlock about Kshs.7.4 billion a year for the water companies assessed. The options are to ring-fence at least 10 percent of county water development budgets for a three-year loss-reduction programme, and to review outdated tariffs alongside efficiency improvements.

**Trade, markets and value addition.** The share of county budgets going to trade and markets fell from 3.8 percent in FY 2023/24 to 3.2 percent in FY 2025/26, and only 45 percent of the development budget was spent. Twelve farm-heavy counties produce 38.8 percent of agricultural output but only 10.0 percent of manufacturing output. Illustrative estimates show that manufacturing output could rise by about Kshs.67 billion a year if every county produced at least Kshs.10 of manufacturing for every Kshs.100 of farm output. The options are to complete industrial parks and anchor each on one or two viable value chains, invest in markets, aggregation and cold storage, develop tourism and fisheries infrastructure, adopt unified business permits and cashless market fees, and remove cess on goods in transit.

## Conclusion

**Many of the options call for reprioritising existing resources and completing what has been started.** Where an option has a direct cost, the estimate is given in the relevant chapter. The summary tables at the end of Chapters Two and Three set out the fiscal implication and expected result of each option. Together, the options are intended to support Parliament in aligning county budgets with fiscal sustainability, efficient spending and productive investment.

# CHAPTER ONE

# ROLE OF COUNTIES IN KENYA'S GROWTH AND DEVELOPMENT AGENDA

*Kenya's macroeconomic environment presents both opportunities and challenges for county economic growth, underscoring the need for differentiated development strategies that respond to local economic realities. While the economy has remained resilient, slowdown in economic growth, rising production costs, weak productivity and uneven access to credit continue to constrain investment and employment. Significant disparities in economic activity and productive capacity across counties further highlight the need to move beyond uniform development approaches. Unlocking county potential will require targeted investments that leverage comparative advantages, strengthen productive sectors and translate economic growth into improved livelihoods and a more balanced regional development.*

## 1.1 Introduction

1. **Counties are central to Kenya's development because they provide services and infrastructure that directly affect households, businesses and local economic activity.** County functions include health services, agriculture, county transport, animal control and welfare, trade development, county planning, pre-primary education among others[1]. These functions influence household welfare, productivity, the cost of doing business and the development of local economies. The effectiveness of these functions therefore affects productivity, incomes and economic activity, making the performance of county functions an important consideration in understanding county development needs.

2. **County development is part of the wider national development agenda framework anchored in Vision 2030, Fourth Medium Term Plan (MTP IV) and the Bottom-Up Economic Transformation Agenda (BETA).** MTP IV and BETA emphasise agricultural transformation, Micro, Small and Medium Enterprises (MSMEs), housing, healthcare, infrastructure and the digital and creative economies[2]. The Budget Policy Statements have also emphasised the promotion of these priorities including agricultural value chains, MSMEs development, healthcare, infrastructure and climate resilience[3].

3. **These national priorities have a direct county dimension because their**

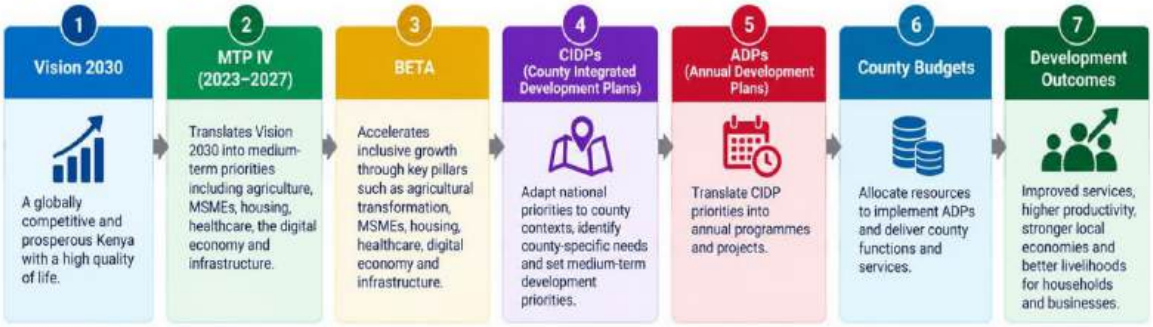
[1] Kenya Law (2022). The Constitution of Kenya, Fourth schedule

[2] The National Treasury and Economic Planning (2024). Fourth Medium Term Plan 2023-2027: Bottom-up economic transformation agenda for inclusive growth.

[3] The National Treasury (2026). 2026 Budget policy statement: Accelerating gains under the bottom-up economic transformation agenda for inclusive and sustainable growth.

**implementation depends in part on county functions and services.** For instance, agricultural transformation is supported through county agriculture and livestock services; MSMEs depend on markets and healthcare is delivered through county health services. County planning and budgeting, as shown in Figure 1, therefore provide an important implementation link through which national priorities are translated into county-specific programmes, services and development outcomes.

**Figure 1: Linkage between National and County Planning**




## 1.2 Macroeconomic Outlook and Implications for Counties

### 1.2.1 Growth Outlook

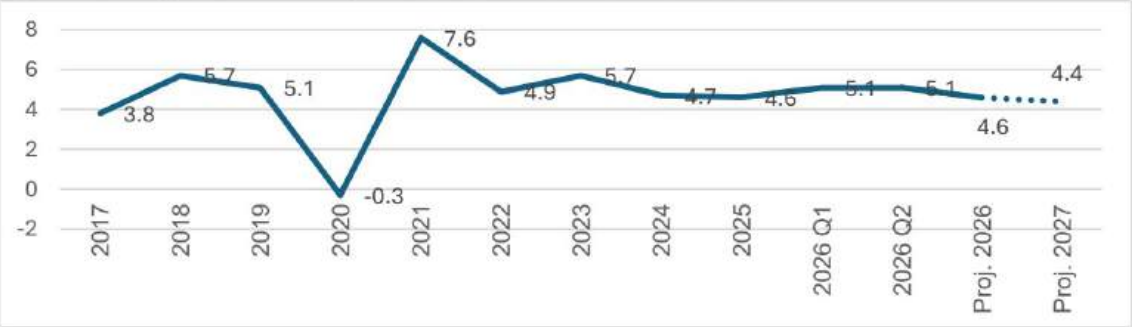
4. **Global economic growth is projected to be 3.1 percent in 2026 and 3.3 percent in 2027, down from an average of 3.5 percent in 2024[4].** The projected growth reflects the effects of the war in the Middle East including higher energy prices, supply disruptions and increased uncertainty, which are expected to be partly offset by stronger demand-driven momentum in the global technology cycle supported by advances in artificial intelligence (AI) and its adoption. Growth in advanced economies is projected to rise slightly from 2.0 percent in 2025 to 2.1 percent in 2026, largely cushioned by favourable terms-of-trade. Similarly, growth in emerging market and developing economies (EMDEs) is expected to moderate to 3.7 percent in 2026 from 4.5 percent in 2025.

5. **Kenya's economy has remained resilient with real GDP growth averaging 5.6 percent in 2021-2025[5], growing by 5.1 percent in the first and second quarters of 2026 and projected at 4.6 percent in 2026 and 4.4 percent in 2027 (Figure 2).** This resilience has been underpinned by Kenya's diversified economy, strong services sector and continued macroeconomic reforms. The 2026 growth projection has been downgraded due to higher energy prices, increased uncertainty, weaker private investment and reduced household purchasing power[6]. Domestic conditions remain broadly supportive with easing monetary policy, exchange rate stability and recovering private sector credit expected to support household

[4] IMF (2026). World Economic Outlook: Resilience under strain, urgent choices
[5] AfDB (2026). Country focus report 2026: Mobilizing Kenya's development financing at scale in a fragmented world
[6] World Bank (2026). Kenya economic update Edition No.33: Sustaining macroeconomic gains, advancing fiscal reforms

incomes and investment. However, anticipated El Niño-related rains could disrupt agricultural production and weigh on national and county growth.

**Figure 2: Kenya's economic growth for the period 2020 to 2027**




*Source: KNBS and World Bank (projections)*

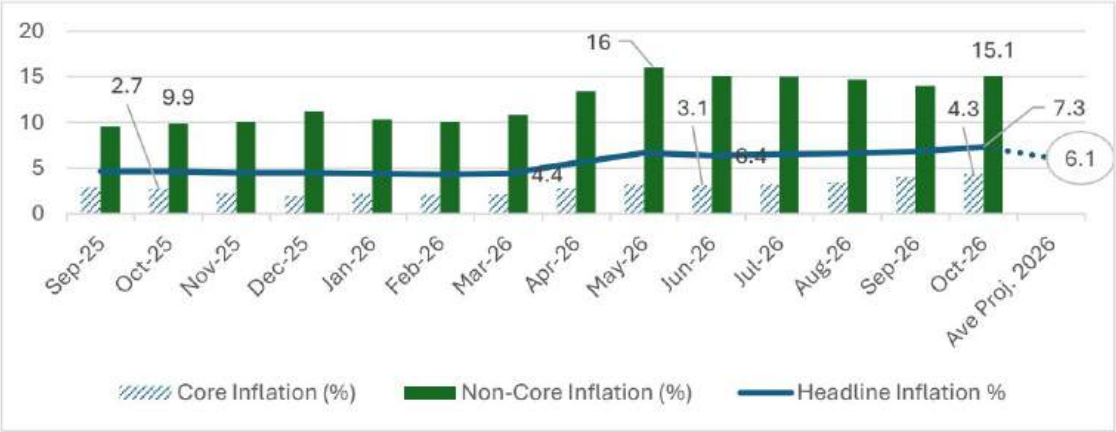
### 1.2.2 Inflation

6. **Global inflation is expected to rise from 4.1 percent in 2025 to 4.7 percent in 2026 before easing to 4.1 percent in 2027.** The increase in 2026 is mainly driven by higher energy and food prices reflecting the effects of the conflict in the Middle East[7].

7. **In Kenya, overall inflation remained within the Central Bank of Kenya's (CBK) target of 5±2.5 percent but increased from 4.6 percent in October 2025 to 7.3 percent in October 2026 (Figure 3)[8].** The increase was largely driven by higher energy costs. Non-core inflation rose sharply from 9.9 percent in October 2025 to 15.1 percent in October 2026, reflecting the significant increase in energy and other volatile prices, while core inflation remained relatively stable, increasing by about 1.6 percent over the same period (Figure 3). The sharp rise in non-core inflation was primarily associated with disruptions to commodity flows from the Gulf region, which increased global energy prices, raised production and transportation costs, and consequently exerted upward pressure on consumer prices[9].

[7] IMF (2026). World Economic Outlook update: Global economy in crosscurrents of war and technology
[8] KNBS (2026). The Kenya consumer price index and inflation report: 30th September 2026
[9] World Bank (2026). June 2026 global economic prospects flagship report

**Figure 3: Inflation trend in Kenya (September 2025-September 2026)**




*Source: KNBS Data, PBO projection*

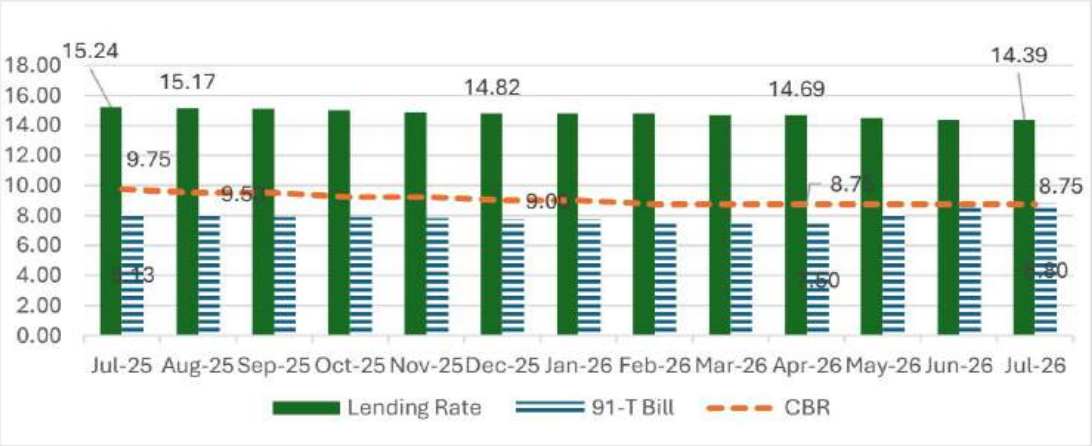
8. **Kenya's growth and inflation outlook presents both opportunities and challenges for counties and the implementation of MTP IV and BETA.** Economic growth provides a basis for advancing priorities on job creation, productivity and inclusive growth but the growth rate remained below the 6.5 percent envisaged under MTP IV by 2025. The Parliamentary Budget Office projects inflation to average about 6.1 percent in 2026, above the 5 percent MTP IV target, and it remains subject to pressures from food and energy prices.

9. **For counties, stronger growth supports jobs and revenue, while higher inflation raises the cost of delivering services.** Stronger economic activity can expand employment, household incomes, MSME activity and own-source revenue (OSR) while elevated inflation increases the cost of fuel, medicines, construction materials and other inputs required for service delivery and development projects and can constrain household purchasing power. This underscores the importance of county investments that support agricultural productivity, MSMEs, local infrastructure, health, human capital and digitalisation while maintaining prudent budgeting to protect essential services and development priorities in an environment of elevated costs and projected national economic growth decline.

### 1.2.3 Interest Rates and Credit

10. **Monetary policy easing has improved liquidity conditions and gradually reduced borrowing costs for the private sector, although transmission across financial markets and credit growth has remained incomplete.** Between July 2025 and July 2026 (Figure 4), the Central Bank Rate (CBR) declined by 100 basis points from 9.75 percent to 8.75 percent while the average lending rate fell by 85 basis points from 15.24 percent to 14.39 percent.

**Figure 4: Interest rates trend for the period July 2025 to July 2026**




*Source: CBK Data*

11. **Lower policy rates have passed through to interbank funding costs.** The Kenya Shilling Overnight Index Average (KESONIA) declined from 9.51 percent in September 2025 to 8.75 percent by April 2026 and remained at 8.75 percent through July 2026 (Table 1), closely tracking the reduction in CBR and indicating effective transmission to overnight interbank funding costs. The operationalisation of the Risk-Based Credit Pricing Model (RBCPM) in March 2026 further strengthened the transmission of monetary policy by improving transparency and risk-based pricing of credit. However, the 91-day Treasury Bill rate increased by 65 basis points from 8.13 percent to 8.78 percent (Figure 4) over the same period, suggesting that government financing needs and market liquidity continued to influence short-term interest rates.

**Table 1: Trends in the CBR, interbank rate and KESONIA, September 2025 to July 2026**

| Month | Interbank Rate | CBR | KESONIA |
|---|---|---|---|
| Sep-25 | 9.48 | 9.50 | 9.51 |
| Oct-25 | 9.33 | 9.25 | 9.24 |
| Nov-25 | 9.24 | 9.25 | 9.25 |
| Dec-25 | 9.08 | 9.00 | 9.00 |
| Jan-26 | 8.99 | 9.00 | 9.00 |
| Feb-26 | 8.84 | 8.75 | 8.76 |
| Mar-26 | 8.7 | 8.75 | 8.74 |
| Apr-26 | 8.75 | 8.75 | 8.75 |
| May-26 | 8.75 | 8.75 | 8.75 |
| Jun-26 | 8.75 | 8.75 | 8.75 |
| Jul-26 | 8.75 | 8.75 | 8.75 |

*Source: CBK Data*

12. **For counties, the lower cost of credit provides a more favourable environment for MSMEs, investment, employment and local economic activity.** However, the uneven growth and distribution of private-sector credit may limit these benefits across counties and sectors. Private sector credit growth fluctuated, contracting by 0.4 percent in January 2026 before increasing by 1.7 percent in May and 1.5 percent in June 2026 (Figure 5), while government credit

expanded by 4.9 percent in January 2026 as private sector credit contracted, suggesting periods of potential crowding-out.

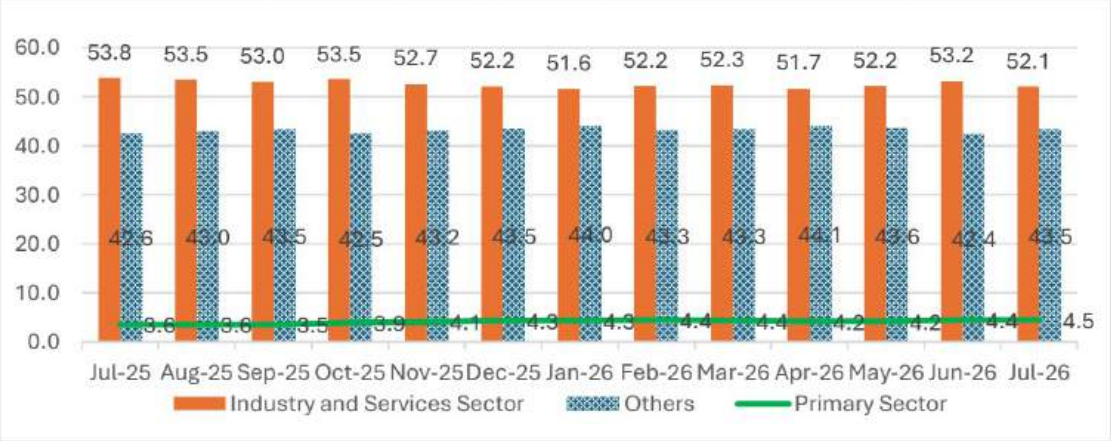
**Figure 5: Private sector and government credit growth (%), Sep. 2025 to July 2026**




*Source: CBK Data*

13. **Credit remains concentrated in industry and services, and the primary sector receives the smallest share.** Credit remained heavily concentrated in industry and services which accounted for 52.1 percent of private sector credit in July 2026 while the primary sector received the smallest share of credit, growing modestly from 3.5 percent in September 2025 to 4.5 percent in July 2026 (Figure 6). This is particularly relevant to counties because agriculture, which is a subset of the primary sector, is a devolved function and a major source of livelihoods and economic activity in many counties. Limited access to credit for agriculture and other primary sector activities may therefore constrain investment, productivity, value addition and employment in county economies, despite the overall improvement in monetary and credit conditions.

**Figure 6: Distribution of private sector credit by sector (July 2025 to July 2026)**



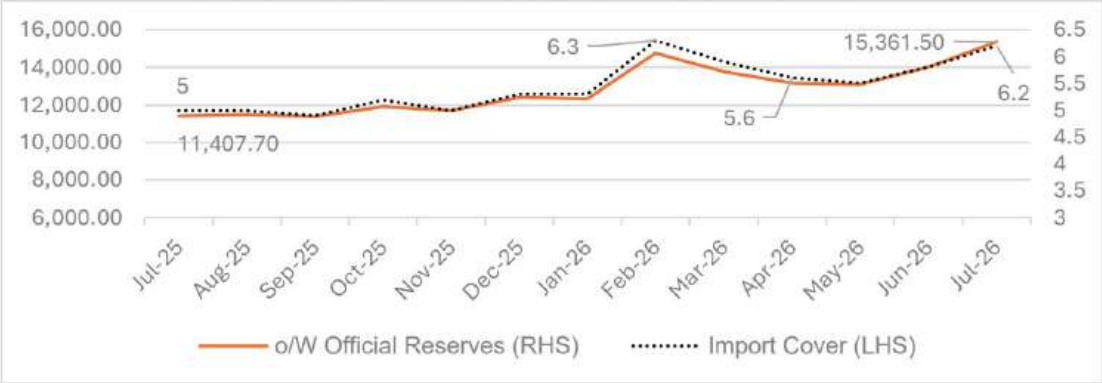

*Source: CBK Data*

## 1.2.4 Exchange Rates and Reserves

14. **Kenya's external position strengthened between July 2025 and July 2026.** Official foreign exchange reserves rose from about USD 11.41 billion, equivalent to 5.0 months of import cover, to USD 15.36 billion, equivalent to 6.2 months of import cover

(Figure 7). This represented an increase of 24 percent in import cover, keeping reserves comfortably above the CBK statutory minimum of 4 months.

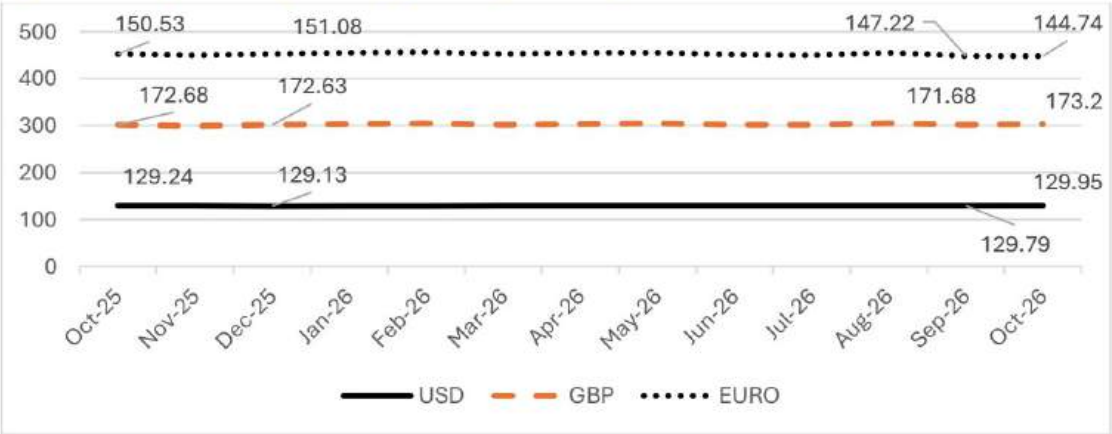
**Figure 7: Official reserves (USD million) and months of import cover**




*Source: CBK Data*

15. **The Kenya Shilling also remained broadly stable against major currencies.** The exchange rate against the United States (US) dollar moved from Kshs.129.24 in October 2025 to Kshs.129.95 in October 2026, from Kshs.172.68 to Kshs.173.20 against the pound and from Kshs.150.53 to Kshs.144.74 against the euro for the same period (Figure 8).

**Figure 8: Kenya shilling exchange rate against major currencies**




*Source: CBK Data*

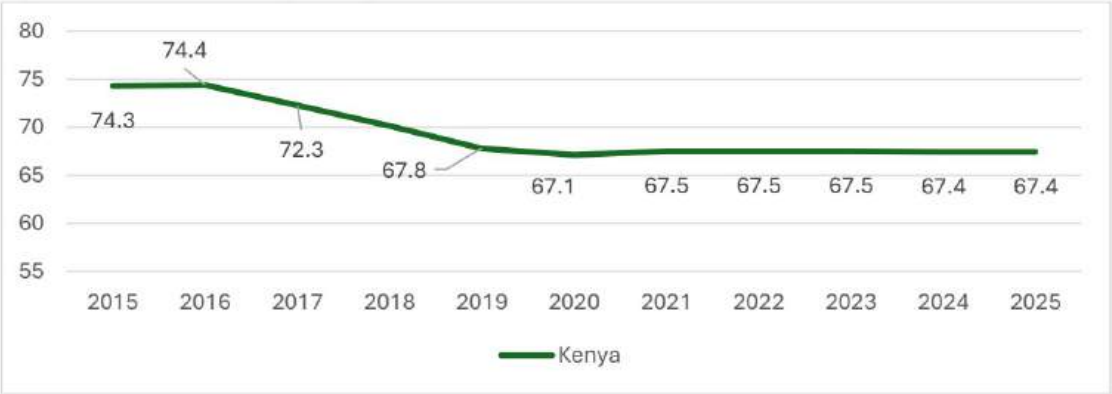
16. **A stable exchange rate and stronger reserves help contain the cost of imported county equipment.** The exchange rate stability and stronger reserve position provide a favourable external environment that is relevant to county budgets as vehicles; Information, Communication and Technology (ICT) equipment; machinery and other equipment are imported. Changes in the exchange rate and reserve position can therefore affect county procurement and development costs.

## 1.3 Employment and Household Incomes

17. **Kenya's labour market indicators point to weakening labour force participation, rising unemployment and declining productivity.** The labour force

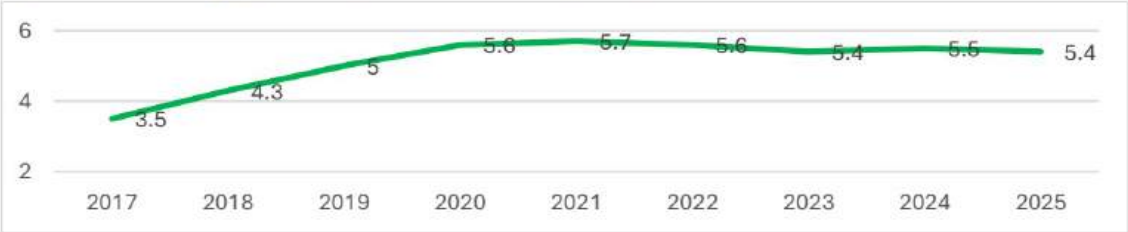
participation rate declined from 72.3 percent in 2015 to 67.4 percent in 2025 (Figure 9), a reduction of 4.9 percentage points, while the unemployment rate increased from 3.5 percent to 5.4 percent over the same period (Figure 10). At the same time, total factor productivity (TFP) declined from 874.7 in 2015 after peaking at 952.5 in 2018 to 739.0 in 2025 (Figure 11), a 15.5 percent decline from 2015. This indicates that growth increasingly relied on the accumulation of labour and capital rather than improvements in the efficiency with which these factors of production are used.

**Figure 9: Labour force participation rate from 2015 to 2025**




*Source: ILO Data*

**Figure 10: Unemployment rate10 from 2015 to 2025**




*Source: ILO Data*

**Figure 11: Total factor productivity from 2016-2025**

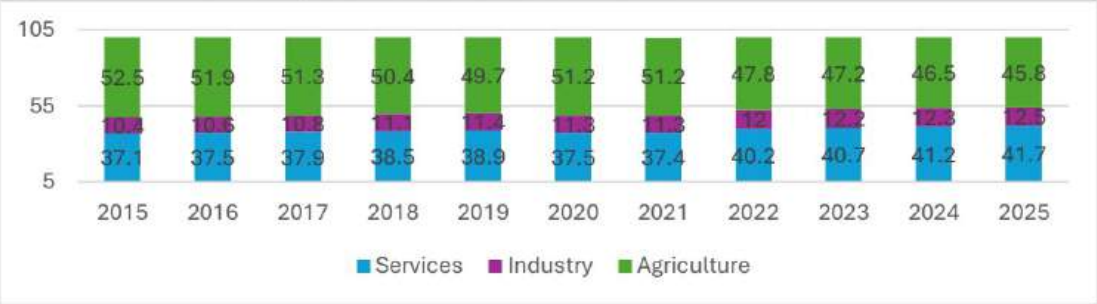



*Source: PBO, Macroeconomic Diagnostics*

18. **Agriculture remains particularly important for counties although its share of employment declined from 52.5 percent in 2015 to 45.8 percent in 2025 (Figure 12).** It remained the largest employment sector while services increased from 37.1 percent to 41.7 percent and industry from 10.4 percent to 12.5 percent. The continued importance of agriculture means that changes in agricultural employment and productivity have direct implications for county incomes, livelihoods and economic activity,

particularly in rural and agriculture-dependent counties.

**Figure 12: Sector employment rate from 2015 to 2025**



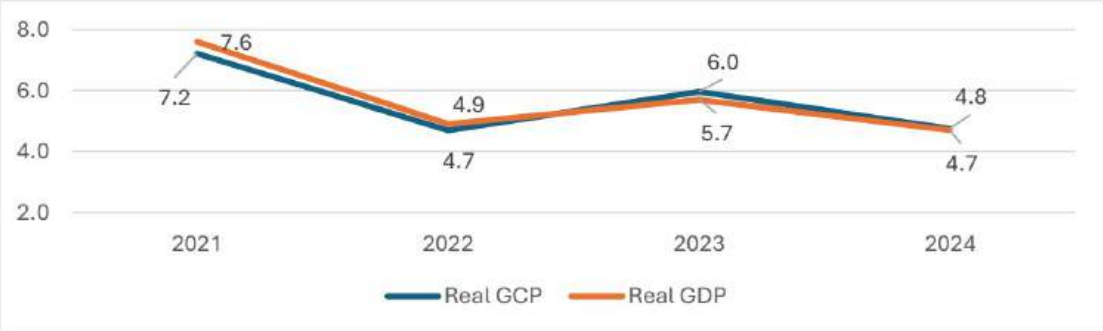

*Source: ILO Data*

19. **Raising productivity at the county level therefore requires more than increasing investment and employment.** It requires stronger technological adoption, skills development, enhanced agricultural productivity, infrastructure, industrialisation and support for MSMEs and productive activities.

## 1.4 The County Economic Landscape

20. **Counties generated a total Gross County Product (GCP) of Kshs.14.97 trillion in 2024[10].** Real GCP growth broadly mirrored national real GDP growth over the period 2021-2024 (Figure 13), indicating that county economic performance moved largely in line with the national economy. Real GCP growth declined from 7.2 percent to 4.7 percent, before recovering to 6.0 percent and moderating to 4.8 percent compared with real GDP growth of 7.6 percent, 4.9 percent, 5.7 percent and 4.7 percent respectively. The close movements suggest that national economic conditions are reflected at the county level, although the magnitude of growth varies with differences in sectoral structure across counties.

**Figure 13: Real GCP and GDP comparison for period 2021-2024**



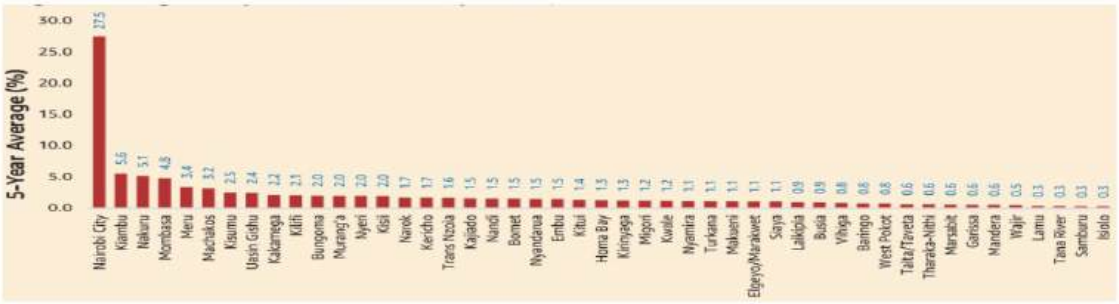

*Source: KNBS Data*

21. **County economies vary substantially in size with economic activity highly concentrated in a few counties.** A five-year average (Figure 14) shows that Nairobi

[10] KNBS (2025). Gross county product (GCP) 2025: Tracking the progress and diversity of county economies

City accounted for 27.5 percent of national GCP followed by Kiambu (5.6 percent), Nakuru (5.1 percent), Mombasa (4.8 percent), Meru (4.3 percent) and Machakos (3.2 percent) with the rest contributing less than 3 percent.

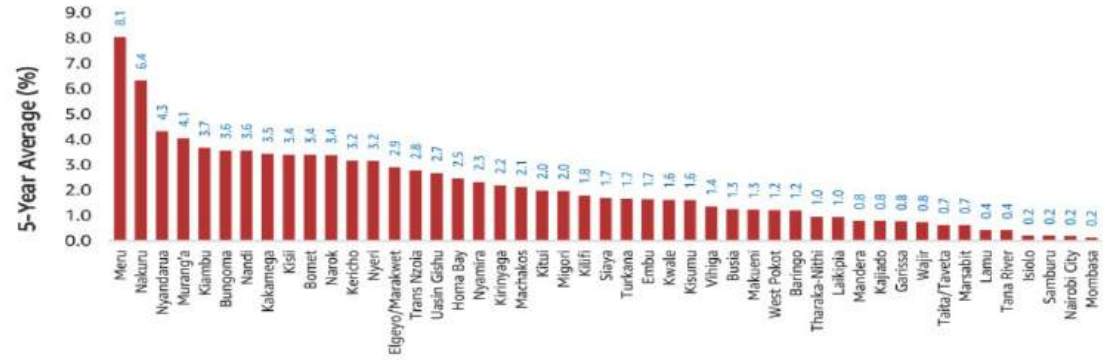
**Figure 14: Average county share of GCP, 2020-2024**




*Source: KNBS*

22. **The sectoral structure also differs across counties.** Agriculture, forestry and fishing is particularly important in rural counties with Meru recording the highest average share at 8.1 percent during the 2020-2024 period (Figure 15), while manufacturing (Figure 16) is concentrated in Nairobi City (36.4 percent), Mombasa (9.8 percent), Kiambu (8.3 percent) and Machakos (8.0 percent), with others contributing less than 5 percent.

**Figure 15: Average county share of agriculture, forestry and fishing (2020-2024)**




*Source: KNBS*

**Figure 16: Average county share of manufacturing (2020-2024)**




*Source: KNBS*

23. **Service sector activities (Figure 17) are similarly concentrated, led by Nairobi City at 37.6 percent followed by Mombasa (5.6 percent), Kiambu (4.9 percent) and Nakuru (4.3 percent).** These differences underscore the need for county budgets and development strategies to reflect local economic structures supporting agriculture, manufacturing and services sectors.

**Figure 17: Average county share of service activities (2020-2024)**



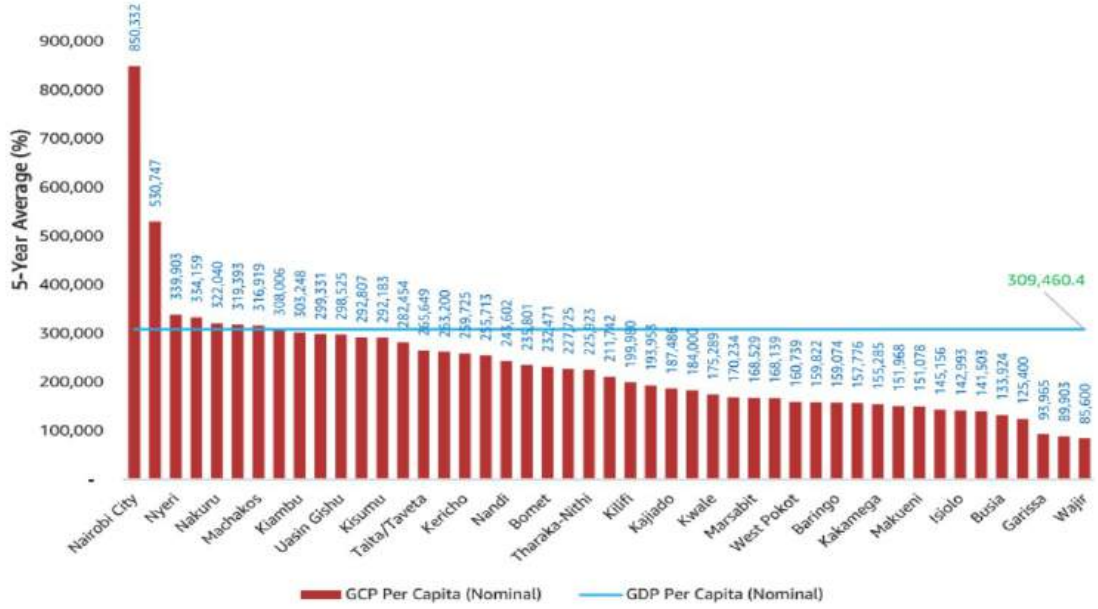

*Source: KNBS*

24. **Agriculture is central to most rural county economies.** This underscores the importance of county investments in agricultural productivity, extension services, water, rural infrastructure, markets and value addition.

25. **The concentration of services in Nairobi and other major commercial centres reflects the importance of trade, finance, real estate, transport, information and communication and other business services.** This calls for investments in urban infrastructure, transport, markets, digital connectivity and other enabling services.

26. **The GCP per capita provides an indication of economic development and the level of economic activity per person across counties.** Figure 18 indicates that GCP per capita varied significantly across counties. Nairobi City recorded the highest at Kshs.850,532, followed by Mombasa at Kshs.530,747 while Wajir (Kshs.85,600) and Garissa (Kshs.89,903) recorded the lowest. Only a few counties including Nairobi City, Mombasa, Nyeri, Embu, Nakuru, Meru and Machakos recorded GCP per capita above the national GDP per capita of Kshs.309,460.

**Figure 18: GCP per capita 5-year average (2020-2024)**




*Source: KNBS*

27. **The wide disparities point to uneven levels of economic development and productivity across counties, reflecting differences in concentration and diversity of economic activities.** Counties with lower GCP per capita may have a narrower economic and local revenue base, underscoring the need for targeted investments in infrastructure, human capital, value addition and economic diversification to promote more balanced and inclusive county development.

# CHAPTER TWO

# COUNTY GOVERNMENTS' RESOURCE MOBILISATION AND EXPENDITURE PRIORITISATION FOR FY 2027/28

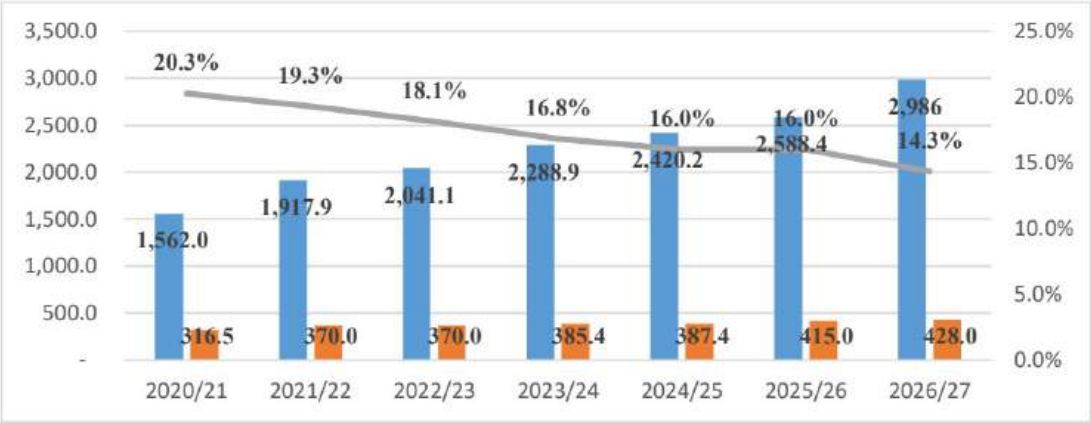
*Increasing financial allocations to county governments is necessary but insufficient to unlock the economic potential of devolution. Indeed, a county allocation can be inadequate relative to service delivery needs yet unaffordable within the prevailing national resource envelope. The objective is therefore not merely to increase allocations, but to establish a credible balance between expenditure needs, available resources and fiscal sustainability. Unlocking the economic potential of counties requires a fundamental shift from increasing fiscal transfers to improving the efficiency, sustainability and developmental impact of devolved expenditure. Counties must simultaneously strengthen own-source revenue mobilisation, improve expenditure efficiency, contain recurrent spending, clear pending bills and complete stalled investments. National government support should increasingly be linked to sustainable financing arrangements, institutional reforms and measurable development outcomes. Ultimately, the success of devolution will be measured not only by the resources transferred to counties, but also by their contribution to economic growth, employment creation and improved living standards.*

## 2.1 Resource Mobilisation

### 2.1.1 Equitable Share

28. **County governments' equitable share of nationally raised revenue has increased in absolute terms, but its growth has remained modest relative to ordinary revenue collections.** Article 202(1) of the Constitution guarantees county governments an equitable share of nationally raised revenue, subject to the minimum allocation of 15 percent prescribed under Article 203(2). Although allocations to counties have increased in nominal terms, their growth has not kept pace with ordinary revenue collections, resulting in a declining share over time. Since FY 2020/21, allocations to counties have averaged 17.8 percent of the ordinary revenue. This trend partly reflects the national government's post-COVID fiscal consolidation strategy, which has sought to contain expenditure growth amidst mounting fiscal pressures and competing expenditure priorities.

**Figure 19: County Equitable Share compared to Ordinary Revenue (Kshs. billion)**




*Source: National Treasury.*

29. **The determination of the equitable share for FY 2027/28 should be guided by the adequacy of resources required to finance county government functions while safeguarding national fiscal sustainability.** Rather than relying primarily on the historical incremental approach to county revenue allocation, which applies a revenue growth factor whose determination lacks a clear and transparent basis, the equitable share should be informed by an objective assessment of county expenditure needs. This assessment should consider the reasonable cost of delivering essential devolved services, existing non-discretionary expenditure commitments, inflationary pressures and opportunities for expenditure efficiency.

30. **However, the adequacy of county financing cannot be assessed in isolation from the fiscal capacity of the national government and the competing demands on nationally raised revenue.** Persistent underperformance of ordinary revenue collections against projections, rising debt service obligations and the need to align expenditure commitments with the national government's fiscal consolidation strategy impose binding constraints on the resources available for distribution. Accordingly, the equitable share should be anchored on a credible assessment of county expenditure needs, adjusted for realistic revenue projections and national fiscal obligations while ensuring compliance with constitutional requirements. This approach would promote a more realistic and sustainable allocation of resources between the two levels of government and protect counties from disruptive delays in transfer of equitable share that may adversely affect budget implementation.

31. **An equitable share of Kshs.448.3 billion (Table 2) is proposed for FY 2027/28 to preserve the purchasing power of county resources while accommodating unavoidable expenditure cost pressures.** The proposed allocation is derived by adjusting the FY 2026/27 equitable share of Kshs.428 billion using a weighted expenditure cost increase of 4.74 percent, based on the actual composition of county expenditure in FY 2025/26. Specifically, compensation of employees, which accounts for 47.5 percent of total expenditure, is adjusted by 5 percent to accommodate anticipated wage drift, while operations and maintenance expenditure, accounting for 27 percent, is adjusted by 5 percent in line with the Central Bank of

Kenya's medium term inflation target, reflecting exposure of recurrent spending to volatile input costs such as fuel, electricity and transport. Development expenditure, accounting for 25.5 percent, is adjusted by an assumed core inflation rate of 4 percent, reflecting underlying demand-driven price pressures in the economy. This approach provides a transparent, expenditure-based framework for determining the equitable share, linking the proposed increase to the cost of maintaining existing county services rather than an arbitrary revenue growth factor.

**Table 2: Proposed Allocation to County Government**

| Component/Basis | Amount (Kshs. billion) |
|---|---|
| Baseline Allocation – minimum requirement for the 4th Basis | 387.425 |
| Affirmative Action Allocation – requirement of the 4th Basis | 4.460 |
| **Sub-total (Minimum allocation under the 4th Basis)** | **391.885** |
| Additional allocation (4 Parameters ratio) | 36.115 |
| **Total allocation for FY 2026/27** | **428** |
| Weighted expenditure cost adjustment (4.74%) | 20.308 |
| **Proposed allocation for FY 2027/28** | **448.310** |

*Source: PBO computations*

**Table 3: Estimation of weighted expenditure cost adjustment for FY 2027/28**

| Expenditure Category | FY 2025/26 county expenditure (Kshs. billion) | Expenditure weight | Assumed cost increase | Weighted contribution |
|---|---|---|---|---|
| Compensation of employees | 235.96 | 47.52% | 5% | 2.38% |
| Operations and Maintenance | 133.92 | 26.97% | 5% | 1.35% |
| Development expenditure | 126.69 | 25.51% | 4% | 1.02% |
| **Total** | **495.58** | **100%** | | **4.74%** |

*Data Source: Controller of Budget, FY 2025/26 County Governments Budget Implementation Review Report; PBO assumptions and computations*

32. **The proposed equitable share should be interpreted as an indicative expenditure-based benchmark rather than a definitive assessment of county financing requirements.** While the assumptions used provide reasonable proxies for anticipated expenditure cost pressures, they do not fully capture variations in input prices across expenditure categories, differences in county expenditure structures, or changes in service delivery obligations. Additionally, the expenditure categories of compensation to employees, O&M and development expenditure are broad and require further refining to assess cost of different recurrent inputs, relevant procurement prices including cost of equipment, machinery, vehicles and other capital assets as well as construction costs as regards development expenditure. The proposal is therefore not a comprehensive estimate of county expenditure needs but simply preserves the estimated purchasing power of the FY 2026/27 allocation. Notably, the weighted cost adjustment does not establish whether the original allocation was sufficient to finance devolved functions. Nevertheless, it presents a moderate cost escalation

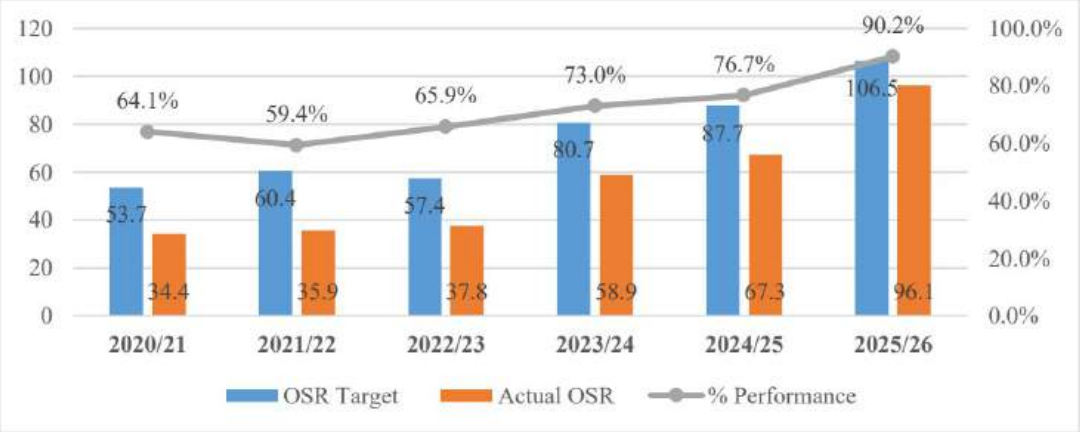
assumption that can be updated as more reliable price information is provided.

33. **The affordable equitable share for FY 2027/28 may be lower than the benchmark of Kshs.448.3 billion.** This reflects the prevailing fiscal constraints and heightened revenue mobilisation risks associated with the 2027 general elections. Although the National Treasury projects shareable revenue of Kshs.3,249.2 billion for FY 2027/28, the election cycle introduces uncertainty regarding revenue performance and expenditure pressures, raising the risk of significant revenue shortfalls against the projected resource envelope. Indeed, the projected economic growth of 4.4 percent, as outlined in Chapter One, points to a relatively subdued revenue mobilisation outlook. Consequently, the determination of the equitable share should balance the need to preserve the financial viability of county governments against the national government's capacity to finance competing expenditure obligations.

### 2.1.2 Own Source Revenue

34. **County governments have recorded improvements in own-source revenue (OSR) mobilisation, although performance remains heavily dependent on Facility Improvement Financing (FIF).** Between FY 2020/21 and FY 2023/24, actual OSR collections consistently remained below 75 percent of annual targets. Performance improved in FY 2024/25 and FY 2025/26, with collections reaching Kshs.96.1 billion against a target of Kshs.106.5 billion in FY 2025/26, equivalent to 90.2 percent (Figure 20). However, this improvement has been largely driven by FIF collections from healthcare user fees, highlighting the limited diversification of county revenue sources and the continued underperformance of traditional revenue streams.

**Figure 20: Own Source Revenue Performance from FY 2020/21 to FY 2025/26.**




*Source: Controller of Budget (COB).*

35. **The reliance on annual county finance legislation undermines the predictability, administrative efficiency and sustainability of major OSR streams.** Beyond FIF, county governments mobilise revenue through business permits, property and land rates, agricultural and other product cess, parking fees, advertising and promotional charges, and game park fees, among others. These revenue streams are predominantly governed through annual county finance legislation, exposing taxpayers and investors to frequent changes in rates and administrative requirements each time the

county finance bill is re-legislated. The annual legislative process also increases administrative costs and creates opportunities for inconsistent enforcement as the legal basis for collection shifts constantly. Establishing a permanent anchoring statute (primary legislation) for major OSR streams, while allowing periodic reviews of rates and administrative procedures, would strengthen legal certainty, improve compliance and enhance revenue predictability.

36. **The experience of Facility Improvement Financing demonstrates the potential benefits of providing revenue streams with a stable legal and institutional framework.** Following the enactment of the Facilities Improvement Financing Act, 2023, FIF collections increased threefold, from Kshs.6 billion in FY 2022/23 to Kshs.18 billion in FY 2023/24. This demonstrates that anchoring a revenue stream on primary legislation provides greater certainty regarding revenue collection, retention and administration, illustrating the importance of institutional arrangements in strengthening revenue performance. Extending similar legislative stability to other major OSR streams could improve compliance and reduce revenue leakages. Subject to complementary administrative reforms, ordinary OSR performance could progressively improve from the prevailing 67–77 percent range towards 90 percent. Table 4 presents possible outcomes if these revenue streams are permanently legislated.

**Table 4: Projected Improvements for Legislated Revenue Streams**

| Revenue Stream | Current Constraint | Projected Improvement if legislated |
|---|---|---|
| Property/Land Rates | Outdated valuation rolls, annual re-legislation, and politically motivated waivers. | Stable basis enables multi-year valuation cycles and improved compliance |
| Business Permits | Prone to yearly revisions, deterring formalisation | Predictable fees encourage business registration and compliance |
| Agricultural Cess | Subject to political interference in annual finance bills | Permanent legislation reduces arbitrariness; improves collection at source |
| Parking/Advertisement Fees | Administrative fragmentation | Consolidated administration reduces leakages |

37. **Unrealistic OSR projections continue to undermine the credibility of county budgets and contribute to the accumulation of pending bills.** The Controller of Budget (COB) has repeatedly observed that county governments routinely overstate their Own Source Revenue projections to balance their proposed budgets, creating financing gaps when actual collections fall below target. To strengthen fiscal discipline, annual OSR projections should be limited to an increase of no more than 5 percent of the previous year's actual collections, or the prevailing inflation rate, whichever is lower. The Controller of Budget (COB) should be mandated to verify compliance with this requirement before county budgets are approved and uploaded for implementation. Such a measure would promote realistic revenue forecasting, improve budget credibility and reduce the accumulation of unfunded expenditure commitments.

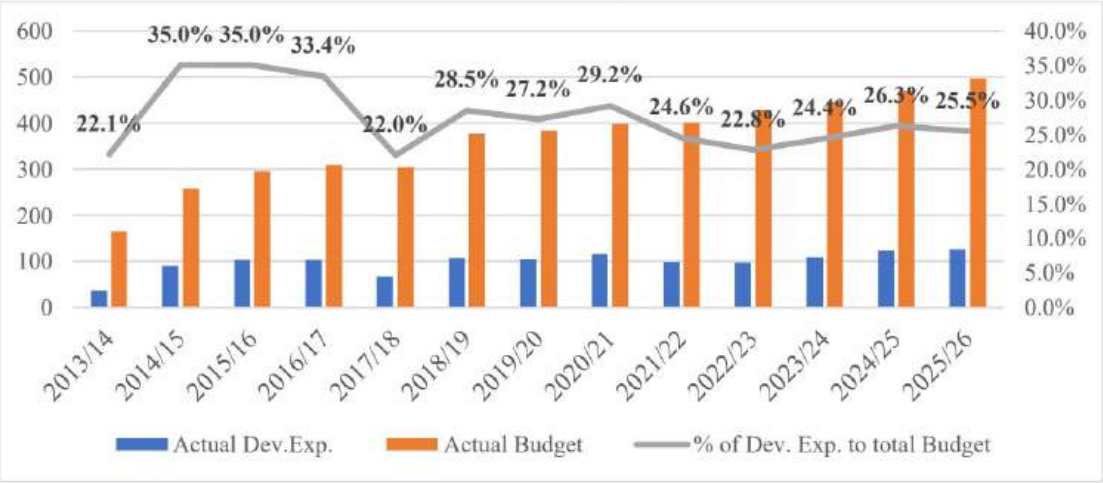
## 2.2 Expenditure Prioritisation for FY 2027/28

38. **Improving the developmental impact of county spending requires stronger compliance with statutory fiscal responsibility principles.** Section 107 of the Public Finance Management Act (Cap. 412A), together with the accompanying regulations, establishes fiscal responsibility requirements intended to promote sustainable expenditure management. These include minimum development expenditure requirements and limits on compensation of employees. In preparing their FY 2027/28 budgets, county governments should prioritise compliance with these thresholds to strengthen fiscal sustainability, preserve resources for productive investment and improve service delivery.

### 2.2.1 County Governments' Development Expenditures for FY 2027/28

39. **County governments have persistently fallen short of the statutory requirement to allocate at least 30 percent of their budgets to development expenditure.** Section 107(2)(b) of the PFM Act and Regulation 25(1)(g) of the PFM (County Governments) Regulations, 2015 require county governments to allocate a minimum of 30 percent of their budgets to development expenditure over the medium term. A review of actual expenditure indicates that this threshold was achieved only in FY 2014/15, FY 2015/16 and FY 2016/17. Since then, development spending performance has deteriorated, stabilising at approximately 25 percent of actual county expenditure in recent years (Figure 21). This persistent shortfall limits the resources available for infrastructure development, productive investment and long-term economic growth.

**Figure 21: Actual development expenditures compared to actual budgets**




*Source: County Governments Budget Implementation Review Report by COB.*

40. **Restoring compliance with the 30 percent development expenditure threshold will require counties to increase actual development spending by approximately Kshs.24-27 billion annually over the medium term.**

Persistent failure to meet the 30 percent development threshold points to entrenched structural and capacity weaknesses in county fiscal management. Deliberate corrective actions are therefore necessary to steer county governments toward prioritising development spending. Assuming county budgets grow by an average of about 4.8 percent a year, projected aggregate budgets would reach Kshs.543.3 billion in FY 2027/28 and Kshs.596.6 billion by FY 2029/30 (Table 5). At the prevailing development expenditure ratio of approximately 25.5 percent, actual spending would remain substantially below the statutory threshold. Meeting the 30 percent requirement would necessitate additional development expenditure of Kshs.24.4 billion in FY 2027/28, Kshs.24.9 billion in FY 2028/29 and Kshs.26.8 billion in FY 2029/30.

**Table 5: Projected Total Budgets and Development Expenditures**

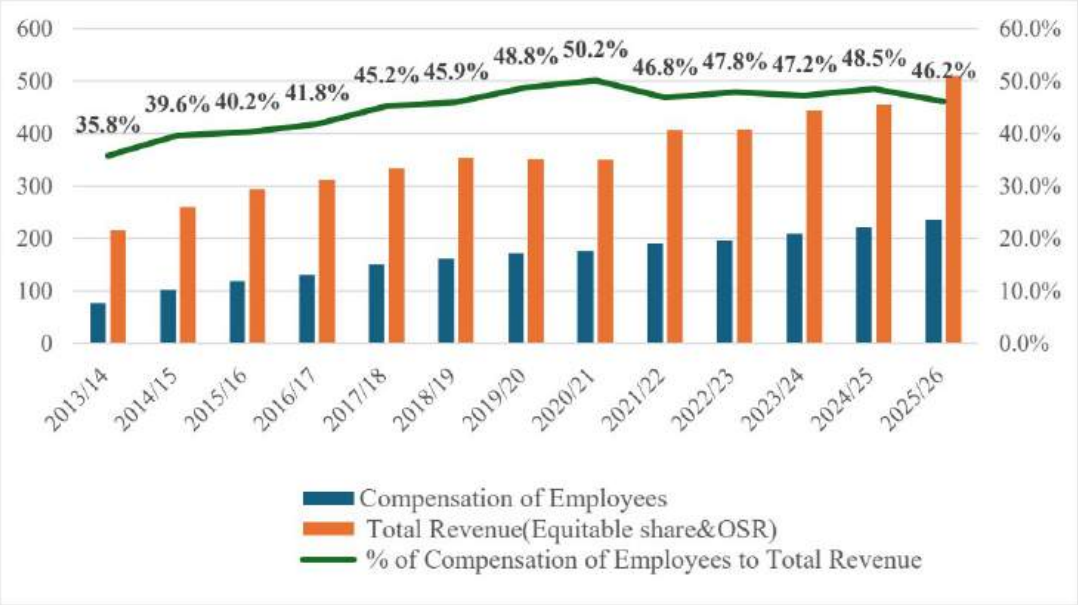
| | FY 2027/28 | FY 2028/29 | FY 2029/30 |
|---|---|---|---|
| Projected Total Budget ~4.8% a year (Kshs. billion) | 543.3 | 552.7 | 596.6 |
| Required Dev. Exp. (30%)- (Kshs. billion) | 163.0 | 165.8 | 179.0 |
| Current Trend Dev. Exp. (~25.5%)- (Kshs. billion) | 138.5 | 140.9 | 152.1 |
| Additional Dev. Exp. Needed- (Kshs. billion) | 24.4 | 24.9 | 26.8 |

*Source: PBO Computations*

### 2.2.2 Control on Expenditure on Compensation of Employees

41. **The persistent breach of the statutory wage bill ceiling represents a major structural threat to county fiscal sustainability.** Section 107(2) of the PFM Act, Cap 412A, as operationalised through Regulation 25(1)(b) of the PFM (County Governments) Regulations, 2015, limits expenditure on compensation of employees to 35 percent of total county revenue, comprising equitable share and OSR. However, Figure 22 and county budget implementation reports indicate that this ceiling has been breached in every financial year since the establishment of county governments in FY 2013/14. This persistent non-compliance has constrained fiscal space for development expenditure and essential service delivery, underscoring the need for sustained payroll rationalisation and expenditure controls.

**Figure 22: Trend of County Compensation of Employees as a Percentage of Total Revenue, FY 2013/14–FY 2025/26.**




*Source: PBO*

42. **Compliance with the 35 percent wage bill ceiling in FY 2027/28 would require significant payroll rationalisation under the proposed revenue framework.** Assuming an equitable share of Kshs.448.3 billion and OSR mobilisation of approximately Kshs.110-145 billion, equivalent to at least 20–25 percent of total county revenue, aggregate county revenue would range between Kshs.558.3 billion and Kshs.580 billion. Applying the statutory ceiling would limit compensation of employees to approximately Kshs.195–203 billion, compared with an estimated wage bill of Kshs.235.9 billion in FY 2025/26. This implies a required adjustment of approximately Kshs.33–41 billion, equivalent to 14–17 percent of the existing wage bill. Counties should therefore prioritise payroll audits, automation of payroll systems and restrictions on non-essential recruitment to contain expenditure growth while safeguarding critical service delivery functions.

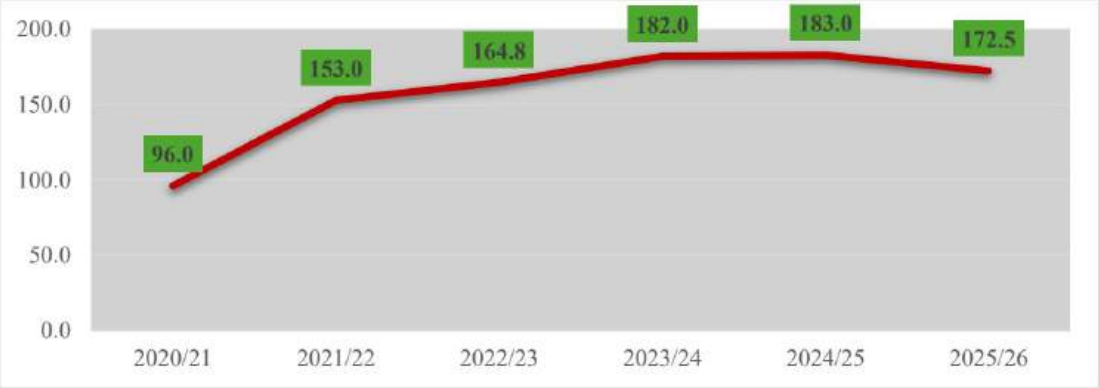
43. **A medium-term wage bill containment strategy offers a more gradual pathway towards compliance without requiring immediate large-scale payroll reductions.** Under this approach, counties exceeding the statutory ceiling would maintain compensation of employees at the FY 2025/26 nominal level while allowing revenue growth to progressively reduce the wage-to-revenue ratio. Assuming annual equitable share increases of approximately Kshs.7 billion and OSR growth of 13–15 percent, aggregate county revenue could rise from approximately Kshs.560 billion in FY 2027/28 to Kshs.675 billion by FY 2030/31. With compensation held constant at Kshs.235.9 billion, the wage-to-revenue ratio would decline to approximately 34.9 percent, bringing counties within the statutory ceiling. This approach should be complemented by reductions in discretionary recurrent expenditure and stronger payroll controls.

### 2.2.3 Pending Bills: Breaking the Cycle of Arrears Accumulation

44. **The continued accumulation of county pending bills is eroding the economic**

**benefits of increased fiscal transfers and weakening the credibility of county financial management.** Despite sustained increases in equitable share allocations, county governments have struggled to settle outstanding obligations, with pending bills reaching Kshs.172.5 billion by June 2026 (Figure 23), nearly double the stock recorded at the end of FY 2020/21. The persistent rollover of unpaid obligations into subsequent financial years has created a cycle of arrears accumulation that constrains suppliers' liquidity, undermines business confidence and reduces the developmental impact of devolved resources.

**Figure 23: Annual trend of pending bills (Kshs. billion).**




*Source: County Governments Budget Implementation Review Report by COB.*

45. **The ageing profile of county pending bills reveals a structural inability to clear historical obligations while preventing the accumulation of new arrears.** Table 6 indicates that as at June 2026, Kshs.71.7 billion, equivalent to approximately 41 percent of outstanding bills, had remained unpaid for more than three years. Notably, Nairobi City County accounted for Kshs.49.1 billion of this long-outstanding obligation. A further Kshs.46.7 billion, or 27 percent of the national stock, was incurred within FY 2025/26, while Kshs.30.6 billion and Kshs.22.9 billion were aged between 1–2 years and 2–3 years, respectively. Nairobi's total outstanding obligations stood at Kshs.86.9 billion, representing 50.4 percent of the national stock. The simultaneous ageing and replenishment of pending bills underscores the need for a comprehensive settlement framework supported by stronger commitment controls.

**Table 6: Ageing analysis of pending bills as of 30th June 2026**

| Category | Description | Amount (Kshs. billion) | % of Total Stock |
|---|---|---|---|
| **Total Pending Bills** | **National stock as at end of FY 2025/26** | **172.5** | **100%** |
| Aged > 3 Years | Long-outstanding bills | 71.7 | 41% |
| Aged < 1 Year | Newly incurred bills within FY 2025/26 | 46.7 | 27% |
| Aged 1–2 Years | Medium-term arrears | 30.6 | 18% |
| Aged 2–3 Years | Medium-term arrears | 22.9 | 13% |
| Nairobi City County Share | Share of the national pending bill stock | 86.9 | 50.4% |

46. **A structured three-year arrears settlement programme is proposed to eliminate outstanding county trade payables, while preventing the creation of new obligations.** Consistent with Regulation 55(2)(b) of the PFM (County Governments) Regulations, 2015, county governments should prioritise trade payables as a first charge on revenue. The proposed framework would begin in FY 2027/28 with the settlement of outstanding bills of up to Kshs.1 billion, prioritising small and medium-sized enterprises and small contractors. In FY 2028/29, counties with larger arrears would clear the next Kshs.1 billion, or the remaining eligible balance. All outstanding balances above Kshs.2 billion would be settled in FY 2029/30. The programme should be accompanied by ring-fenced budgetary provisions and strict controls against further accumulation of pending bills. County specific settlement requirements are provided in Annex 6.

47. **Nairobi City County's disproportionately large stock of pending bills warrants a targeted intervention involving the National Government.** With outstanding obligations of Kshs.86.9 billion (Table 6), Nairobi accounts for approximately half of the national pending bills stock, creating significant risks for businesses and economic activity. A conditional matching-financing arrangement could be introduced under which the National Government contributes Kshs.1 for every Kshs.2 settled by Nairobi County, or alternatively, matches county payments on a one-to-one basis, that is, a shilling for a shilling. Such support should be contingent upon verifiable revenue administration and governance reforms, credible settlement commitments and measures to prevent further arrears accumulation. Clearing the outstanding stock by 2030 would improve liquidity for suppliers and contractors, strengthen business confidence and support economic recovery across county economies.

**Table 7: Proposed Multi-Year Pending Bills settlement matrix (FY 2027/28 – 2029/30)**

| Phase / FY | Target Category (Trade Payables) | Proposed Funding Mechanism |
|---|---|---|
| Phase 1: FY 2027/28 | All bills ≤ Kshs.1 billion: priority to be given to SMEs & small contractors. | Treated as a First Charge on county revenue, in strict compliance with Regulation 55(2)(b) of the PFM (County Governments) Regulations, 2015. |
| Phase 2: FY 2028/29 | The next Kshs.1 billion or balance of outstanding stock – for counties with larger arrears. | Counties can be required to ring-fence funds in their County Integrated Development Plans (CIDPs) and Annual Development Plans (ADPs) |
| Phase 3: FY 2029/30 | All remaining arrears above Kshs.2 billion or balances after previous payments. | |
| Special Intervention – FY 2027/28 – 2029/30 | Nairobi City County pending bills – Kshs.86.9 billion | Matching-Basis Arrangement: National Government (National Treasury) matches Nairobi County's payments on a 1:2 ratio (e.g., GoK pays Kshs.1 for every Kshs.2 paid by Nairobi). Alternatively, a shilling for a shilling. |

### 2.2.4 Prioritising Completion of Stalled Projects for Economic Recovery

48. **The growing stock of stalled county projects represents a significant loss of public investment value and an opportunity cost for local economic development.** As at the end of FY 2025/26, 22 county governments reported 189 stalled projects with a combined estimated value of Kshs.10.51 billion (Table 8). According to the Controller of Budget, approximately Kshs.4.21 billion had already been spent, leaving an estimated Kshs.6.3 billion required for completion. These projects remain at varying stages of implementation, with several having been abandoned without subsequent budgetary allocations. Consequently, substantial public resources remain tied up in incomplete and non-productive assets, limiting the returns on past public investments.

49. **Prioritising the completion of viable stalled projects in FY 2027/28 could generate faster economic returns than initiating additional projects while existing investments remain unfinished.** The 22 affected county governments should undertake project-level assessments and allocate resources towards completing stalled investments with demonstrable economic and social benefits. Completing these projects would help convert these sunk costs into productive infrastructure, create employment opportunities, improve access to services and potentially strengthen county revenue mobilisation. The proposed prioritisation should be informed by the remaining completion costs, expected economic returns and implementation readiness of individual projects.

**Table 8: Stalled Projects by County-Amount Spent vs. Required for Completion (Kshs. million)**

| SN | County | No of Stalled Projects | Total value of projects | Amount spent on the project | Required amount |
|---|---|---|---|---|---|
| 1 | Baringo | 23 | 163.32 | 83.69 | 79.63 |
| 2 | Elgeyo-Marakwet | 2 | 98.73 | 60.78 | 37.95 |
| 3 | Garissa | 4 | 283.54 | 38.65 | 244.89 |
| 4 | Isiolo | 7 | 1,769.48 | 1,135.32 | 634.16 |
| 5 | Kakamega | 26 | 848.95 | 218.98 | 629.97 |
| 6 | Kericho | 6 | 280.32 | 95.39 | 184.93 |
| 7 | Kiambu | 2 | 91.67 | 16.50 | 75.17 |
| 8 | Kilifi | 10 | 143.35 | 43.26 | 100.09 |
| 9 | Kwale | 3 | 461.43 | 242.26 | 219.17 |
| 10 | Lamu | 4 | 366.13 | 183.73 | 182.40 |
| 11 | Machakos | 22 | 891.58 | 314.26 | 577.32 |
| 12 | Meru | 1 | 34.74 | 22.35 | 12.39 |
| 13 | Nairobi | 57 | 2,235.27 | 208.88 | 2,026.39 |
| 14 | Nakuru | 3 | 60.65 | 40.93 | 19.72 |
| 15 | Nandi | 6 | 23.00 | 4.19 | 18.81 |
| 16 | Nyamira | 1 | 34.38 | 26.62 | 7.76 |
| 17 | Samburu | 1 | 116.95 | 107.79 | 9.16 |
| 18 | Siaya | 1 | 1.88 | 3.72 | (1.84) |
| 19 | Tharaka-Nithi | 1 | 689.34 | 105.85 | 583.49 |

| SN | County | No of Stalled Projects | Total value of projects | Amount spent on the project | Required amount |
|---|---|---|---|---|---|
| 20 | Trans Nzoia | 1 | 874.00 | 794.52 | 79.48 |
| 21 | Turkana | 4 | 572.38 | 328.90 | 243.48 |
| 22 | Uasin Gishu | 4 | 466.92 | 129.58 | 337.34 |
| | **Total** | **189** | **10,508.01** | **4,206.15** | **6,301.86** |

*Source: County Governments Budget Implementation Review Report by COB.*

## 2.3 Additional Allocations

### 2.3.1 County Aggregation and Industrial Parks (CAIPs)

50. **Investments in County Aggregation and Industrial Parks (CAIPs) have largely focused on physical infrastructure, with limited progress towards establishing fully operational manufacturing facilities.** As at August 2026, the government had invested approximately Kshs.8.5 billion in the construction of County Aggregation and Industrial Parks (CAIPs) across 34 counties (Table 9). However, most investments resulted primarily in physical structures, with the manufacturing equipment and processing facilities required to support the identified value chains yet to be installed. This gap has constrained the ability of CAIPs to deliver their intended objectives of agricultural value addition, industrialisation and employment creation. Recognising this challenge, the National Government allocated Kshs.2.45 billion in FY 2026/27 to equip CAIPs in 16 counties.

51. **Realising the economic potential of CAIPs will require a shift in financing priorities from constructing facilities to operationalising integrated industrial production systems.** Over the medium term, approximately Kshs.37.5 billion in additional targeted investment is proposed to equip industrial parks, improve supporting infrastructure and complete the remaining facilities. In FY 2027/28, priority interventions include operationalising the first phase of 14 counties through investments in access roads and weighbridges, alongside Kshs.3.25 billion for constructing CAIP structures in the final phase (phase three) covering 13 counties. Further, investments of approximately Kshs.15.5 billion in FY 2028/29, and Kshs.10.4 billion in FY 2029/30 would support the subsequent phases of operationalisation. These investments would strengthen manufacturing and support the Ministry of Investments, Trade and Industry's goal of increasing manufacturing's contribution to GDP to 20 percent by 2030.

**Table 9: Medium-term resource requirement for the CAIPs project from the national government (Kshs. billion)**

| SN | Item description | FY 2023-2026/27 | FY 2027/28 | FY 2028/29 | FY 2029/30 |
|---|---|---|---|---|---|
| 1 | National government contribution towards the construction of 34 CAIPs | 8,500 | | | |
| 2 | Equipping of 16 CAIPs | 2,450 | | | |

| SN | Item description | FY 2023-2026/27 | FY 2027/28 | FY 2028/29 | FY 2029/30 |
|---|---|---|---|---|---|
| 3 | National government contribution towards the construction of the Final Phase of 13 counties | | 3,250 | | |
| 4 | Connecting 14 CAIPs to the bitumen standard roads | | 5,300 | | |
| 5 | Installation of Weighbridges in 14 CAIPs | | 3,010 | | |
| 6 | Equipping the second set of 18 Counties | | | 3,000 | |
| 7 | Connecting 20 CAIPs to the bitumen standard roads | | | 8,100 | |
| 8 | Installation of Weighbridges in 20 CAIPs | | | 4,400 | |
| 9 | Equipping the third set of 13 Counties | | | | 2,150 |
| 10 | Connecting 13 CAIPs to the bitumen standard roads | | | | 5,250 |
| 11 | Installation of Weighbridges in 13 CAIPs | | | | 3,000 |
| | **Total** | **10,950** | **11,560** | **15,500** | **10,400** |

*Source: PBO Estimations*

### 2.3.2 Transition of Universal Health Coverage (UHC) Workers to County Governments

52. **The transition of Universal Health Coverage (UHC) workers to county governments remains constrained by uncertainty over the long-term financing of their salaries and employment obligations.** The annual payroll requirement for UHC workers is estimated at Kshs.8.61 billion, which is provided for in FY 2026/27 through conditional allocations under the County Governments Additional Allocation Act, 2026. However, county governments have expressed reservations about absorbing these workers on permanent and pensionable terms, while their remuneration remains dependent on annual additional allocations. Their concerns reflect the need for a predictable and sustainable financing arrangement that aligns the transfer of personnel responsibilities with the resources required to meet associated payroll costs.

53. **Incorporating the entire UHC payroll requirement into the equitable share will create significant funding disparities across counties.** If the Kshs.8.61 billion were distributed using the Fourth Basis for Revenue Sharing, allocations would reflect the formula's distribution parameters rather than the actual payroll. PBO estimates indicate that this would result in 28 counties receiving less than their required payroll amounts, while 19 counties would receive allocations exceeding their payroll requirements. For instance, as shown in Table 10, Elgeyo-Marakwet would experience an estimated shortfall of Kshs.165.6 million, while Nairobi City County would receive approximately Kshs.352.7 million above its estimated payroll requirement. These disparities demonstrate the importance of aligning financing arrangements with the actual distribution of personnel obligations.

**Table 10: Comparison of Fourth Basis Allocation Against UHC Workers' Payroll Requirements**

| SN | County | 4th Basis sharing | Framework Sharing | Variance (-/+) |
|---|---|---|---|---|
| 1 | Baringo | 148,851,565 | 230,098,965 | (81,247,400) |
| 2 | Bomet | 160,865,340 | 181,663,203 | (20,797,863) |
| 3 | Bungoma | 248,469,714 | 257,866,990 | (9,397,276) |
| 4 | Busia | 164,420,758 | 175,038,676 | (10,617,918) |

| SN | County | 4th Basis sharing | Framework Sharing | Variance (-/+) |
|---|---|---|---|---|
| 5 | Elgeyo-Marakwet | 117,927,067 | 283,485,809 | (165,558,742) |
| 6 | Embu | 125,049,328 | 241,766,294 | (116,716,966) |
| 7 | Garissa | 218,668,975 | 176,321,364 | 42,347,611 |
| 8 | Homa-Bay | 177,252,936 | 195,759,831 | (18,506,895) |
| 9 | Isiolo | 125,162,982 | 202,028,087 | (76,865,105) |
| 10 | Kajiado | 204,485,607 | 157,832,557 | 46,653,050 |
| 11 | Kakamega | 258,508,629 | 248,171,190 | 10,337,439 |
| 12 | Kericho | 163,890,066 | 175,449,213 | (11,559,147) |
| 13 | Kiambu | 289,698,928 | 176,778,237 | 112,920,691 |
| 14 | Kilifi | 239,598,501 | 149,484,014 | 90,114,487 |
| 15 | Kirinyaga | 123,129,844 | 127,156,353 | (4,026,509) |
| 16 | Kisii | 191,322,670 | 241,470,770 | (50,148,100) |
| 17 | Kisumu | 184,923,587 | 209,165,589 | (24,242,002) |
| 18 | Kitui | 230,062,430 | 155,013,571 | 75,048,859 |
| 19 | Kwale | 168,761,679 | 140,392,709 | 28,368,970 |
| 20 | Laikipia | 128,587,138 | 137,027,403 | (8,440,265) |
| 21 | Lamu | 86,197,615 | 123,884,423 | (37,686,808) |
| 22 | Machakos | 216,647,888 | 184,687,439 | 31,960,449 |
| 23 | Makueni | 178,344,581 | 234,431,783 | (56,087,202) |
| 24 | Mandera | 213,869,629 | 189,439,407 | 24,430,222 |
| 25 | Marsabit | 189,324,060 | 150,152,412 | 39,171,648 |
| 26 | Meru | 226,959,576 | 268,012,029 | (41,052,453) |
| 27 | Migori | 185,729,612 | 217,582,697 | (31,853,085) |
| 28 | Mombasa | 180,088,409 | 102,189,294 | 77,899,115 |
| 29 | Murang'a | 170,366,244 | 226,860,114 | (56,493,870) |
| 30 | Nairobi City | 461,069,386 | 108,359,849 | 352,709,537 |
| 31 | Nakuru | 293,432,669 | 192,094,957 | 101,337,712 |
| 32 | Nandi | 158,493,088 | 194,492,578 | (35,999,490) |
| 33 | Narok | 196,747,366 | 158,300,269 | 38,447,097 |
| 34 | Nyamira | 127,246,497 | 242,919,806 | (115,673,309) |
| 35 | Nyandarua | 131,977,614 | 175,006,063 | (43,028,449) |
| 36 | Nyeri | 140,554,086 | 129,710,328 | 10,843,758 |
| 37 | Samburu | 127,356,511 | 153,149,524 | (25,793,013) |
| 38 | Siaya | 168,656,471 | 134,554,895 | 34,101,576 |
| 39 | Taita-Taveta | 120,122,407 | 121,099,698 | (977,291) |
| 40 | Tana-River | 148,086,751 | 181,808,518 | (33,721,767) |
| 41 | Tharaka-Nithi | 106,893,152 | 231,773,781 | (124,880,629) |
| 42 | Trans-Nzoia | 167,768,322 | 161,766,321 | 6,002,001 |
| 43 | Turkana | 252,904,985 | 183,768,207 | 69,136,778 |
| 44 | Uasin-Gishu | 187,871,296 | 222,435,917 | (34,564,621) |
| 45 | Vihiga | 128,133,781 | 141,113,672 | (12,979,891) |
| 46 | Wajir | 225,163,597 | 126,334,465 | 98,829,132 |
| 47 | West Pokot | 146,200,799 | 187,944,864 | (41,744,065) |
| | **Total** | **8,605,844,135** | **8,605,844,135** | - |

54. **A phased financing arrangement is proposed to facilitate the absorption of UHC workers into county public service while minimising disruptions to county budgets (Table 11).** In FY 2027/28, half of the estimated payroll requirement, approximately Kshs.4.3 billion, would be incorporated as an enhancement to the equitable share, with the remaining Kshs.4.3 billion provided through a

conditional grant allocated to actual payroll requirements. In FY 2028/29, the equitable share would be enhanced by a further Kshs.4.3 billion, bringing the cumulative enhancement to approximately Kshs.8.6 billion. An additional Kshs.4.3 billion performance-linked conditional grant would be provided to counties that have fully absorbed UHC workers on permanent and pensionable terms, supporting payroll stabilisation and anticipated wage drift. This arrangement would provide transitional financing support while progressively integrating the payroll into the regular intergovernmental fiscal framework.

**Table 11: Equitable Share Enhancement for Conditional Grants**

| FY | Conditional Grant | Equitable Share Enhancement |
|---|---|---|
| 2026/27 | Kshs.8.61 billion allocated under the Additional Allocations framework | Not factored |
| 2027/28 | Kshs.4.3 billion, distributed according to half of each county's payroll requirement | Kshs.4.3 billion |
| 2028/29 | Kshs.4.3 billion performance-linked payroll stabilisation grant. | Additional Kshs.4.3 billion, bringing cumulative enhancement to Kshs.8.6 billion. |

*Source: PBO*

### 2.3.3 Community Health Promoters (CHPs) Programme: Strengthening Frontline Healthcare through Improved Remuneration and Social Protection

55. **Community Health Promoters (CHPs) play a central role in Kenya's primary healthcare system, but the stagnation of their stipends is progressively eroding their welfare.** The CHP programme currently engages approximately 107,831 CHPs across the country, supporting community level disease prevention, health promotion and access to essential healthcare services. Each CHP receives a monthly stipend of Kshs.5,000, equivalent to Kshs.60,000 annually, financed equally by the National and County Governments. The National Government's annual conditional allocation has remained at **Kshs.3.23 billion** for three consecutive financial years, despite inflationary pressures progressively weakening the purchasing power of CHPs and the increasing importance of community-based healthcare in the implementation of Universal Health Coverage.

56. **A phased increase in CHP stipends, complemented by improved access to health insurance, would strengthen the sustainability and effectiveness of community-based healthcare delivery.** It is proposed that monthly stipends increase progressively from Kshs.5,000 in FY 2026/27 to Kshs.8,000 between FY 2027/28 and FY 2029/30, with the financing responsibility shared equally between the two levels of government. Under this arrangement (Table 12), each level of government would contribute approximately Kshs.3.88 billion in FY 2027/28, Kshs.4.53 billion in FY 2028/29, and Kshs.5.18 billion in FY 2029/30. Through this approach, the total budgetary allocation to the CHP programme will increase from Kshs.6.47 billion to Kshs.10.35 billion by FY 2029/30. The cumulative cost over the three financial years would be Kshs.27.2 billion, shared equally by the two levels of government. In addition, county governments should

consider leveraging Facility Improvement Financing (FIF) proceeds to facilitate Social Health Authority (SHA) enrolment for CHPs attached to health facilities. These interventions would improve CHP welfare, strengthen workforce retention and reinforce the community health system as a foundation for Universal Health Coverage.

**Table 12: Phased CHPs Stipend Increase (FY 2027/28–FY 2029/30) Framework**

| FY | Annual Stipend | Annual Increase | National Share - 50%(Kshs. million) | County Share-50%- Kshs. million | Total annual allocation (Kshs. million) |
|---|---|---|---|---|---|
| 2026/27 | 60,000 | - | 3,235 | 3,235 | 6,470 |
| 2027/28 | 72,000 | 12,000 | 3,882 | 3,882 | 7,764 |
| 2028/29 | 84,000 | 12,000 | 4,529 | 4,529 | 9,058 |
| 2029/30 | 96,000 | 12,000 | 5,176 | 5,176 | 10,352 |

*Source: PBO computations. The estimated number of CHPs is 107,831.*

### 2.3.4 Timely Approval of Additional Allocations: Strengthening the Predictability of Intergovernmental Financing

57. **Persistent delays in the enactment of the County Governments Additional Allocations Bill have undermined the timely implementation of county programmes and the absorption of earmarked resources.** Over the past five years, this Bill has frequently been enacted several months into the financial year, delaying the release of resources and the timely implementation of the projects financed through additional allocations. These delays have particularly affected programmes requiring coordinated implementation between the two levels of government and development partners, reducing the predictability of county financing and increasing the risk of low budget absorption.

58. **Reforming the legislative framework governing additional allocations could reduce delays and improve the predictability of financing for county development programmes.** Parliament could consider amending section 42 of the Public Finance Management Act (Cap. 412A) to rename the County Governments Additional Allocations Bill as the *County Governments Additional Allocations Bill (Proceeds from Development Partner Loans and Grants*). Under the proposed arrangement, the Bill would primarily provide for allocations financed through development partner resources, which are generally not subject to the same intergovernmental revenue-sharing contestation. Other allocations provided under Article 202(2) of the Constitution and financed by the National Government or other sources could be implemented through the relevant Ministries, Departments and Agencies, subject to intergovernmental agreements clearly defining the respective responsibilities of the two levels of government. Under this approach, funds administered directly by MDAs would not be transferred to County Revenue Funds. Such arrangements would require appropriate safeguards to preserve constitutional mandates, accountability and county participation in programme implementation.

59. **Introducing statutory timelines for parliamentary consideration of additional allocations legislation could further reduce delays in the financing of county programmes.** Parliament could consider introducing a new Section 42A of

the PFM Act, establishing **a 30-day period** within which the second House must consider a Bill transmitted by the originating House pursuant to Article 110(4) of the Constitution. The proposed provision would require the receiving House to consider and approve the Bill, with or without amendments, within the specified period. It would further provide for deemed approval without amendments upon expiry of the 30 days, followed by presentation for assent in accordance with applicable constitutional and statutory procedures. The proposed amendment would require careful consideration of its consistency with the Constitution, particularly the legislative authority and procedures governing Bills concerning county governments.

## Policy Options for Resource Mobilisation and Expenditure Prioritisation

| Sector | Policy challenge | Current trajectory | Budget option | Fiscal implication / trade-off | Expected result |
|---|---|---|---|---|---|
| Equitable share | Incremental allocations do not reflect service costs; fiscal space constrained | FY 2026/27 Kshs.428bn; historical growth-factor approach | Use expenditure-needs assessment; indicative FY 2027/28 equitable share Kshs.448.3bn, subject to affordability | Kshs.20.3bn above FY 2026/27; 4.74% weighted cost adjustment; national fiscal trade-off | Preserve purchasing power and make transfers more transparent |
| Equitable share affordability | Revenue risks and competing national obligations | Treasury projects Kshs.3,249.2bn shareable revenue; 2027 election uncertainty | Set affordable allocation against verified resource envelope and Fourth Basis baseline requirements | Potentially below Kshs.448.3bn benchmark; exact gap contingent on fiscal forecast | Credible, sustainable county financing |
| Own-source revenue legislation | Unstable legal framework for county revenue streams | Annual finance legislation for permits, land rates, cess, parking and park fees | Enact durable primary legislation for major OSR streams; periodically revise rates and procedures | Legislative and administrative setup costs; projected ordinary OSR collection performance from 67–77% toward 90%, conditional on reforms | Predictable collections, compliance and reduced leakages |
| Own-source revenue forecasting | Optimistic targets create financing gaps and arrears | Revenue projections routinely exceed actual collection capacity | Cap annual OSR growth projections at lesser of 5% of previous-year actuals or prevailing inflation | No major new outlay; potentially smaller approved expenditure ceilings | More credible budgets and fewer unfunded commitments |
| Development spending | Actual spending below statutory 30% threshold | Development spending approximately 25.5% of total | Increase executed development expenditure to at least 30%; strengthen execution capacity | Reallocate or mobilise Kshs.24.4bn FY27/28; 24.9bn FY28/29; 26.8bn FY29/30 | Higher productive capital formation and compliance |
| Wage bill: immediate adjustment | Compensation exceeds statutory 35% of revenue | FY25/26 wage bill estimated Kshs.235.9bn | Audit and automate payroll; restrict non-essential hiring and rationalise to 35% ceiling | Under illustrative revenue Kshs.558.3–580bn, ceiling Kshs.195–203bn; adjustment Kshs.33–41bn; risks to staffing | Recurrent fiscal space and statutory compliance |
| Wage bill: gradual alternative | Immediate cuts could disrupt services | High nominal payroll relative to revenues | Freeze nominal compensation at FY25/26 level while | Hold payroll at Kshs.235.9bn; scenario revenue Kshs.675bn by FY30/31 and wage ratio | Gradual compliance with fewer |

| Sector | Policy challenge | Current trajectory | Budget option | Fiscal implication / trade-off | Expected result |
|---|---|---|---|---|---|
| | | | revenue grows; reduce discretionary O&M | 34.9%; requires sustained OSR growth | abrupt payroll cuts |
| Pending bills settlement | Arrears crowd out suppliers and development | Outstanding Kshs.172.5bn June 2026; Kshs.71.7bn over 3 years old | Ring-fenced three-year trade-payables settlement: up to Kshs.1bn FY27/28; next Kshs.1bn FY28/29; balances above Kshs.2bn FY29/30 | Total existing stock Kshs.172.5bn (not all necessarily eligible trade payables); county-specific costs per annex; displaces other spending | Restore supplier liquidity, prevent new arrears |
| Nairobi pending bills | Disproportionate concentration of national arrears | Nairobi Kshs.86.9bn outstanding | Conditional national matching support tied to revenue and governance reforms | At full Kshs.86.9bn eligible settlement: 1:2 national: county ~Kshs.29.0bn:57.9bn; 1:1 ~Kshs.43.45bn each; illustrative not approved | Faster clearance and restored business confidence |
| Stalled projects | Sunk public investment not generating services | 189 stalled projects in 22 counties; Kshs.4.21bn already spent | Appraise viability and prioritise completion over new starts | Estimated Kshs.6.3bn to complete identified projects; reprioritise development envelope | Higher completion rates and returns on sunk investments |
| County Aggregation and Industrial Parks | Construction not translating into industrial output | About Kshs.8.5bn invested in 34 counties; facilities largely non-operational | Fund equipment, roads, weighbridges and phased operationalisation rather than structures alone | About Kshs.37.5bn medium-term targeted investment; Kshs.3.25bn FY27/28 for final-phase structures; Kshs.15.5bn FY28/29 and 10.4bn FY29/30 | Operational value chains, processing and jobs |
| UHC workers payroll | Payroll transfer without matching financing | Annual requirement Kshs.8.61bn; formula-only transfer disadvantages 28 counties | FY27/28 split Kshs.4.3bn equitable share enhancement and Kshs.4.3bn payroll-linked conditional grant; phase further FY28/29 | FY27/28 total Kshs.8.6bn; FY28/29 additional Kshs.4.3bn equitable enhancement plus Kshs.4.3bn performance-linked grant; | Continuity of care and sustainable staff absorption |
| Community Health Promoters | Stipends stagnant and health cover inadequate | 107,831 CHPs paid Kshs.5,000 monthly | Phase stipend to Kshs.8,000 by FY29/30; 50:50 national-county financing; consider FIF-funded SHA enrolment | Each government Kshs.3.88bn FY27/28, 4.53bn FY28/29, 5.18bn FY29/30; cumulative three-year cost Kshs.27.2bn | Retention, social protection and stronger primary care |
| Additional allocations legislation | Late enactment delays earmarked programmes | Bills often passed months into fiscal year | Consider amending PFM Act s.42 to focus additional allocations Bill on development partner loans/grants; route other national allocations through MDAs with agreements and safeguards | Primarily institutional change; possible MDA administrative costs and accountability trade-offs | Earlier programme implementation and predictable transfers |

# CHAPTER THREE

# DEPLOYING COUNTY RESOURCES FOR GROWTH AND SERVICE DELIVERY

## 3.1 Counties as Engines of Economic Growth

60. **Counties are important engines of economic growth because they account for a substantial share of national economic activity and directly influence the productivity of agriculture, manufacturing, services and local enterprises.** With total GCP reaching Kshs.14.97 trillion in 2024 and county growth broadly moving with national GDP growth (Figure 13), county investments can strengthen the transmission of national growth to local economies. However, the high concentration of GCP (Figure 14) in Nairobi City, Kiambu, Nakuru, Mombasa, Meru and Machakos counties, together with differences in sectoral structure (Figures 15-17), means that counties need to focus on interventions that address their specific economic drivers.

61. **County development strategies should reflect the distinct economic characteristics and productive potential of the five county typologies.** Metropolitan, urban, industrial and service economies including Nairobi City, Kiambu, Nakuru, Machakos and Kisumu can strengthen manufacturing, trade, ICT, transport, real estate and professional services through industrial parks, improved urban infrastructure, reliable utilities and digital connectivity. Agriculture and agro-processing counties such as Meru, Nyandarua, Murang'a, Kirinyaga, Embu, Nandi, Bomet, Uasin Gishu, Nyeri, Bungoma, Kisii, Kericho, Kakamega, Nyamira, Elgeyo-Marakwet, Trans Nzoia and Tharaka-Nithi can raise productivity through irrigation, extension services, aggregation, market access, rural roads and value addition. Tourism and blue economy counties including Mombasa, Kilifi, Kwale, Lamu, Narok, Homa Bay, Siaya, Taita Taveta, Laikipia and Migori can expand tourism, fisheries, hospitality and conservation-based enterprises.

62. **ASAL and livestock counties require investment in water, climate resilience and livestock value chains.** They include Turkana, Marsabit, Isiolo, Garissa, Wajir, Mandera, Baringo, West Pokot, Tana River and Samburu, where the priorities are water infrastructure, climate resilience, livestock value chains, meat processing and market access. Emerging and diversifying economies including Kajiado, Kitui, Makueni, Busia and Vihiga can leverage their agricultural activities, trade, mining, service and connectivity opportunities to diversify production and create employment. Across all five typologies, inter-county economic blocs can expand markets, strengthen value chains and facilitate the movement of goods and services.

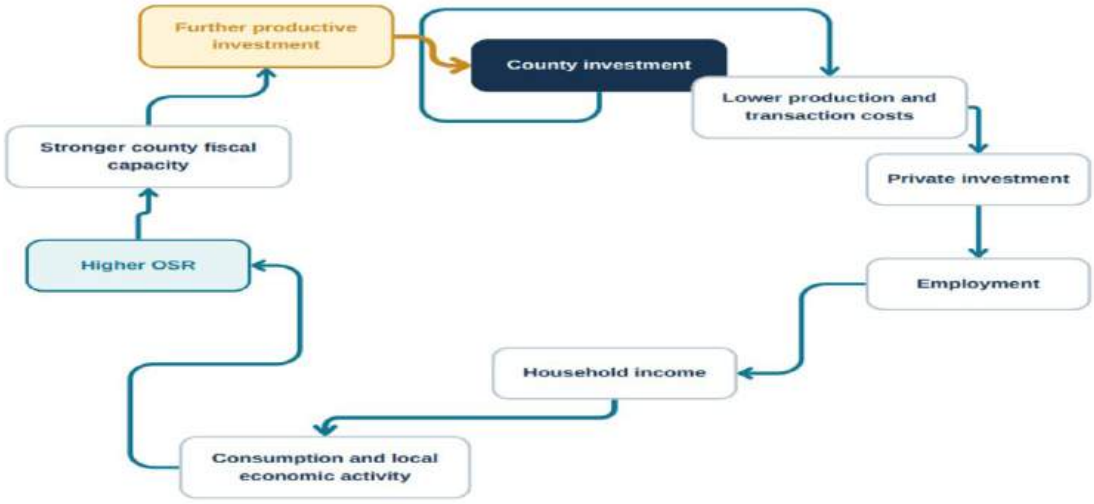
### 3.1.1 The Transmission Mechanism

63. **County investment affects economic growth by improving the environment in which households and businesses operate.** Investments in roads, water,

markets, energy, digital infrastructure and other productive assets reduce production and transaction costs, making businesses more competitive and encouraging private investment and enterprise expansion. This increases employment and household incomes, which stimulates consumption and local economic activity.

64. **As businesses and household incomes expand, the county's own-source revenue (OSR) base increases, strengthening fiscal capacity and enabling further investment.** The process therefore creates a reinforcing circular flow (Figure 24).

**Figure 24: Reinforcing cycle of county investment and local economic growth**




65. **Figure 24 illustrates how county investment can trigger a reinforcing cycle of local economic growth.** By lowering production and transaction costs, county investment encourages private investment and creates employment which raises household incomes and stimulates consumption and local economic activity. This expands the county's own-source revenue (OSR), strengthens fiscal capacity and enables further productive investment allowing the cycle to continue.

### 3.1.2 Tailoring Deployment to County Typologies

66. **The substantial differences in economic size, sectoral structure and GCP per capita underscore the need to tailor county investments to the five economic typologies rather than adopt a uniform approach.** Metropolitan/urban, industrial and service economies should prioritise industrial infrastructure, reliable utilities, logistics, digital connectivity and skills development. Agricultural and agro-processing counties should focus on irrigation, extension services, rural roads, market access and value addition. Tourism and blue economy counties should invest in tourism infrastructure, fisheries, hospitality and conservation while Arid and Semi-Arid Lands (ASAL) and livestock counties require greater emphasis on water infrastructure, climate resilience, livestock value chains and market access. Emerging and diversifying counties should support productive agriculture, trade, mining, services and connectivity to broaden their economic base and expand employment opportunities. Inter-county economic blocs can complement these investments through shared infrastructure, improved market access and more efficient movement of goods and services.

67. **The typology-to-budget framework in Table 13 can guide how counties prioritise projects.** It may be applied in County Integrated Development Plans (CIDPs), Annual Development Plans (ADPs) and annual budgets, ensuring that allocations reflect each county's economic potential. This would improve the alignment of public expenditure with local priorities, strengthen productivity and employment creation and help reduce disparities in county economic performance.

**Table 13: County economic typology, budget priorities and expected outcomes**

| Typology | County | Priority Budget Decisions | Expected Economic Outcomes |
|---|---|---|---|
| Metropolitan/urban, industrial and service economies | Nairobi City, Nakuru, Kiambu, Machakos and Kisumu | Prioritise urban transport, industrial parks, reliable utilities, digital infrastructure, technical skills and MSME support. | ▪ Increased investment, industrial productivity, business growth and employment. |
| Agricultural and agro-processing economies | Meru, Nyandarua, Murang'a, Kirinyaga, Embu, Nandi, Bomet, Uasin Gishu, Nyeri, Bungoma, Kisii, Kericho, Kakamega, Nyamira, Elgeyo-Marakwet, Trans Nzoia and Tharaka-Nithi | Allocate resources to irrigation, extension services, rural roads, storage, market infrastructure, and agro-processing. | ▪ Higher agricultural productivity, reduced post-harvest losses, increased farmer incomes and value addition. |
| Tourism and blue economies | Mombasa, Kilifi, Kwale, Lamu, Narok, Homa Bay, Siaya, Taita Taveta, Laikipia and Migori | Invest in tourism facilities, fisheries infrastructure, conservation, destination marketing and hospitality skills. | ▪ Increased tourism receipts, fisheries output, enterprise development and employment. |
| ASAL and livestock economies | Turkana, Marsabit, Isiolo, Garissa, Wajir, Mandera, Baringo, West Pokot, Tana River and Samburu | Prioritise water infrastructure, drought preparedness, livestock health, rangeland management, livestock markets and processing facilities. | ▪ Greater climate resilience, improved livestock productivity and stronger pastoral livelihoods. |
| Emerging and diversifying economies | Kajiado, Kitui, Makueni, Busia and Vihiga | Support viable opportunities in agriculture, trade, mining, connectivity, vocational skills and basic infrastructure. | ▪ Broader economic diversification, enterprise growth, employment and an expanded local revenue base. |

## 3.2 Sectoral Policy Options for FY 2027/28

### 3.2.1 The 'Forgotten' Link in County Development: Why Counties Must Prioritise Early Childhood Education and Vocational Training

*County governments are yet to adequately prioritise and finance Early Childhood Development Education (ECDE) and Vocational Training Centres (VTCs) despite their constitutional mandate and the critical role these functions play in human capital*

*development and economic growth. Further, the allocation by counties of substantial resources to bursaries for national education functions raises concerns about expenditure prioritisation. Additionally, the aggregation of ECDE and VTC expenditure obscures the actual level of investment in each subsector, limiting transparency, accountability and effective oversight. Addressing these challenges requires county governments to reprioritise spending towards devolved education functions, increase investment in ECDE and VTCs and strengthen budget reporting to ensure that public resources translate into improved learning outcomes, employable skills and greater economic opportunities.*

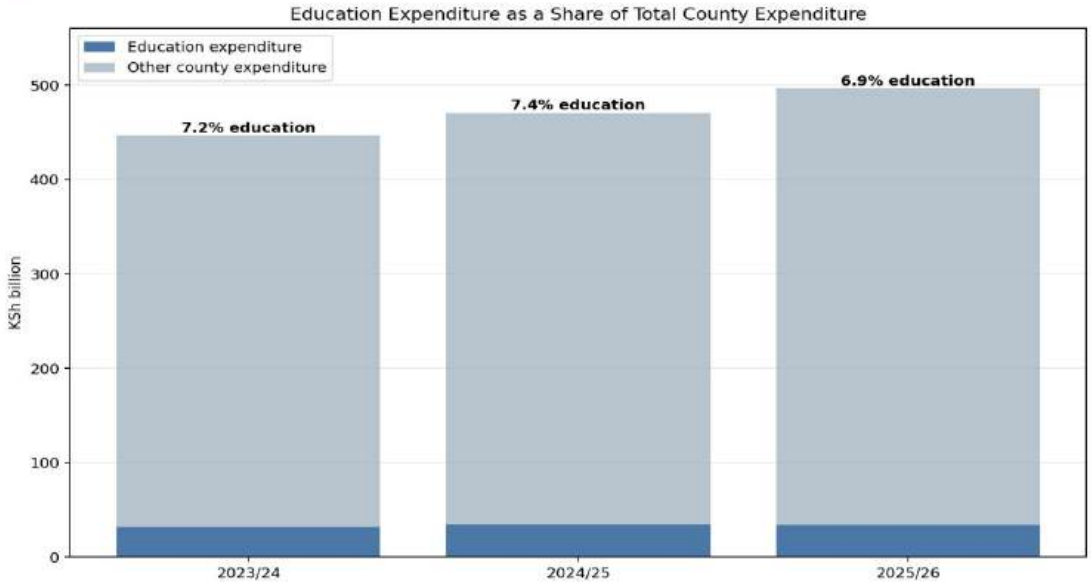
68. **The delivery of Early Childhood Development Education (ECDE) and Vocational Training Centre (VTC) services continues to face significant challenges.** These reflect persistent gaps in infrastructure, staffing, learning resources and access to essential services. Findings from inquiries undertaken by the Senate Standing Committee on Education into the implementation of Early Childhood Development Education (ECDE) and Vocational Training Centre (VTC) services reveal widespread deficiencies affecting service delivery in most counties. Key challenges include inadequate infrastructure, with learners in some counties attending classes outdoors or in very dilapidated classrooms; insufficient ablution facilities; shortage of teaching and training materials; inadequate staffing; gaps in school feeding programmes and high cost of vocational training.

69. **A performance audit of ECDE service delivery in Kilifi County further illustrates the extent to which inadequate funding, weak budget prioritisation and implementation shortcomings compromise access to quality early childhood education.** The Auditor-General's Performance Audit on the Provision of Early Childhood Development Education (ECDE) by the County Government of Kilifi, tabled in the Senate in March 2026, identified significant deficiencies in infrastructure, staffing, learning materials and service delivery. The audit established that 48 percent of the county's 812 public pre-primary schools had enrolment exceeding the recommended 25 learners per classroom, while 47 schools lacked dedicated ECDE classrooms. Many facilities were characterised by dilapidated structures, inadequate sanitation and limited accessibility for learners with special needs. Staffing constraints were equally pronounced, with only 33 percent of schools meeting the recommended teacher–learner ratio, while 52 percent of county-employed ECDE teachers were not registered with the Teachers Service Commission (TSC). Additional challenges included inadequate teaching and learning materials, inconsistent provision of lunch under school feeding programmes, and weaknesses in monitoring and quality assurance mechanisms.

70. **Persistent underinvestment in county education services points to limited prioritisation of ECDE and VTCs despite their critical role in human capital development.** Expenditure trends indicate that county governments have consistently allocated less than 8 percent of their total expenditure to the education sector over the last three financial years. In FY 2023/24,

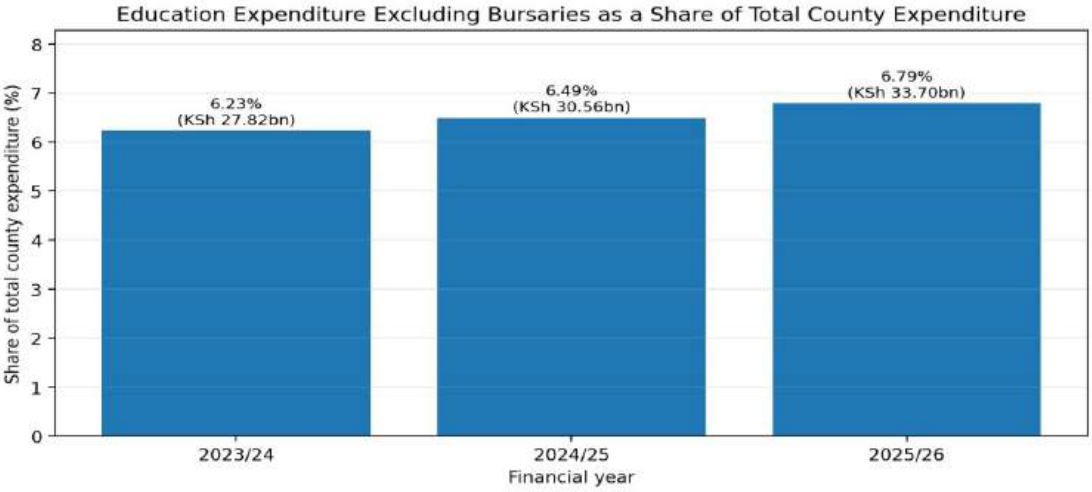
education expenditure accounted for 7.24 percent of total county expenditure, increasing marginally to 7.39 percent in FY 2024/25, before declining to 6.88 percent in FY 2025/26 as illustrated in Figure 25.

**Figure 25: Education Expenditure as a Share of Total County Expenditure**




71. **Bursary spending has compounded the limited fiscal priority given to devolved education.** Expenditure on bursaries amounted to about Kshs.9.3 billion over the past three financial years, despite legal concerns regarding use of county resources to support learners in primary, secondary and tertiary institutions that fall outside the counties' devolved education mandate. The Auditor-General has repeatedly flagged expenditure on bursaries, while the High Court has also declared the contested bursary expenditure unlawful. The continued allocation of resources to these programmes therefore raises concerns regarding expenditure prioritisation, compliance with the constitutional division of functions and the opportunity cost of diverting scarce resources from ECDE and VTC services.

**Figure 26: Education Expenditure Excluding Bursaries as a Share of Total County Expenditure**




72. **Excluding bursary expenditure reveals an even lower level of direct county spending on education services, with limited evidence that reductions in**

**bursary allocations have translated into increased investment in ECDE and VTCs.** After deducting bursary expenditure, education spending accounted for 6.23 percent of total county expenditure in FY 2023/24, 6.49 percent in FY 2024/25 and 6.79 percent in FY 2025/26 (Figure 26). Notably, between FY 2023/24 and FY 2025/26, bursary expenditure declined sharply from approximately 14 percent of total county education expenditure in FY 2023/24 to 1.4 percent in FY 2025/26 due to non-approval of bursary expenditure requests by the Controller of Budget. In absolute terms, this is a decline from Kshs.4.52 billion in FY 2023/24 to Kshs.0.49 billion in FY 2025/26. However, the corresponding increase in education expenditure excluding bursaries was relatively modest. This suggests that resources previously allocated to bursaries may have been redirected to other sectors rather than systematically reprioritised towards addressing existing gaps in county education services.

73. **This expenditure pattern is particularly concerning given the persistent infrastructure deficits, staffing shortages and inadequate learning resources affecting ECDE centres and VTCs.** Redirecting resources previously earmarked for bursaries towards devolved education functions could provide an opportunity to improve ECDE and VTC infrastructure, introduce or enhance learner capitation, and strengthen ECDE school feeding programmes.

**Figure 27: Bursary Expenditure Relative to Total Education Expenditure**

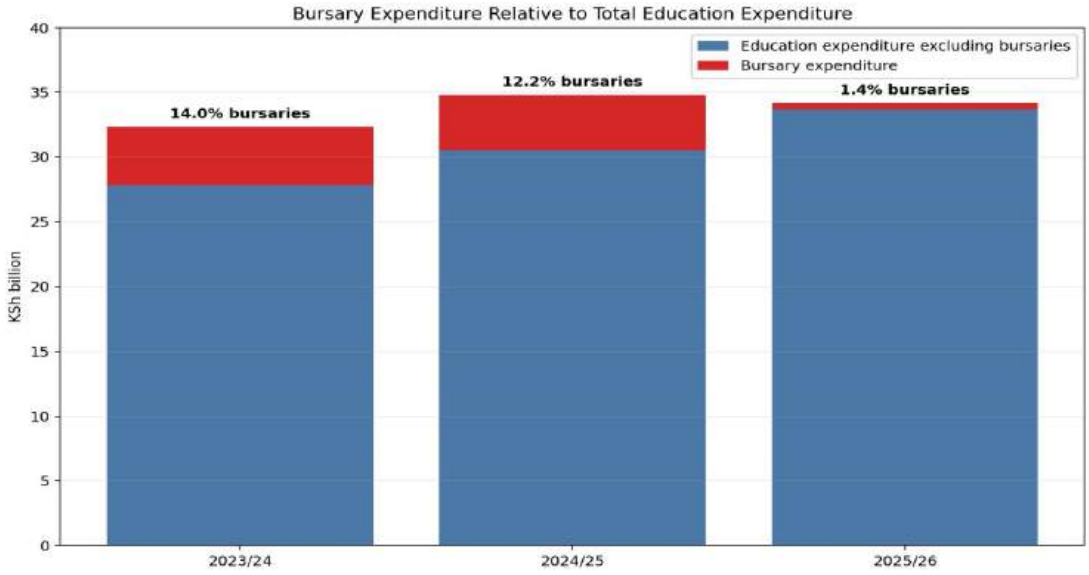



**Table 14: County education and bursary expenditure, FY 2023/24 to FY 2025/26**

| Financial year | Education expenditure (Kshs. billion) | Total county expenditure (Kshs. billion) | Education as % of county expenditure | Bursary expenditure (Kshs. billion) | Bursaries as % of education expenditure |
|---|---|---|---|---|---|
| 2023/24 | 32.34 | 446.76 | 7.24% | 4.52 | 13.99% |
| 2024/25 | 34.81 | 470.74 | 7.39% | 4.25 | 12.21% |
| 2025/26 | 34.19 | 496.58 | 6.88% | 0.49 | 1.45% |

74. **The persistent challenges affecting ECDE service delivery reflect a widening gap between Kenya's established policy commitments and the financing and implementation of devolved education**

**functions.** The National Pre-Primary Education Policy (2017), its accompanying Standard Guidelines (2018) and the Early Childhood Education Act (2021) provide a comprehensive policy and legal framework for ensuring equitable access to quality pre-primary education. However, persistent deficiencies earlier mentioned suggest that these commitments have not been adequately translated into county budgetary priorities. Addressing these challenges therefore requires more than increasing expenditure. It calls for a deliberate shift towards needs-based budgeting, adequate financing of established service delivery standards and stronger accountability for ECDE outcomes.

75. **The aggregation of expenditure on ECDE and VTCs obscures the extent of county investment in vocational skills development and limits effective oversight of this critical function.** Village polytechnics are a responsibility assigned to county governments. These polytechnics offer vocational training, which is an important pathway for equipping young people with practical skills required in agriculture, construction and manufacturing, among other economic activities. However, this aggregation has made it difficult to determine whether VTCs are adequately financed. Strengthening vocational training is a critical component not only for improving education outcomes but also for supporting employment creation, enterprise development and county level productivity.

## Policy Options

76. **Strengthening county investment in ECDE and VTCs requires deliberate fiscal reprioritisation towards devolved education functions, supported by improved resource allocation and expenditure efficiency.** Given the persistent service delivery gaps and the relatively low share of county expenditure allocated to education, the following policy measures are proposed:

i. **County governments should cost and progressively finance the minimum ECDE service delivery standards established under the national policy framework**. Different counties are likely to have different expenditure needs based on the state of already existing infrastructure. Costing will provide a baseline for determining financing needs for ECDE and holding county governments accountable for results.

ii. **Consider a minimum allocation to education of at least 10 percent of total county expenditure.** County governments should consider allocating a minimum of 10 percent of their total expenditure to the education sector, with particular emphasis on addressing infrastructure deficits, staffing shortages, inadequate teaching and learning materials, and gaps in ECDE centres and VTCs. Increased allocations should be accompanied by clear expenditure priorities to ensure that additional resources translate into measurable improvements in access, quality and learning outcomes.

iii. **Phase out bursary expenditure for non-devolved education functions and redirect resources towards ECDE and VTC services.** County governments should progressively discontinue bursary allocations to learners in secondary schools, universities and other institutions outside their devolved education

mandate. Resources previously allocated to these programmes could instead be redirected towards capitation grants for ECDE and VTC learners, improvements in learning infrastructure and expansion of ECDE school feeding programmes. Such reprioritisation would strengthen alignment between county expenditure and constitutionally assigned functions while improving the effectiveness of public spending on education.

iv. **Establish separate programme-based budget and expenditure reporting for ECDE and VTCs to improve the transparency, adequacy and effectiveness of education financing.** The Controller of Budget should separately report allocations and actual expenditure for the two devolved education functions. Additionally, counties should disclose learner capitation including capitation disbursements, VTC enrolment, staffing levels and infrastructure investments to facilitate assessment of expenditure adequacy and service delivery outcomes.

### 3.2.2 Counties at the Heart of Universal Health Coverage: Bridging the Gaps in Health Service Delivery

*While county governments have expanded healthcare infrastructure, increased health spending and strengthened the healthcare workforce, gaps in budget execution, medical supplies, financing and operationalisation of health facilities continue to constrain progress towards Universal Health Coverage. The next phase of Kenya's UHC agenda should therefore prioritise the functionality, efficiency and sustainability of county health systems rather than infrastructure expansion and budgetary allocations alone. Ultimately, the success of UHC will be measured not by the number of facilities constructed, resources allocated, or people registered under SHA, but by whether Kenyans can access timely, affordable and quality healthcare services.*

77. **County governments are central to the attainment of Universal Health Coverage (UHC), given their constitutional mandate to deliver most healthcare services.** Under the Fourth Schedule of the Constitution, health is one of the most extensively devolved functions, with county governments responsible for delivering essential healthcare services. Through UHC, the national government seeks to ensure equitable access to quality healthcare at all levels of care while minimising the financial burden on households, particularly out-of-pocket expenditure. Consequently, the effectiveness of county health systems is critical to translating national UHC policies into accessible and affordable healthcare services.

78. **Attaining UHC requires coordinated action by the national and county governments across four pillars.** The pillars are interdependent: Healthcare Financing; Health Products and Technologies; Human Resources for Health; and Healthcare Infrastructure. Each pillar addresses a critical dimension of healthcare delivery, with county governments playing a central role in their implementation.

a. **Health Products and Technologies** focuses on improving the availability, affordability and distribution of essential medicines, vaccines, medical equipment and other health supplies. Central to this pillar are the KEMSA reforms which are aimed at improving the order fill rate, ensuring availability of essential medical supplies, and expanding regional distribution centres to minimise the distance and time required to access medical supplies.

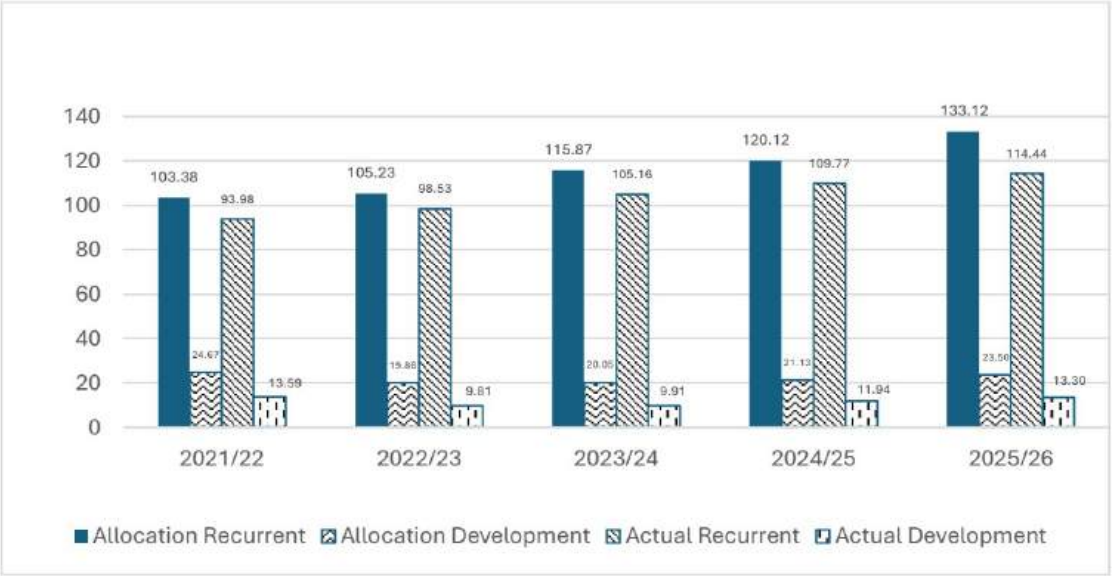
b. **Healthcare infrastructure** focuses on the construction, maintenance and equipping of healthcare facilities to improve access to essential, advanced and specialised medical services. A key intervention is the National Equipment Service Programme (NESP) which seeks to improve access to modern equipment in public health facilities.

c. **Healthcare financing** seeks to reduce financial barriers to healthcare through social health insurance which requires all Kenyans to register and contribute to the scheme to minimise out-of-pocket payments for healthcare services. It also includes a Primary Healthcare Fund to cater for primary healthcare and a Chronic and Critical Illness Fund for the treatment of chronic diseases. Further, to enhance the financial autonomy of healthcare facilities, revenue collected by health facilities from the services they offer should be retained at the facility and used to offset their operational costs.

d. **Human Resources for Health** focuses on the human capital for health, which includes all cadres of healthcare personnel, including the Community Health Promoters. Each cadre of personnel is essential in ensuring that a patient receives the required level of care. The target is to ensure adequate availability and equitable distribution of qualified healthcare personnel across the 47 counties. This is particularly important in reducing the distance patients must travel to access specialised healthcare services.

79. **County governments allocate a substantial share of their budgets to healthcare, but expenditure performance reveals persistent gaps between planned investments and actual service delivery.** Health budgets in counties account for the largest share of the total county government budget. In FY 2025/26, counties allocated Kshs.156.6 billion (Figure 28), approximately 24 percent of their combined budgets of Kshs.648.2 billion, to health. Actual health expenditure for that financial year amounted to Kshs.127.8 billion, equivalent to approximately 81.6 percent of the allocation. While recurrent expenditure recorded an absorption rate of 86 percent, development spending was considerably lower, at 53 percent, leaving Kshs.10.9 billion in capital allocations unspent.

**Figure 28: Health allocation and actual expenditures (Recurrent and development budget)**




### 3.2.2.1 Healthcare Infrastructure: Expanding Facilities Without Fully Operationalising Investments

80. **Low absorption of health development budgets continues to constrain the expansion and modernisation of healthcare infrastructure across counties.** In FY 2025/26, county governments allocated Kshs.23.5 billion towards health development expenditure, of which Kshs.12.6 billion was actually spent, representing an absorption rate of approximately 53 percent. This implies that nearly half of the planned development investments were not implemented within the financial year. Notably, Kiambu, Laikipia, Makueni, Narok, and Nakuru counties recorded the highest development budget allocations, exceeding Kshs.1 billion. However, the effectiveness of these allocations depends on timely implementation and completion of projects, as well as their subsequent operationalisation.

81. **Wide disparities in development budget absorption across counties point to uneven implementation capacity and potentially unequal access to improved healthcare services.** Garissa and Homa Bay counties recorded full absorption of their health development budgets, while Kirinyaga, Mandera, Meru, Nyandarua, Makueni and Wajir recorded absorption rates of approximately 90 percent. Conversely, several counties recorded extremely low absorption rates, including Mombasa (6 percent), Nyamira (8.4 percent), Taita Taveta (9.6 percent), Kisii (14.1 percent), Nairobi City (16 percent) and Kajiado (18 percent). Such disparities increase the risk of delayed or stalled health projects, potentially denying residents access to services that had already been planned and budgeted for. Strengthening project planning, procurement and implementation oversight is therefore essential to improving the conversion of budgetary allocations into functional healthcare infrastructure.

82. **The expansion of county-owned health facilities has increased the physical reach of healthcare services, but infrastructure growth must be matched by investments in equipment, medical supplies and personnel.** The number of county-owned healthcare facilities increased from 6,108 in

2019 to 7,034 in 2025, representing a growth of approximately 15 percent. While this expansion is progress towards improving access to healthcare, the newly constructed facilities cannot deliver their intended benefits without adequate staffing, medical equipment, essential medicines and operational resources. The increasing stock of health infrastructure therefore creates additional recurrent financing requirements that must be incorporated into county medium-term expenditure plans.

83. **The National Equipment Service Programme (NESP) provides an opportunity to expand access to specialised medical services, although capacity gaps threaten its effectiveness.** The programme seeks to equip public health facilities with modern and specialised medical equipment through a Fee-For-Service (FFS) model under which vendors provide equipment-related services in participating facilities. However, the NESP Project Implementation Unit has identified capacity gaps at county and facility levels that have constrained the full implementation of the model. These challenges highlight the need for targeted training to strengthen understanding of NESP requirements, contract management, equipment utilisation and operational responsibilities. Addressing these gaps will be critical to ensuring that investments in medical technology translate into improved access to diagnostic and treatment services.

### 3.2.2.2 Health Products and Technologies: Addressing Supply Chain Inefficiencies and Payment Arrears

84. **Reliable access to essential medicines, vaccines, diagnostics and medical supplies is fundamental to effective healthcare delivery, making the operational and financial performance of KEMSA critical to UHC implementation.** KEMSA is mandated to stock, supply, and distribute Health Products and Technologies (HPTs) to public healthcare facilities. Its centralised procurement model offers potential cost advantages through economies of scale, while an efficient distribution network can reduce supply shortages and improve the availability of essential commodities across counties. However, weaknesses in procurement, inventory management, distribution and payment systems can undermine these benefits.

85. **Low order fulfilment rates at KEMSA have constrained the availability of essential medical supplies and increased reliance on alternative procurement arrangements.** In 2022, KEMSA's order fill rate was 40 percent, implying that a significant proportion of orders placed by government healthcare facilities could not be fulfilled. This forced facilities to seek HPTs from alternative sources, at potentially higher prices than those available through KEMSA's bulk procurement arrangements. Although order fill rates have subsequently improved, sustained gains in supply reliability remain necessary to reduce procurement costs and prevent interruptions in service delivery.

86. **Rising payment arrears to KEMSA by county governments threaten KEMSA's financial sustainability and its capacity to maintain reliable supplies of essential medical commodities.** Outstanding payment obligations that county governments owe KEMSA for the supply of HPTs amounted to Kshs.3.9 billion in FY

2023/24, Kshs.3.8 billion in FY 2024/25 and Kshs.5.1 billion in FY 2025/26. Persistent arrears constrain KEMSA's working capital, weaken its ability to replenish stocks and may ultimately compromise the continuity of medical supplies to county health facilities. Addressing these obligations requires timely settlement of invoices and a credible plan to clear the payment arrears.

87. **The contradiction of medical supply shortages in health facilities vis-à-vis the expiry of commodities in KEMSA warehouses points to weaknesses in inventory management and distribution systems.** According to the Office of the Auditor-General, essential drugs and medical supplies worth approximately Kshs.1 billion expired in KEMSA stores during FY 2024/25. These losses occurred despite continuing shortages of essential medical supplies in some public health facilities. This mismatch raises concerns regarding demand forecasting, stock monitoring, procurement planning and distribution efficiency. Strengthening coordination between KEMSA and county health departments, alongside improved inventory management and redistribution mechanisms, could reduce wastage and improve the availability of medical supplies.

### 3.2.2.3 Healthcare Financing: Strengthening Financial Autonomy in Health Facilities

88. **Kenya's UHC financing framework seeks to reduce out-of-pocket healthcare expenditure through complementary funding mechanisms targeting different levels of care and health needs.** The Social Health Insurance Fund (SHIF), which replaced the National Hospital Insurance Fund (NHIF), is financed through mandatory contributions equivalent to 2.75 percent of gross salary for salaried employees or declared income for self-employed individuals with a minimum monthly contribution of Kshs.300. The Primary Healthcare Fund, financed by the national government, supports healthcare services at community, dispensary and health centre levels (Levels 1, 2 and 3). The Emergency, Chronic and Critical Illness Fund provides financing for emergency high-cost treatment such as cancer care and dialysis. Together, these mechanisms are intended to expand access to healthcare while protecting households from catastrophic medical expenditure.

89. **Despite substantial progress in registration under SHIF, the relatively low number of active contributors raises concerns about the sustainability and effectiveness of the health insurance system.** Approximately 33.2 million Kenyans are onboarded to SHIF, but only about 6 million, 18 percent of registered members, are reported to be contributing to the Fund. This highlights a significant gap between enrolment and effective financial participation. While registration expands the potential pool of beneficiaries, the ability to access insured services depends on applicable eligibility and contribution requirements. Strengthening contribution compliance, addressing affordability constraints and improving public understanding of the scheme are therefore essential to expanding effective health insurance coverage.

90. **County governments have an important role in translating SHIF registration into effective healthcare coverage, particularly for vulnerable and low-income households.** Given their proximity to communities and responsibility for frontline healthcare services through

community health promoters, counties are well positioned to identify vulnerable households, facilitate registration and support access to healthcare services. County interventions should prioritise households facing financial and administrative barriers to participation, while strengthening coordination with the national government on mechanisms for subsidising contributions for eligible vulnerable populations. These efforts will help ensure that expansion in registration translates into meaningful coverage and access to healthcare services.

91. **Implementation of the Facility Improvement Financing Act, 2023 has strengthened the financial capacity of public health facilities by providing a framework for retaining and utilising internally generated revenue.** The Act supports the retention and use of revenue collected by public health facilities, including user fees and other payments for services, to meet operational requirements and supplement county budgetary allocations. Since implementation of the Act, there has been a significant increase in health facility collections, from Kshs.18 billion in FY 2023/24 to Kshs.24.6 billion in FY 2024/25 and Kshs.40.4 billion in FY 2025/26. The increase of approximately 64 percent in FY 2025/26 demonstrates the growing significance of facility-generated revenue in financing healthcare operations. Effective retention, budgeting and utilisation of these resources can improve the availability of medical supplies, facilitate timely maintenance and strengthen the responsiveness of facilities to operational needs.

92. **Inconsistencies between county level Facility Improvement Financing legislation and the national framework risk undermining the financial autonomy intended for public health facilities.** The FIF Act, 2023 gave health facilities the autonomy to operate independently with managing boards to ensure efficient service delivery. However, some county governments have enacted legislation containing provisions that undermine the Act and may limit resources retained at facility level. For instance, the Baringo County Health Facility Improvement Financing Act, 2024 requires health facilities to surrender 10 percent of their facility collections, rather than retaining the full revenue at the collecting facility. Such arrangements raise questions about alignment with the national FIF framework and the extent to which facilities can independently finance their operational priorities. Harmonisation of county legislation with applicable national requirements, while respecting constitutional county mandates, is therefore necessary to strengthen accountability and the intended benefits of facility level financing.

### 3.2.2.4 Human Resources for Health: Matching Workforce Expansion with Growing Service Delivery Needs

93. **There has been notable progress in expansion of the healthcare workforce, although the adequacy and equitable distribution of health personnel remains critical to improving service delivery across counties.** To illustrate, the number of medical doctors increased from 9,298 in 2021 to 16,898 in 2025, raising the doctor-to-population ratio from 19 to 32 per 100,000 people. Similarly, the number of dentists increased from 924 to 1,663 over the same period, improving the dentist-to-population ratio from 2 to 3 per 100,000

people. These gains reflect an expansion in the number of healthcare professionals nationally. However, the benefits of a larger workforce depend on its deployment across counties, availability of specialised personnel and alignment with the service requirements of individual health facilities.

94. **The transition of UHC healthcare workers to permanent and pensionable terms of employment presents an opportunity to strengthen workforce stability and continuity of healthcare services at county level.** The absorption of UHC personnel into more secure employment can help address staffing gaps and reduce uncertainty in the provision of healthcare services. However, the transition also creates recurrent expenditure obligations for county governments, particularly in relation to salaries, pensions and other employment benefits. Effective implementation therefore requires clear intergovernmental financing arrangements, adequate budgetary provision and transparent management of payroll responsibilities to avoid disruptions in service delivery.

95. **Community Health Promoters are a critical component of Kenya's primary healthcare system, providing an important link between households and formal healthcare facilities.** CHPs support community-based healthcare interventions in maternal and child health, nutrition, palliative care and the management of lifestyle diseases. Their role in health education, early identification of health risks, referrals and follow-up care can reduce avoidable pressure on higher-level health facilities. Sustaining these gains requires predictable financing for stipends, adequate training, supervision and provision of the tools and supplies necessary for effective community level service delivery.

96. **The expansion of county health infrastructure must be accompanied by commensurate investments in healthcare personnel to prevent the emergence of underutilised or non-operational facilities.** The increase in number of health facilities creates additional demand for doctors, nurses, clinical officers, laboratory personnel, pharmacists and other healthcare professionals. Without corresponding increases in staffing and operational budgets, newly constructed facilities may remain partially functional or fail to deliver the services for which they were established. County governments should therefore integrate infrastructure planning with human resource projections and medium-term financing requirements to ensure that new investments translate into improved access to quality healthcare.

## Policy Options

97. **Achieving UHC will require county governments to move beyond larger budgets and more infrastructure.** Health investments must also be fully implemented, adequately resourced and translated into accessible services. Persistent weaknesses in development budget absorption, supply chain management, financial sustainability, facility level revenue management and workforce planning have been identified. These constraints require coordinated policy and budgetary interventions across the four UHC pillars. The following policy options are proposed:

    i. **Ring-fence the health development budget and strengthen implementation to minimise stalled**

**infrastructure projects.** County governments should prioritise completion of ongoing health projects before initiating new ones, supported by realistic project costing, procurement plans and implementation timelines. Development budgets should be protected from avoidable reallocations, while project monitoring frameworks should track completion and operational readiness rather than expenditure absorption alone.

ii. **Strengthen compliance with the Facility Improvement Financing Act, 2023 to safeguard resources available for facility level service delivery.** County governments should review and align their FIF legislation and administrative arrangements with the national framework while ensuring transparent management, reporting and accountability for facility generated revenue.

iii. **Budget adequately for essential medical supplies and establish credible plans for clearing outstanding obligations to KEMSA.** County governments should budget realistically for their annual requirements for medicine and medical supplies, while making explicit provisions for the settlement of verified pending payments to KEMSA.

iv. **Strengthen implementation of the National Equipment Service Programme (NESP)** through adequate budgetary provision as well as deployment of qualified personnel, provision of essential supplies and strengthening of technical and contract management capacities to ensure optimal utilisation of installed equipment.

### 3.2.3 Turning County Agricultural Spending into Productivity, Jobs and Incomes

*Despite agriculture's central role in the economy, the sector continues to face challenges associated with uneven budget execution, incomplete development projects, fragmented land holdings, limited access to agricultural inputs and inadequate post-harvest infrastructure. These constraints vary across counties, underscoring the need for differentiated investment strategies informed by local economic characteristics and comparative advantages. Unlocking the country's agricultural potential will require a shift from simply allocating resources to ensuring that public expenditure generates measurable improvements in productivity, value addition and household incomes.*

98. **Agriculture remains a cornerstone of Kenya's economy and a critical driver of rural livelihoods, employment, export earnings and economic growth.** The sector accounts for 22.5 percent of the country's Gross Domestic Product (GDP) and provides an important source of employment and livelihood, particularly in rural communities. The sector is also a major source of foreign exchange earnings through the export of key commodities such as tea, coffee, horticulture, among other farm-based produce, thereby boosting domestic incomes and

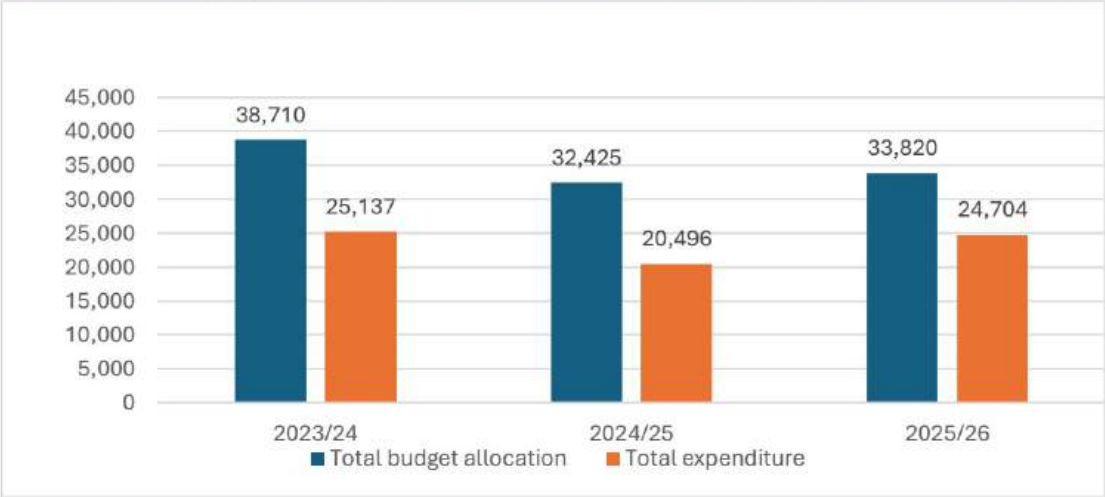
strengthening the country's balance of payments. Strengthening agricultural productivity and value addition is therefore essential for accelerating economic growth and improving livelihoods across counties.

99. **Agricultural economic activity is concentrated in a relatively small number of counties, reflecting differences in agro-ecological conditions, productive capacity and economic specialisation.** In 2024, five counties recorded agricultural Gross County Product (GCP) exceeding Kshs.300 billion, namely: Meru (Kshs.525 billion); Uasin Gishu (Kshs.383 billion); Kilifi (Kshs.321 billion); Kakamega (Kshs.316 billion) and Bungoma (Kshs.305 billion). In contrast, several counties, particularly in the Arid and Semi-Arid (ASAL) regions such as Mandera, Wajir, Tana River, and Lamu[11] recorded GCP lower than Kshs.100 billion.

### 3.2.3.1 County Agricultural Budget Allocation and Expenditure

100. **County agricultural spending declined between FY 2023/24 and FY 2024/25, reflecting both reduced budgetary allocations and weakening expenditure absorption.** Total budgetary allocations to agriculture declined by 16.2 percent, from Kshs.38.71 billion in FY 2023/24 to Kshs.32.43 billion in FY 2024/25. Furthermore, actual expenditure declined more sharply in the same period, by 18.5 percent, from Kshs.25.14 billion to Kshs.20.50 billion. Consequently, the absorption rate declined from 64.9 percent to 63.2 percent, indicating a slight deterioration in the utilisation of available resources. It is worth noting that in FY 2025/26, the sector's budget allocation increased by 4.3 percent to Kshs.33.82 billion, while expenditure rose by 20.5 percent to Kshs.24.70 billion (Figure 29). Consequently, the absorption rate improved to 73.0 percent.

**Figure 29: County Agricultural Budget Allocation and Expenditure for FY 2023/24-2025/26**

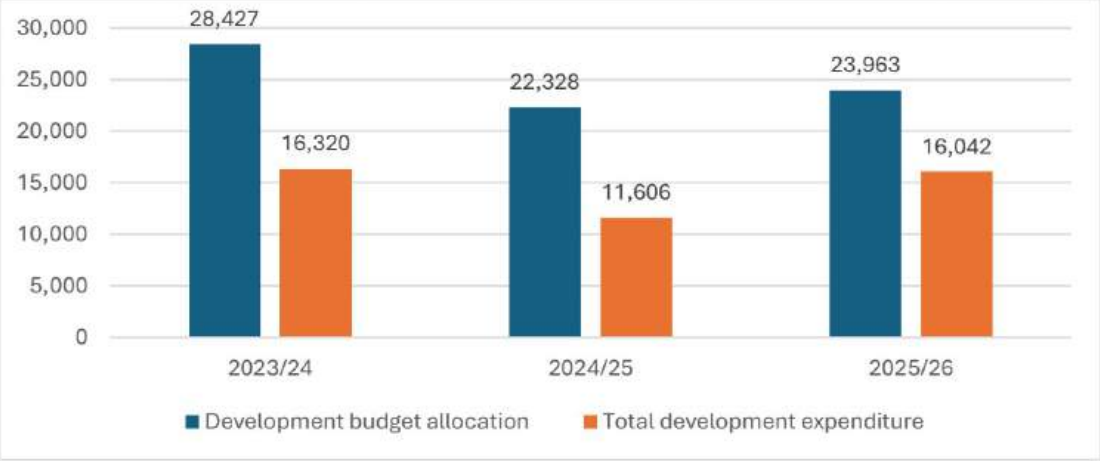



[11] https://www.knbs.or.ke/wp-content/uploads/2025/12/2025-Gross-County-Product.pdf

### 3.2.3.2 Development Budget versus Development Expenditure

101. **Under-execution of the agricultural development budget continues to constrain the translation of public resources into productive investments.** The agricultural sector's development budget allocation as shown in Figure 30 declined by 21.5 percent, from Kshs.28.43 billion in FY 2023/24 to Kshs.22.33 billion in FY 2024/25. Further, actual expenditure declined by 28.9 percent from Kshs.16.32 billion to Kshs.11.61 billion resulting in a lower absorption rate of 52.0 percent. This is indicative of implementation challenges that may delay delivery of agricultural infrastructure and related investments. Although development expenditure recovered slightly in FY 2025/26, persistent gaps between allocation and actual spending point to the need for stronger project preparation and implementation.

**Figure 30: Agriculture development budget allocation against Total Development Expenditure**




102. **Absorption of the agriculture development budget varies considerably across counties, revealing substantial differences in agricultural investment implementation.** In FY 2025/26 as shown in Figures 31-32, West Pokot (99.6 percent), Wajir (98.8 percent), Tana River (83.2 percent) and Mandera (80.37 percent) recorded the highest development absorption rates among counties with pastoral economies. Among counties with agricultural and blue economies, the highest absorption rates were recorded in Kilifi (153 percent), Embu (99 percent), Trans Nzoia (97.4 percent), Nandi (94.8 percent), Lamu (94.19 percent) and Kericho (93.8 percent). Notably, the overspend in Kilifi is largely attributed to payment of pending bills. Conversely, the lowest development expenditure absorption rates were recorded in Siaya (9.38 percent), Kisii (14.07 percent) and Migori (16 percent).

103. **This uneven pattern of development absorption has persisted over the years, highlighting the need for targeted interventions to address project preparation, procurement, financing and implementation bottlenecks.** Counties experiencing persistent under-absorption should prioritise viable ongoing projects and align cash-flow plans with work plans. County governments should also strengthen monitoring and evaluation frameworks by tracking not only expenditure absorption but also project completion rates, functionality, beneficiary coverage and economic outcomes for counties with high development

absorption. Notably, improving agricultural development spending requires counties to shift from measuring budget absorption alone to assessing the economic returns on public investment.

**Figure 31: Development absorption for pastoral economies for FY 2023/24-2025/26**

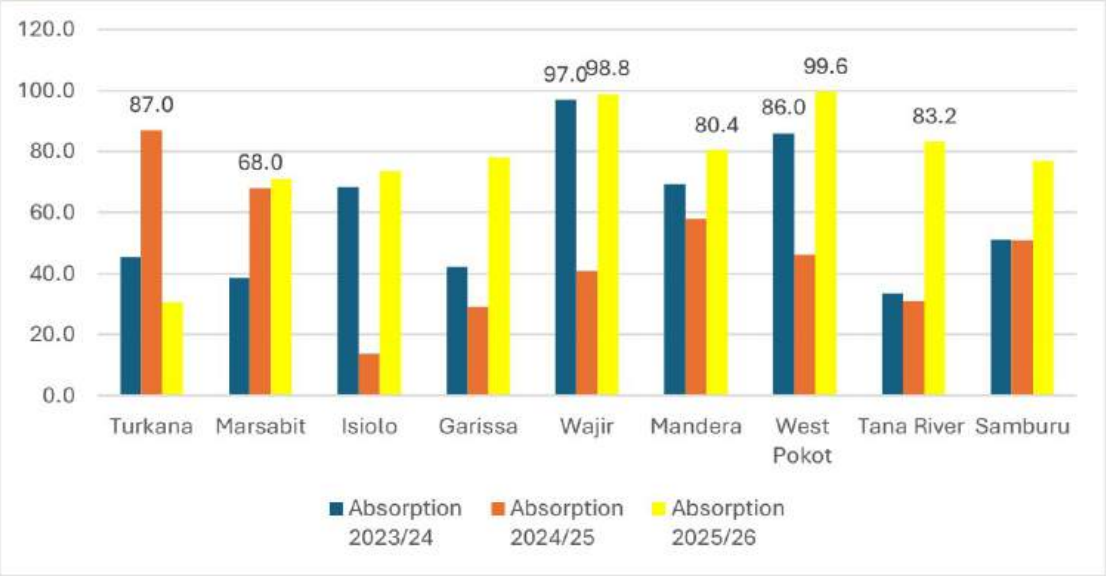
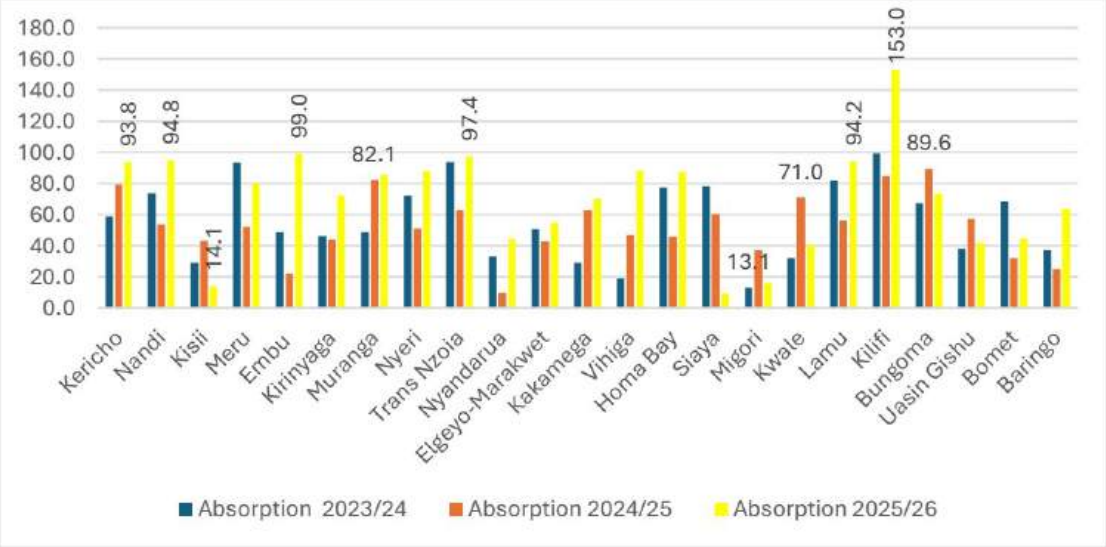



**Figure 32: Development absorption for blue and agricultural economies**




### 3.2.3.3 Leveraging County Comparative Advantages for Agricultural Growth

104. **Kenya's counties have distinct agricultural production systems and comparative advantages that should inform the prioritisation of public investment.** Agricultural and agro-processing economies are largely concentrated in high potential areas specialising in tea, coffee, dairy, horticulture, cereals and sugar production. Pastoral economies depend predominantly on livestock production and trade, while coastal counties have significant opportunities in fisheries and other blue economy activities. Aligning county budgets with these economic characteristics could strengthen value chains, promote agro-processing,

expand employment opportunities and improve counties' capacity to generate own-source revenue.

### a) Agricultural and Agro-processing Economies

105. **Tea and dairy production provide an important economic foundation for several high potential counties, with opportunities to strengthen value addition and rural incomes.** Kericho, Bomet, Nandi, Kisii and Nyamira constitute an important tea and dairy production cluster. In 2024, Bomet had the largest area under tea cultivation at 47,200 hectares, accounting for approximately 21 percent of the national total, followed by Kericho (39,200 hectares) and Nandi (38,500 hectares). With more than 90 percent of tea production exported, the subsector provides an important source of foreign exchange earnings and household income. Investments in processing, market access and related infrastructure could strengthen local economic activity and indirectly support county revenue mobilisation.

106. **Coffee, tea, horticulture and dairy production underpin the agricultural economies of several central and eastern Kenya counties.** Meru, Embu, Kirinyaga, Murang'a, Nyeri and Tharaka Nithi have significant potential in these value chains. Kirinyaga recorded the largest area under coffee production in FY 2023/24 at 10,412 hectares, followed by Nyeri at 10,016 hectares, while Murang'a and Embu also had substantial coffee growing areas. In the dairy subsector, Meru was the leading milk producing county in 2024, producing approximately 479 million kilograms. These production strengths provide opportunities for investments in aggregation, processing, cold chain infrastructure and market development.

107. **Grain, potato and dairy producing counties play a strategic role in national food security and offer considerable opportunities for productivity-enhancing investment.** Uasin Gishu, Trans Nzoia, Nyandarua and Elgeyo Marakwet are important producers of cereals, potatoes and dairy products. Uasin Gishu recorded maize production of 476,538 tonnes in 2023 and 483,211 tonnes in 2024. Strengthening storage, mechanisation, aggregation and processing infrastructure in these counties could reduce post-harvest losses, improve market efficiency and increase returns to farmers.

108. **Sugar production and inland fisheries provide important opportunities for economic diversification and value addition in western Kenya and the Lake Victoria region.** Kakamega, Bungoma, Vihiga, Homa Bay, Siaya and Migori form part of a broader agricultural economy supported by sugarcane, maize and fisheries. Kakamega recorded sugar production of 188,756 tonnes in 2022, declining to 87,367 tonnes in 2023 before recovering to 159,975 tonnes in 2024. Homa Bay is a leading fish producing county accounting for 51.5 percent of Lake Victoria's catch in 2024 and 58 percent in 2023. The Fisheries Statistical Bulletin, 2025[12] attributed approximately 54 percent of the lake's fish catch to Homa Bay, 32 percent to Siaya, 4 percent to Migori and 3 percent to Busia. Investment in fish landing sites, cold storage, processing and market facilities could improve product quality, increase incomes and support county

[12] Kenya Fisheries Service (KeFS), 2025. Fisheries Statistical Bulletin, Ministry of Mining, Blue Economy and Fisheries, State Department for Blue Economy and Fisheries

revenue through applicable market fees and permits.

### b) Pastoral and Livestock Economies

109. **Livestock production remains the principal source of livelihoods and food security in many ASAL counties, making commercialisation and market connectivity critical to their economic transformation.** Turkana, Marsabit, Isiolo, Garissa, Wajir, Mandera, Baringo, West Pokot, Tana River and Samburu have substantial livestock-based economies. According to the 2019 KNBS livestock census figures, Garissa had approximately 1.4 million indigenous cattle, 2.7 million sheep, 3.9 million goats and 0.8 million camels, with more than 80 percent of its population dependent on livestock for livelihoods and food security. Mandera recorded approximately 1.1 million indigenous cattle, 2.2 million sheep, 1.9 million goats and 0.8 million camels. Expanding livestock marketing, meat processing, hides and skins processing and access to external markets could increase the economic value retained within these counties and generate additional employment opportunities.

### c) Blue Economies

110. **Marine fisheries and mariculture offer significant opportunities for coastal counties to expand economic activity through value addition and improved market access.** Kilifi, Kwale and Lamu are important contributors to Kenya's blue economy. In 2024, marine landings and mariculture production increased to 48,608 metric tonnes, with an ex-vessel value of Kshs.15.2 billion, compared with 39,950 metric tonnes of marine artisanal landings, representing 30.5 percent of the total, valued at Kshs.3.1 billion. Kwale contributed 11,730 metric tonnes (29.5 percent) valued at Kshs.3.4 billion, while Lamu recorded 9,813 metric tonnes (24.7 percent), valued at Kshs.2.1 billion. Prioritising refrigeration, processing, packaging and market infrastructure could reduce post-harvest losses, improve expenditure efficiency and increase the share of fisheries income retained locally.

## 3.2.3.4 Agricultural Land Fragmentation

111. **Increasing subdivision and conversion of agricultural land threatens long-term agricultural productivity, particularly in high potential farming areas and pastoral rangelands.** County governments should strengthen land-use planning and delineate urban growth boundaries to discourage conversion of productive agricultural land to other land uses and protect grain basket areas as well as other high potential areas.

112. **Land use planning and subdivision controls should reflect differences in agricultural potential and the land requirements of specific production systems.** In low potential ASAL areas, livestock is the leading activity and production depends on sufficiently large and connected grazing areas to support mobility and access to pasture. As in Table 15, the national planning standards provide minimum land sizes of 20 hectares for commercial purposes and 5 hectares for small-scale activities. Medium potential counties mix low potential rangeland with medium-potential pockets, often irrigable or highland areas. Livestock production and crop farming compete for land here. The minimum standard for these areas is 10 hectares for commercial purposes and 2 hectares for small-scale farming. In high potential agricultural areas, including tea,

dairy, coffee and horticulture counties, the specified minimum sizes are 5 hectares for commercial purposes and 0.5 hectares for small-scale farming. However, they face pressure from excessive fragmentation as they are also likely to be more densely populated. Applying these standards through county spatial planning could help preserve agricultural land.

**Table 15: National Planning Standards for Agricultural Land Subdivision**

| Agro-ecological zone | Minimum land size (Ha) (commercial) | Minimum land size (Ha) (small-scale) |
|---|---|---|
| Low potential area | 20 | 5 |
| Medium Potential area | 10 | 2 |
| High potential area | 5 | 0.5 |

*Source: Ministry of Lands, Public Works, Housing and Urban Development*

### 3.2.3.5 Irrigation Development and Agricultural Productivity

113. **Kenya's continued reliance on rain-fed agriculture exposes food production and rural livelihoods to weather variability and climate-related shocks.** Expanding access to irrigation, alongside affordable agricultural inputs and effective extension services could improve production reliability, strengthen climate resilience and increase agricultural productivity. However, realising these benefits requires counties to prioritise the completion and operationalisation of existing irrigation investments.

114. **Slow implementation of irrigation projects risks delaying anticipated productivity gains and reducing the effectiveness of agricultural development expenditure.** In Murang'a County, the Ndonga Matheraini Irrigation Project which involves construction of an intake, silt box, distribution lines and laterals, is reportedly only 1.3 percent complete. This project is meant to benefit approximately 400 people. Similarly, rehabilitation of the Rahole Irrigation Project canal in Garissa and El-Gade Irrigation Project in Marsabit have reported completion rates of 5 percent and 12 percent respectively. County governments should address implementation bottlenecks and prioritise adequate funding for viable ongoing projects to accelerate completion and delivery of planned benefits (Annex 5).

### 3.2.3.6 Access to Fertilizer Subsidies

115. **Agricultural input subsidies can reduce production costs and support productivity, but their effectiveness depends on reliable targeting, accessibility and timely delivery to farmers.** According to the National Cereals and Produce Board (NCPB), the subsidised price for both planting and topdressing fertilizers is Kshs.2,500 per 50 kg bag. In FY 2023/24, the fertilizer subsidy programme targeted 456,000 farmers, with planned distribution of 200,500 metric tonnes (MT) of fertilizer alongside 2,750 MT of agricultural lime. However, official programme-based budget (PBB) figures for FY 2024/25 indicate a reduction of more than 50 percent in coverage, with revised targets of 202,512 farmers and 93,283 MT of fertilizer.

116. **Administrative and distribution bottlenecks continue to limit farmers'**

**effective access to subsidised fertilizer, weakening the potential benefits of the programme.** A study by Tegemeo Institute for Agricultural Policy Development found that although 46 percent of households registered for the National Fertilizer Subsidy Programme in 2023, only 32 percent received an SMS notification and just 19 percent obtained the subsidised fertilizer. Additionally, farmers travelled an average of 16 km to access the subsidised fertilizer at NCPB depots or Kenya National Trading Corporation (KNTC) sale points, compared with 9 kilometres to purchase commercial fertilizer from local agro dealers. The greater travel distance reflects a sparser and more dispersed distribution network for subsidised fertilizer, potentially increasing transaction costs and reducing effective access, particularly among smallholder farmers.[13]

117. **Improving fertilizer subsidy outcomes requires greater emphasis on last-mile delivery, farmer access and coordination between the two levels of government.** County governments should work with the national government to strengthen beneficiary identification, improve the accessibility of distribution points and align input support with county-specific production priorities. Such measures could reduce the costs of accessing subsidised fertilizer and improve the programme's contribution to agricultural productivity and farm incomes.

### 3.2.3.7 Conditional Additional Allocations for Agricultural Development

118. **Development partner financed conditional additional allocations provide an important financing mechanism for agricultural transformation, particularly in counties facing production, infrastructure and market access constraints.** In FY 2026/27, county governments were allocated resources from development partner loans and grants to support agricultural productivity, livestock commercialisation and food systems resilience. These resources complement county budgetary allocations and provide opportunities to address structural constraints affecting smallholder farmers and pastoral communities.

119. **The Food Systems Resilience Project (FSRP) provides targeted support to strengthen agricultural resilience particularly in ASAL counties.** The project, financed through IDA (World Bank) Credit, had a total allocation of Kshs.3.9 billion in FY 2026/27. Turkana received the highest allocation at Kshs.352 million, followed by Wajir at Kshs.334 million. The programme provides an opportunity to strengthen food systems in areas facing climatic and agricultural production vulnerabilities.

120. **The National Agricultural Value Chain Development Project (NAVCDP) seeks to increase smallholder commercialisation by strengthening productivity, market access and value addition.** The project, financed through an IDA World Bank Credit, has a total allocation of Kshs.3.5 billion. Each selected county was allocated Kshs.105 million to support interventions aimed at improving smallholder participation in agricultural value chains and increasing the economic returns from agricultural production.

[13] https://tegemeo.egerton.ac.ke/

121. **The Kenya Livestock Commercialization Project seeks to improve incomes and livelihoods by supporting the transition from subsistence livestock production to market-oriented production.** The project, financed through International Fund for Agricultural Development (IFAD) Credit, has a total allocation of Kshs.379 million. It targets smallholder and pastoral livestock producers, particularly in ASAL areas, with specific emphasis on women and youth. By supporting livestock commercialisation, the project has the potential to strengthen market participation, improve household incomes and expand economic opportunities in pastoral counties.

## Policy Options

i. **Prioritise completion of ongoing irrigation projects to enhance agricultural productivity and climate resilience.** Priority should be given to projects with demonstrated potential to expand agricultural production, reduce dependence on rain-fed agriculture and improve farmers' access to reliable water supplies. This approach would minimise the accumulation of stalled projects, improve development budget absorption and accelerate realisation of benefits from existing public investments.

ii. **Improve access to subsidised agricultural inputs** through targeted resource allocation and strengthened last-mile distribution of subsidised fertilizer and other agricultural inputs to reduce the distance and associated costs incurred by farmers in accessing these services.

iii. **Scale up investments in post-harvest management and agro processing to reduce losses and enhance agricultural value addition.** These include modern grain storage facilities, aggregation centres, cold rooms, drying facilities and agro-processing equipment, based on their agricultural production systems and comparative advantages. These investments should be complemented by county-specific post-harvest management strategies, farmer training on appropriate harvesting, handling and storage practices, and partnerships with cooperatives and private sector actors.

iv. **Strengthen the disbursement and utilisation of conditional allocations to accelerate agricultural development.** County governments should strengthen project planning, implementation readiness, expenditure monitoring and reporting to ensure that available resources are effectively utilised. Particular attention should be given to programmes supporting agricultural productivity, livestock commercialisation, food systems resilience and value chain development in counties with significant production constraints.

### 3.2.4 Financing Climate Resilience and Ensuring Sustainability of Climate Action in Counties

> *The long-term success of FLLoCA will depend less on the volume of external financing mobilised and more on the ability of county governments to institutionalise climate action*

*within their own fiscal and development plans. Although there is progress towards greater local ownership, persistent delays in fund transfers, weaknesses in counterpart financing and inadequate maintenance provisions risk undermining these gains. Strengthening domestic climate financing commitments, improving treasury operations and safeguarding completed investments will be essential to ensuring that FLLoCA delivers lasting resilience benefits to communities and local economies.*

122. **The Financing Locally Led Climate Action (FLLoCA) Programme seeks to strengthen climate resilience by empowering county governments and communities to identify, finance and implement locally driven climate adaptation interventions.** The initiative aims to strengthen the institutional and technical capacity of national and county governments to manage climate-related risks while supporting communities to implement locally identified climate resilience actions.

123. **The effectiveness of climate action depends on the extent to which interventions respond to locally experienced vulnerabilities and priorities.** Climate-related shocks such as droughts, floods, changing rainfall patterns and environmental degradation, disproportionately affect communities at the local level, with significant implications for livelihoods, infrastructure and local economic activity. Consequently, effective climate action requires active participation of communities, the integration of climate considerations into county planning and budgeting processes, and the establishment of sustainable financing mechanisms to support resilience-building investments.

124. **FLLoCA adopts a performance-based financing approach that links access to climate finance with improvements in county institutional capacity and financial management.** The programme utilises a Program-for-Results (PforR) financing instrument to incentivise institutional reforms, strengthen public financial management systems and link financing to the achievement of specified results and performance conditions. Under this arrangement, county governments access resources through two distinct grants: the County Climate Institutional Support (CCIS) Grant and the County Climate Resilience Investment (CCRI) Grant. These grants function as conditional intergovernmental fiscal transfers, each serving a complementary purpose in strengthening county-level climate action.

125. **The FLLoCA financing framework recognises that sustainable climate resilience requires both functional county institutions and adequate financing for locally prioritised investments.** Accordingly, the two complementary grants have distinct but mutually reinforcing objectives:

i. The County Climate Institutional Support (CCIS) Grant supports the development and strengthening of county-level institutional systems necessary for effective climate governance. Its emphasis is on establishing the institutional, technical and operational foundations required for counties to identify climate risks, plan appropriate responses, mobilise

resources and monitor the implementation of climate interventions.

ii. The County Climate Resilience Investment (CCRI) Grant provides financial support for the implementation of locally identified climate resilience investments. It seeks to enable county governments to translate County Climate Action Plans (CCAPs) into practical interventions that strengthen the resilience of communities, households and local economies to climate-related shocks and stressors.

126. **Beyond financing individual climate projects, the CCRI Grant seeks to institutionalise climate action within county planning and budgeting systems.** The grant incentivises counties to allocate their own resources towards climate action through the County Climate Change Fund (CCCF) mechanism. In addition, it promotes the integration of climate change considerations into the routine operations, sector plans and expenditure programmes of county departments. Eligible investments are expected to respond to locally identified climate vulnerabilities and deliver public benefits. The aim is to shift climate action from an externally financed project to an integral component of county development planning.

127. **The County Climate Change Fund (CCCF) provides the institutional foundation for mobilising and managing resources for locally led climate action.** The fund enables county governments to establish dedicated arrangements for allocating, coordinating and managing climate finance while strengthening local ownership, transparency and accountability. By embedding climate financing within county public financial management systems, the CCCF provides a framework through which county governments can mobilise, allocate and manage resources for climate resilience investments while strengthening local ownership and accountability.

128. **The programme's effectiveness depends on the strength of county institutions and the credibility of climate investment planning and oversight.** Counties are expected to establish functional institutional arrangements, strengthen public participation, generate and utilise climate information, and maintain credible monitoring and evaluation systems. These measures help ensure that investments respond to actual community needs and that public resources are directed towards interventions with demonstrable resilience benefits.

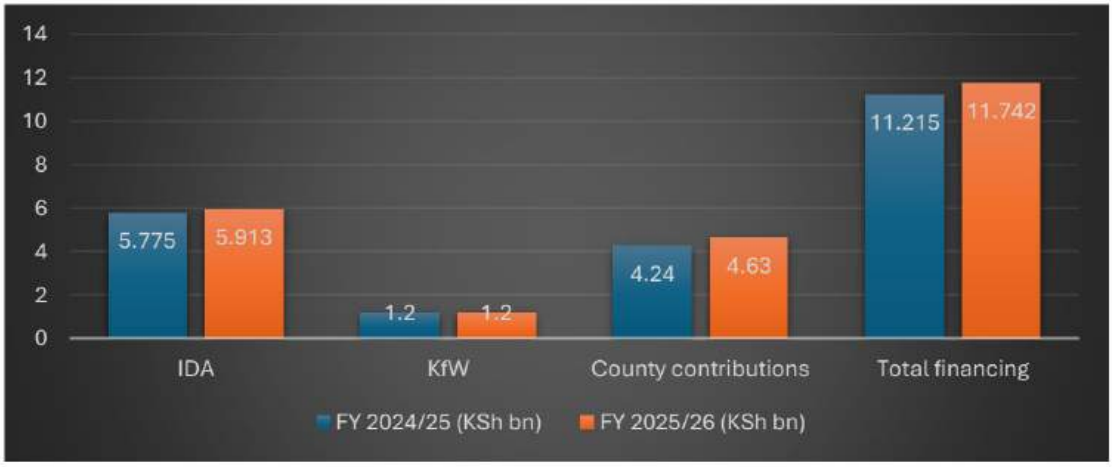
129. **Diversifying climate financing sources is essential for reducing dependence on external development partners and sustaining county climate investments.** A sustainable CCCF mechanism provides an opportunity for counties to consolidate and coordinate resources from different financing sources and establish a more predictable framework for financing climate action. County climate finance can be mobilised from multiple sources, including county government development budget allocations, national government transfers and climate finance mechanisms, international climate funds and support from bilateral and multilateral development partners, as well as private-sector investments. Such diversification can improve predictability of climate financing and facilitate long term investment planning.

130. **Access to FLLoCA financing is conditional on compliance with prescribed institutional and public finance management requirements.** Among the minimum access conditions is the establishment of a Special Purpose Account (SPA) by the county government for receiving and managing resources under the CCIS and CCRI Grants, in accordance with the applicable programme guidelines. The SPA arrangement is intended to facilitate the identification, tracking and management of programme resources and facilitate accountability for grant receipts and expenditure. County governments are therefore required to maintain appropriate financial management and reporting arrangements to demonstrate that grant resources have been utilised for their intended purposes.

131. **The requirement for counties to contribute at least 1.5 percent of their development budgets to climate action is intended to strengthen local ownership and reduce long term dependence on donor financing.** Under the CCRI financing framework, counties are required to allocate at least **1.5 percent** of their development budgets to the CCCF, in addition to the CCRI Grant. This counterpart financing requirement incentivises counties to integrate climate resilience into their expenditure priorities, mobilise domestic resources and demonstrate sustained commitment to climate action. It also provides a foundation for progressively institutionalising climate financing within regular county budget frameworks.

132. **Overall FLLoCA financing has increased, driven largely by county government contributions.** Between FY 2024/25 and FY 2025/26, total financing under the County Climate Resilience Investment Grant increased by 4.7 percent (Kshs.527.21 million), from approximately Kshs.11.22 billion in FY 2024/25 to Kshs.11.74 billion in FY 2025/26 (Figure 33). This increase is largely attributable to the growth in county contributions by approximately 9.2 percent during the review period. Comparatively, the International Development Association (IDA) financing increased by about 2.4 percent, while KfW (German Development Bank) financing remained unchanged. This underscores the growing role of county governments in financing locally led climate resilience investments.

**Figure 33: FLLoCA financing structure for FY 2024/25 and FY 2025/26**




*Source: National Treasury.*

133. **County governments now account for a substantial share of scheduled CCRI financing, reflecting their increasing fiscal commitment to climate resilience.** County government contributions accounted for approximately 37.8 percent of total scheduled financing in FY 2024/25, rising to 39.4 percent in FY 2025/26, an increase of 1.6 percentage points (Table 16). Across the two financial years, counties contributed approximately Kshs.8.87 billion against a total financing of Kshs.22.96 billion. While this trend signals strengthening county ownership, sustained financing commitments and timely disbursement will be critical to translating budgetary allocations into completed resilience investments.

**Table 16: County Contributions as a share of Total Financing**

| | IDA (Kshs. billion) | KfW (Kshs. billion) | County contributions (Kshs. billion) | Total financing (Kshs. billion) | County contributions as a share of total financing |
|---|---|---|---|---|---|
| FY 2024/25 | 5.775 | 1.2 | 4.24 | 11.215 | **37.8%** |
| FY 2025/26 | 5.913 | 1.2 | 4.63 | 11.742 | **39.4%** |
| **Total** | **11.688** | **2.4** | **8.87** | **22.957** | **38.6%** |

*Source: National Treasury*

134. **Despite increased financial commitments, weaknesses in fund disbursement, counterpart financing and asset maintenance continue to undermine the effective implementation and long-term sustainability of FLLoCA investments.** Financial reviews and audit findings by the National Treasury and the Office of the Auditor-General point to three interrelated challenges that require policy attention:

a. **Delays in transferring funds to Special Purpose Accounts (SPAs) constrain the timely implementation of climate resilience investments.** Financial audits frequently flag procedural lag times where funds received at the County Revenue Fund (CRF) fail to be transferred to designated SPAs within the mandatory 10-day window. This creates cash-flow uncertainties and disrupts project implementation schedules. In the long term, such delays weaken budget execution, postpone anticipated resilience benefits and may contribute to low absorption of available climate financing.

b. **Delays in releasing county counterpart financing risk undermining compliance with performance-based grant conditions.** Although counties are required to allocate at least 1.5 percent of their development budgets as counterpart funding so as to qualify for County Climate Resilience Investment (CCRI) Grants, some counties do not do this within required timelines. Constraints in exchequer disbursements may delay the availability of counterpart funds, thereby affecting counties' ability to meet programme requirements and access CCRI financing. This highlights the importance of assessing not only budget allocations but also actual disbursements and expenditure performance.

c. **Inadequate provision for operation and maintenance threatens the sustainability of climate resilience investments beyond the programme financing period.** External financing from IDA and KfW is time-bound, while climate adaptation infrastructure and related investments require continued maintenance to remain functional. Failure to incorporate recurrent operation and maintenance (O&M) requirements into county budgets could result in deterioration of completed assets, reduced resilience benefits and inadequate utilisation of public resources. The sustainability of FLLoCA investments therefore depends on counties transitioning from project-based financing towards predictable, domestically financed maintenance arrangements.

## Policy Options

135. **Sustaining the gains from FLLoCA requires a transition from donor-supported climate investments towards predictable county financing, efficient fund disbursement and institutionalised asset maintenance.** While increased county contributions demonstrate growing commitment to climate resilience, strengthening the effectiveness of these resources requires targeted reforms in budget allocation, treasury management and expenditure planning. The following policy options are therefore proposed:

i. **Progressively increase county counterpart financing commitments from 1.5 percent to 3 percent of development budgets.** County governments should consider a phased increase in their minimum climate financing allocations from the current programme requirement of 1.5 percent to a proposed target of 3 percent of their development budgets, subject to fiscal affordability and county-specific climate risks. This would progressively expand domestic fiscal space for climate adaptation, strengthen local ownership and reduce dependence on time-bound external financing. The increase should be accompanied by clear expenditure priorities, measurable resilience outcomes and safeguards to ensure that additional allocations do not crowd out other essential development investments.

ii. **Automate transfers from County Revenue Funds (CRF) to designated Special Purpose Accounts to minimise disbursement delays.** Subject to applicable public financial management requirements, counties could adopt a 48-hour administrative processing target following receipt of funds, supported by automated payment instructions, reconciliation procedures and transaction monitoring. This would reduce procedural delays, strengthen compliance with programme requirements and improve the predictability of resources available for project implementation.

iii. **Institutionalise operation and maintenance financing for completed climate resilience investments.** County governments should incorporate the recurrent expenditure implications of FLLoCA funded investments into their Medium-Term Expenditure Frameworks and annual budgets. This should include establishing dedicated O&M provisions within relevant sector budgets, maintaining comprehensive asset

registers and preparing maintenance plans for completed investments. Such measures would protect the functionality of climate adaptation assets beyond the programme financing period and improve long term returns on public investment.

iv. **Integrate climate financing into county medium-term fiscal planning to improve predictability and sustainability.** County governments should mainstream climate resilience priorities into County Integrated Development Plans, Annual Development Plans and medium-term budgets, rather than treating climate interventions primarily as externally financed projects. The CCCF mechanism should serve as a coordinated financing framework for mobilising domestic and external resources, prioritising investments and tracking climate expenditure. This would support a gradual transition towards county led, fiscally sustainable climate action.

### 3.2.5 The Leaking Revenue Base: Why Counties Must Prioritise Non-Revenue Water Reduction

*Non-Revenue Water (NRW) is water that is lost or unbilled, thereby generating no income from water utilities despite being pumped into the distribution system. Addressing NRW offers county governments an opportunity to improve the financial sustainability of water service delivery while reducing pressure on limited county budgetary resources. Additional revenue generated through improved billing and reduced water losses could finance infrastructure maintenance, strengthen service reliability, reduce outstanding liabilities and lower dependence on county subsidies. Importantly, NRW reduction can improve the returns on existing water infrastructure investments, allowing counties to expand effective water supply without necessarily undertaking equivalent investments in additional production capacity.*

136. **Access to clean, safe water and adequate sanitation is a constitutional right, placing an obligation on both levels of government to progressively ensure universal access to these essential services.** Article 43(1)(b) and (d) of the Constitution of Kenya guarantees every person the right to reasonable standards of sanitation and access to clean and safe water in adequate quantities. The Fourth Schedule further delineates the responsibilities of the national and county governments in water management and service delivery, establishing a framework for shared responsibilities in the sector.

137. **County governments play a central role in water service delivery, primarily through water service providers established under the Water Act, 2016.** Section 77 of the Water Act, 2016 provides for the establishment of water companies by county governments, which may operate as limited liability companies under the Companies Act, 2015, or other entities as may be approved by the Water Services Regulatory Board (WASREB). These companies are responsible for distributing

water to consumers, billing for services and collecting revenue, while Regional Water Works Development Agencies (WWDAs) primarily undertake the development of bulk water infrastructure.

138. **The financial sustainability of county water companies is increasingly undermined by high levels of Non-Revenue Water (NRW) which erode revenue collection and increase pressure on county budgets.** County water companies provide an important mechanism for converting public investment in water infrastructure into revenue to sustain service delivery. However, when nearly half of the water produced is not billed, the resulting revenue losses weaken their capacity to meet operational and maintenance costs, leading to increased dependence on county subsidies, accumulation of supplier arrears and delays in infrastructure investment.

139. **Non-Revenue Water (NRW) represents a significant loss of potential revenue for county water companies, with national losses considerably exceeding the regulatory benchmark.** WASREB defines NRW as the difference between the volume of water supplied into a distribution system and the volume of authorised consumption that is billed, measured in cubic metres. NRW comprises physical losses arising from leakages, pipe bursts, overflows and infrastructure damage; and commercial losses resulting from illegal connections, water theft, inaccurate meters, billing errors and collusion. WASREB has established a sector benchmark of 25 percent, against which the performance of water service providers is assessed. NRW across counties now exceeds 40 percent of production.

140. **NRW is, first and foremost, a county revenue problem.** Counties own and oversee water service providers (WSPs) licensed by WASREB, while Regional Water Works Development Agencies (WWDAs) build bulk infrastructure. Every cubic metre that is produced but not billed lowers the own-source revenue (OSR) of the company. Companies that cannot cover their costs then lean on county budgets, creditors and customer deposits.

141. **Despite increased investment in water production, the proportion of water that does not generate revenue has continued to rise, suggesting persistent inefficiencies in distribution and commercial management.** National NRW increased from 43 percent in FY 2022/23 to 44 percent in FY 2023/24 and further to 48 percent in FY 2024/25, nearly doubling the sector benchmark. During FY 2024/25, water production increased by 9.4 percent from 461.3 million cubic metres to 504.4 million cubic metres. However, billed water increased by only 2.3 percent whereas unbilled water rose by 18.3 percent (Table 17). This implies that approximately 86 percent of the additional water produced during the year was lost or unaccounted for, highlighting the limited revenue gains from expanding water production without corresponding improvements in distribution efficiency and billing systems.

**Table 17: National Non-Revenue Water (NRW) Trends, 2022/23 to 2024/25**

| Indicator | 2022/23 | 2023/24 | 2024/25 | % change |
|---|---|---|---|---|
| Water produced (million $m^3$) | - | 461.3 | 504.4 | 9.4% |
| Water billed (million $m^3$) | - | 258.0 | 263.9 | 2.3% |

| Indicator | 2022/23 | 2023/24 | 2024/25 | % change |
|---|---|---|---|---|
| Unbilled water, derived (million $m^3$) | - | 203.3 | 240.5 | 18.30% |
| NRW (% of production) | 43 | 44 | 48 | |
| Metering ratio (%) | 97 | 97 | 97 | |
| Collection efficiency (%) | 93 | 95 | 94 | |

*Data Source: WASREB (2026), Impact Report / PBO computations*

142. **The financial position of county water companies remains precarious, characterised by revenue underperformance, liquidity constraints and significant uncertainty regarding their ability to sustain operations.** In FY 2023/24, 87 audited water companies generated Kshs.33.80 billion against a budget of Kshs.39.38 billion, representing a revenue shortfall of Kshs.5.59 billion (14 percent). Own-Source Revenue (OSR) accounted for Kshs.28.16 billion (83 percent of revenue) while grants and other income contributed Kshs.3.62 billion (11 percent) and Kshs.2.02 billion (6 percent) respectively. Of the 87 companies, 75 (86 percent) carried material uncertainty while 47 companies had negative working capital amounting to Kshs.7.33 billion. In FY 2024/25, 19 companies reported negative working capital amounting to Kshs.4.57 billion, underscoring continued financial vulnerabilities.

143. **Accumulating liabilities and the unauthorised use of customer deposits further constrain the capacity of water companies to finance maintenance and improve service delivery.** According to the Auditor-General report, in FY 2023/24, outstanding payables amounted to Kshs.20.38 billion, of which Kshs.13.25 billion had been outstanding for a prolonged period. The Auditor-General also flagged unauthorised use of customer deposits amounting to Kshs.148.7 million across seven companies in FY 2023/24, rising to Kshs.1.67 billion across 26 companies in FY 2024/25. Notably, Nairobi City accounted for Kshs.1.31 billion of the latter amount. These practices weaken financial accountability, divert resources from essential infrastructure maintenance and increase the risk of further deterioration in water service delivery.

144. **High levels of NRW represent a substantial untapped revenue opportunity for county water companies, with the reported value of unbilled water exceeding Kshs.15 billion annually in the audited companies.** In FY 2023/24, 76 water companies produced 440.39 million cubic metres of water but billed only 235.98 million cubic metres, leaving 204.41 million cubic metres unbilled, equivalent to 46.4 percent of production. The estimated value of this unbilled water was Kshs.15.99 billion. In FY 2024/25, 43 water companies produced 336.80 million cubic metres and billed 178.88 million cubic metres, with reported unbilled water of 158.99 million cubic metres representing NRW of 47.2 percent. The estimated value of this unbilled water was Kshs.15.63 billion (Annex 2). These findings demonstrate the substantial scale of potential revenue losses across the sector.

145. **The concentration of NRW losses among major water service providers highlights the need for targeted interventions.** As earlier indicated, Nairobi City accounted for Kshs.8.57 billion, or 53.6

percent of the reported value of unbilled water in FY 2023/24, increasing to Kshs.11.96 billion or 76.5 percent in FY 2024/25. Furthermore, 39 of the 76 companies assessed in FY 2023/24 recorded NRW levels exceeding 40 percent, compared with 23 of the 43 water companies assessed in FY 2024/25. Only three of the 76 companies (Naivasha, Malindi and Meru) were within 25 percent in FY 2023/24, and none of the 43 companies assessed in FY 2024/25 achieved the benchmark (Table 18).

**Table 18: Unbilled water and the value reported as lost, FY 2023/24 and FY 2024/25**

| Indicator | FY 2023/24 | FY 2024/25 |
|---|---|---|
| Companies with production and billing data | 76 | 43 |
| Water produced (million $m^3$) | 440.39 | 336.80 |
| Water billed (million $m^3$) | 235.98 | 178.88 |
| Unbilled water (million $m^3$) | 204.41 | 158.99 |
| NRW (% of production) | 46.4 | 47.2 |
| Value of unbilled water (Kshs. billion) | 15.99 | 15.63 |
| Implied average value (Kshs. per $m^3$) | 78 | 98 |
| Of which Nairobi City (Kshs. billion) | 8.57 | 11.96 |
| Nairobi City share of total (%) | 53.6 | 76.5 |
| Companies above 40% NRW | 39 | 23 |
| Companies within the 25% benchmark | 3 | 0 |

*Data Source: OAG / PBO computations*

### 3.2.5.1 Key Drivers of Non-Revenue Water in County Water Companies

146. **Persistently high NRW levels reflect a combination of infrastructure deterioration, inadequate investment, weak commercial controls and institutional challenges that undermine operational efficiency.** While physical losses are largely associated with ageing distribution networks and inadequate maintenance, commercial losses arise from weaknesses in metering, billing, enforcement and revenue management. These challenges are compounded by financing constraints and governance arrangements that limit the capacity of water companies to address underlying inefficiencies.

a. **Ageing infrastructure and inadequate maintenance:** Many water companies operate ageing and dilapidated distribution networks that experience frequent leakages and pipe bursts. Limited funding for infrastructure rehabilitation has constrained the replacement of worn-out pipes, while damage during road construction further exacerbates losses. In counties dependent on electrically powered pumping systems, power interruptions and subsequent pump restarts generate pressure surges that can rupture weakened pipes, increasing water losses and maintenance costs.

b. **Low absorption of development budgets constrains investment in infrastructure rehabilitation and NRW reduction.** In FY 2023/24, the 87 audited companies allocated Kshs.6.68 billion to development but utilised only Kshs.3.92 billion; an under-performance

of Kshs.2.76 billion (41 percent). This indicates that NRW reduction is constrained not only by inadequate funding but also by the inability to utilise available development resources effectively. Consequently, critical investments in network rehabilitation, metering and leakage detection remain delayed despite budgetary allocations.

c. **Unresolved infrastructure ownership and financing arrangements weaken incentives for maintenance and asset management.** Water infrastructure developed through loans contracted by Water Works Development Authority (WWDA) is intended to be transferred to water service providers upon repayment. However, the inability of some water companies to service these loans has resulted in assets remaining under the control of WWDA. This limits the companies' ability to manage and maintain infrastructure effectively. The Auditor-General reported liabilities of Kshs.9.05 billion for Tana Water Works Development Agency and loans amounting to Kshs.8.04 billion for Northern Water Works Development Agency. These arrangements create institutional and financial challenges that may delay infrastructure maintenance and rehabilitation.

d. **Illegal connections, faulty meters and weaknesses in billing systems contribute to substantial commercial water losses.** The Auditor-General attributes NRW partly to illegal connections and water theft, malfunctioning meters and billing on non-metered or flat rates, rather than actual consumption. These weaknesses reduce the accuracy of water consumption records and undermine the ability of water companies to account for water supplied to consumers. They also create opportunities for revenue leakages that do not necessarily involve physical loss of water.

e. **Weak revenue administration results in water consumption remaining unbilled even where customers are connected to the distribution network.** To illustrate, as reported by the Auditor-General in FY 2024/25, Eldoret Water Company had 19,862 active meters that were not billed. Further, it installed 1,322 new connections without collecting the required customer deposits. Similarly, Kakamega Rural applied a water tariff approved for Busia, contrary to regulation 45(1) of the Water Regulations, 2016. These findings demonstrate weaknesses in internal controls, customer database management and regulatory compliance, resulting in avoidable revenue losses.

f. **Outdated, non-cost-reflective tariffs reduce the value of every unit that is billed.** In FY 2023/24, 38 of the 87 audited companies (44 percent) applied outdated tariffs, affecting OSR amounting to Kshs.3.81 billion. Tariffs that do not adequately reflect the costs of water production, treatment, distribution and maintenance limit the resources available for infrastructure rehabilitation and operational improvements. Consequently, water companies remain dependent on county transfers and donor financing to sustain service delivery.

147. **Reducing NRW towards the regulatory benchmark of 25 percent**

**could unlock approximately Kshs.7.4 billion in annual potential revenue for the water companies assessed in FY 2024/25.** PBO estimates that reducing NRW by 5 percentage points could generate additional potential revenue of Kshs.1.66 billion for the 43 companies assessed in FY 2024/25, while a reduction of ten percentage points could yield Kshs.3.31 billion. A reduction of fifteen percentage points could yield Kshs.4.97 billion while achieving the 25 percent benchmark could unlock approximately Kshs.7.35 billion annually (Table 19). For the 76 companies assessed in FY 2023/24, the corresponding potential revenue gain from attaining the benchmark is estimated at Kshs.7.85 billion.

**Table 19: Annual revenue from lower NRW (Kshs. billion)**

| Scenario | FY 2023/24 sample (76 companies) | FY 2024/25 sample (43 entities) |
|---|---|---|
| Reported value of unbilled water | 15.99 | 15.63 |
| NRW cut by 5 percentage points | 1.72 | 1.66 |
| NRW cut by 10 percentage points | 3.45 | 3.31 |
| NRW cut by 15 percentage points | 5.17 | 4.97 |
| All companies at the 25% benchmark | 7.85 | 7.35 |

*Data Source: OAG reports / PBO computations*

## Policy Options

148. **Addressing NRW requires a shift in county water sector spending priorities from predominantly expanding production capacity towards improving distribution efficiency, revenue management and the sustainability of existing infrastructure.** Given the substantial potential revenue gains, county governments should prioritise targeted investments in NRW reduction alongside reforms in tariff administration and financial management. The following policy options are proposed:

i. **Ring-fence at least 10 percent of county water development budgets for NRW reduction**. Each county should allocate at least 10 percent of its water, sanitation and irrigation development budgets towards a dedicated three-year NRW reduction programme. The programme should prioritise interventions that directly reduce physical and commercial water losses, with the objective of progressively moving county water companies towards the WASREB benchmark of 25 percent. Achieving this benchmark could unlock approximately Kshs.7.4 billion in annual potential revenue, providing additional resources to strengthen service delivery and reduce fiscal dependence on county governments. The proposed allocation should focus on three complementary interventions:

(a) **Infrastructure rehabilitation and leakage reduction:** Rehabilitate ageing water distribution networks, repair leaks, replace defective pipes and strengthen preventive maintenance to minimise physical water losses.

(b) **Investing in metering and meter management**: Procure, install, test

and periodically replace customer meters while strengthening meter reading, consumption monitoring and meter management systems to improve billing accuracy.

(c) **Revenue protection and enforcement**: Strengthen mechanisms for detecting illegal connections, meter tampering and other forms of unauthorised water consumption. This should be supported by improved customer databases, billing controls and enforcement measures.

ii. **Review water tariffs to reflect the actual cost of water production, treatment, distribution and maintenance. County governments, alongside water service providers and WASREB, should** prioritise review of outdated water tariffs to improve cost recovery and create sustainable financing for NRW reduction. Cost-reflective tariffs generate adequate revenue to finance the repair and replacement of leaking pipes, installation of water meters, regular meter calibration, detection of illegal connections and improvement of billing and revenue collection systems. Appropriate tariff structures can also incentivise water service providers to invest in modern technologies for monitoring water flows, identifying physical losses and reducing commercial losses arising from inaccurate billing and unbilled consumption.

iii. **Tariff reforms should be accompanied by improvements in operational efficiency to ensure that consumers do not bear the financial burden of avoidable water losses.** Water companies should strengthen expenditure controls, improve billing accuracy and prioritise investments that reduce the cost of service delivery.

### 3.2.6 Growing County Output through Trade, Markets and Value Addition

*Kenya's counties generate substantial agricultural output and possess significant tourism and natural resource assets but weak market infrastructure, limited local processing and declining investment in trade constrain their ability to translate these advantages into higher incomes, employment and own-source revenue. The next phase of county economic transformation will depend less on increasing what counties produce and more on expanding the value they retain from production, trade, processing and tourism. By shifting the focus from primary production to value creation, counties can become stronger engines of economic growth, employment and fiscal sustainability.*

#### 3.2.6.1 County Economies at a Glance

149. **County economies generated a combined Kshs.14.97 trillion in output in 2024, but the sectors responsible for transforming primary production into higher value economic activity continue to lag behind.** Agriculture, forestry and fishing is the largest activity as shown in Table 20, contributing Kshs.3.65 trillion, equivalent to 24.4 percent of total Gross County Product (GCP). In contrast, wholesale and retail trade contributed Kshs.1.22 trillion (8.1 percent) while

manufacturing generated Kshs.1.18 trillion (7.9 percent). Although agriculture expanded by 13.1 percent between 2023 and 2024, trade and manufacturing grew by only 4.7 percent and 4.5 percent respectively, substantially below the 8.3 percent increase in aggregate county output. This divergence highlights the limited integration of agricultural production with markets, processing and industrial activity.

**Table 20: County output by selected activity, 2024**

| Activity | Output, 2024 (Kshs. billion) | Share of county output |
|---|---|---|
| Agriculture, forestry and fishing | 3,646.1 | 24.4% |
| Wholesale and retail trade | 1,219.7 | 8.1% |
| Manufacturing | 1,176.4 | 7.9% |
| Accommodation and food services | 254.5 | 1.7% |
| **All county output (GCP)** | **14,968.1** | **100%** |

*Source: Kenya National Bureau of Statistics, Gross County Product 2025*

150. **Economic activity in trade and manufacturing remains highly concentrated in a few urban and industrial counties, limiting the distribution of value addition across the country.** Nairobi City, Mombasa, Nakuru, Kiambu and Machakos collectively account for 67.4 percent of national trade output. Additionally, Nairobi City, Mombasa, Machakos, Kiambu and Kilifi generate 67.0 percent of manufacturing output. This concentration suggests that many agricultural counties participate primarily in primary production, while a substantial share of commercial and industrial activity takes place elsewhere.

151. **Tourism-related activities offer a rapidly expanding opportunity for county economic diversification.** Accommodation and food services, the closest GCP proxy for tourism, grew by 31.8 percent in 2024 to Kshs.254.5 billion, outperforming all other sectors examined. The expansion underscores the potential for tourism to stimulate local trade, agricultural supply chains, hospitality services and employment, particularly in counties endowed with wildlife, coastal, cultural and recreational assets.

152. **The slowdown in manufacturing persisted into 2025, reinforcing concerns about the capacity of counties to move beyond primary production.** According to the KNBS Economic Survey 2026, national manufacturing grew by about 2 percent in 2025, while its contribution to GDP declined from 7.3 percent to 7.1 percent. Agro-based manufacturing contracted by 1.2 percent, with fruit and vegetable processing declining by 5 percent. These developments point to continued weaknesses in agricultural value chains and the need for targeted investments in processing infrastructure, reliable supply systems and market access.

### 3.2.6.2 County Budget Allocations to Trade and Markets

153. **County governments have progressively reduced the budgetary priority accorded to trade and market development despite the sector's importance in connecting agricultural production to commercial**

**opportunities.** Across 45 counties with comparable expenditure data, allocations to trade and markets declined from Kshs.20.57 billion in FY 2023/24 to Kshs.19.98 billion in FY 2025/26. Consequently, the sector's share in aggregate county budgets fell from 3.8 percent to 3.2 percent. Development allocations contracted by 6.2 percent over the period, while development budget expenditure remained largely unchanged, reflecting both reduced fiscal priority and persistent implementation constraints.

**Table 21: Trade and markets budgets and spending, FY 2023/24 to FY 2025/26**

| County trade and markets departments (45 counties) | FY 2023/24 | FY 2024/25 | FY 2025/26 |
|---|---|---|---|
| Budget (Kshs. billion) | 20.57 | 21.10 | 19.98 |
| Share of county budgets | 3.8% | 3.6% | 3.2% |
| Development budget (Kshs. billion) | 14.73 | 15.33 | 13.81 |
| Development spending (Kshs. billion) | 6.15 | 7.13 | 6.19 |
| Development budget spent | 42% | 46% | 45% |
| Agricultural and agro-processing counties (17): trade share of county budgets | 4.2% | 3.5% | 2.8% |

*Source: Office of the Controller of Budget. Note: Baringo and Isiolo are excluded because their trade budgets are not reported separately in every year. Department names and groupings change between years*

154. **Low absorption of development allocations continues to undermine the effectiveness of county investments in market and trade infrastructure.** Development expenditure in trade declined by 13.1 percent in FY 2025/26 to Kshs.6.19 billion, with counties utilising only 45 percent of their development budget, compared with an overall county development absorption rate of 54 percent. This is further compounded by stalled projects. Across all sectors, counties reported 189 stalled projects valued at Kshs.10.51 billion in FY 2025/26, against which Kshs.4.21 billion had already been paid. Prioritising completion of existing projects would therefore help unlock productive infrastructure while limiting further accumulation of unfinished investments.

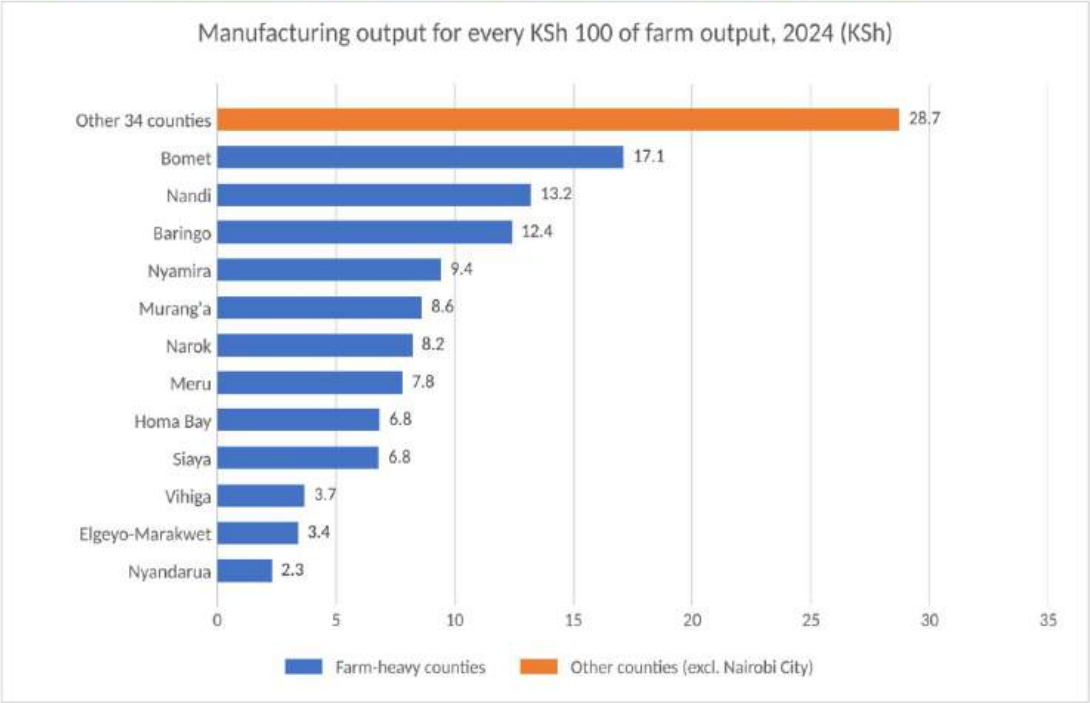
155. **The decline in trade allocations has been particularly pronounced in agricultural and agro-processing counties, where market infrastructure is critical to economic transformation.** In the 17 agricultural and agro-processing counties, trade budgets declined by approximately 21 percent, from Kshs.7.15 billion in FY 2023/24 to Kshs.5.66 billion in FY 2025/26. These are the counties with the most to gain from markets and processing. Furthermore, their share of total county budgets fell from 4.2 percent to 2.8 percent, suggesting a growing disconnect between counties' agricultural production potential and the public investments required to support aggregation, storage, marketing and value addition.

### 3.2.6.3 Value Addition and Manufacturing: Where Counties Stand

156. **Manufacturing remains a relatively small component of most county economies, reflecting substantial**

**untapped opportunities for local value addition.** The sector generated Kshs.1.18 trillion in 2024, equivalent to 7.9 percent of county output, and grew by 4.5 percent. However, manufacturing accounted for less than 5 percent of economic output in 32 counties. This limited industrial base constrains counties' capacity to retain value from agricultural production, diversify employment and expand their revenue bases.

**Figure 34: Manufacturing output for every Kshs.100 of farm output, 2024**




*Source: Kenya National Bureau of Statistics, Gross County Product 2025*

157. **Agricultural production is not translating into proportionate manufacturing activity in the country's most agro-based counties.** Twelve farm-heavy counties, where agriculture accounts for more than 40 percent of local economic output – Meru, Nyandarua, Murang'a, Elgeyo-Marakwet, Nandi, Bomet, Siaya, Baringo, Narok, Vihiga, Homa Bay and Nyamira – produce 38.8 percent of the country's agricultural output but contribute only 10.0 percent of manufacturing. Collectively, these counties generate approximately Kshs.8 in manufacturing output for every Kshs.100 of agricultural production, compared with Kshs.29 in the other counties outside Nairobi City. The disparity illustrates the extent to which agricultural production and industrial activity remain disconnected.

**Table 22: Value addition in selected counties, 2024**

| County | Farm output (Kshs. billion) | Manufacturing (Kshs. billion) | Manufacturing per Kshs.100 of farm output (KSh) | Share of the county economy |
|---|---|---|---|---|
| Nyandarua | 152.2 | 3.5 | 2.3 | 1.6% |
| Elgeyo-Marakwet | 94.1 | 3.2 | 3.4 | 2.1% |
| Vihiga | 51.1 | 1.9 | 3.7 | 1.6% |
| Siaya | 67.7 | 4.6 | 6.8 | 2.8% |

| County | Farm output (Kshs. billion) | Manufacturing (Kshs. billion) | Manufacturing per Kshs.100 of farm output (KSh) | Share of the county economy |
|---|---|---|---|---|
| Meru | 306.8 | 23.9 | 7.8 | 4.5% |
| Murang'a | 144.9 | 12.5 | 8.6 | 4.2% |
| Nandi | 134.6 | 17.8 | 13.2 | 7.5% |
| Kericho | 115.3 | 19.8 | 17.2 | 7.9% |
| Bomet | 112.4 | 19.2 | 17.1 | 8.7% |
| Kakamega | 122.4 | 20.4 | 16.7 | 6.4% |
| Nakuru | 227.5 | 48.8 | 21.4 | 6.3% |
| Machakos | 72.6 | 100.2 | 138.0 | 21.0% |
| **All 47 counties** | **3,646.1** | **1,176.4** | **32.3** | **7.9%** |

*Source: Kenya National Bureau of Statistics, Gross County Product 2025*

158. **Differences in manufacturing intensity reveal three distinct patterns of agricultural value addition across counties.** The first comprises counties such as Nyandarua, Elgeyo-Marakwet, Vihiga, Siaya, Meru and Murang'a which generate less than Kshs.9 in manufacturing for every Kshs.100 of agricultural output. The second includes Nandi, Kericho, Bomet and Kakamega where established tea and sugar processing industries support manufacturing contribution of Kshs.13 to 17 for every Kshs.100 of agricultural output (Table 22). The third comprises more diversified economies such as Nakuru and Machakos which benefit from urban markets, transport connectivity and industrial infrastructure, generating Kshs.21 to Kshs.138 respectively in manufacturing output per Kshs.100 of agricultural output.

159. **Comparisons between counties with similar agricultural production profiles demonstrate that manufacturing performance depends not only on production volumes but also on the location and capacity of processing facilities.** Meru generates Kshs.306.8 billion in agricultural output, exceeding Nakuru's Kshs.227.5 billion, yet its manufacturing output of Kshs.23.9 billion is less than half Nakuru's Kshs.48.8 billion. Similarly, Murang'a produces approximately one quarter more agricultural output than Kericho but manufactures one third less. These differences underscore the importance of industrial infrastructure, market connectivity and local processing capacity.

160. **National manufacturing averages conceal substantial disparities in industrial development across counties.** Manufacturing output averages Kshs.32.3 for every Kshs.100 of agricultural output nationally. However, processing facilities are largely concentrated in Nairobi City and Mombasa. Excluding these two counties reduces the ratio to Kshs.17.5, and the average county generates only Kshs.9.4. This gap suggests that expanding processing capacity beyond established industrial centres could help distribute economic opportunities more widely.

### 3.2.6.4 County Aggregation and Industrial Parks

161. **County Aggregation and Industrial Parks (CAIPs) provide an important institutional platform for decentralising manufacturing, but implementation**

**delays threaten to weaken their expected economic impact.** Each park is financed through a cost sharing arrangement of Kshs.250 million from the national government and Kshs.250 million from the respective county government. The national government has fully disbursed its contribution to the 31 parks under implementation, while an additional Kshs.4 billion was committed in May 2026 to support 16 more parks.

162. **The immediate policy priority should shift from financing industrial parks to completing operational infrastructure and attracting private sector processors.** As of May 2026, only 10 of the initial 18 parks were reported complete. FY 2025/26 county reports indicate that ten parks were between 20 percent and 84 percent complete. Unless construction is accompanied by reliable electricity, water, serviced land, transport connectivity and predictable licensing arrangements, the parks risk becoming underutilised public investments rather than functioning industrial clusters (Annex 4).

163. **Even modest improvements in local processing intensity could generate substantial additional manufacturing output across counties.** Illustrative estimates based on GCP data indicate that if every county generated at least Kshs.10 in manufacturing output for every Kshs.100 of agricultural output, 24 counties could collectively increase annual manufacturing output by approximately Kshs.67 billion, equivalent to 5.7 percent of national manufacturing output. Although this is an estimate rather than a forecast, it demonstrates the potential gains from addressing existing processing gaps.

164. **County governments should prioritise completion and commercial operationalisation of industrial parks, with investments aligned to locally available agricultural raw materials.** This requires completing ongoing construction, providing serviced industrial land, reliable water and electricity, and streamlined business permitting, while actively engaging private processors and producer cooperatives. Each park should be anchored on commercially viable value chains that reflect the county's comparative advantage.

## Policy Options: Value Chains in Agricultural and Agro-processing Counties

165. **Increasing processing intensity in agricultural counties to levels already achieved by their better performing peers could substantially expand manufacturing output without requiring a corresponding increase in primary production.** If all 17 agricultural and agro-processing counties attained Kericho's manufacturing intensity of Kshs.17.2 per Kshs.100 of agricultural output, their combined manufacturing output could increase by approximately Kshs.144 billion annually, from Kshs.202.4 billion to approximately Kshs.346 billion. The largest illustrative gains would be evident in Meru (Kshs.28.9 billion), Nyandarua (Kshs.22.7 billion), Elgeyo-Marakwet (Kshs.13.0 billion), Murang'a (Kshs.12.4 billion) and Bungoma (Kshs.12.0 billion). Notably, these estimates illustrate the scale of opportunity rather than projected outcomes.

166. **Agricultural value addition opportunities differ across counties and should therefore be aligned with local comparative advantages, production systems and existing processing capabilities.** Tea, coffee, dairy, horticulture,

cereals and sugarcane offer distinct opportunities for processing, product diversification and stronger market integration. County industrial parks and complementary infrastructure should be designed around these specific value chains (Table 23) rather than adopting uniform industrial development models.

**Table 23: Priority value addition pathways in agricultural and agro-processing counties**

| Value chain | Main counties | Value addition opportunities | What counties can do |
|---|---|---|---|
| Tea | Kericho, Bomet, Nandi, Nyamira, Kisii, Murang'a, Kirinyaga, Embu, Meru, Nyeri, Tharaka-Nithi | Tea earned Kshs.186.9 billion in exports in 2025, but 96% left in bulk. Blending, packing and branding, specialty teas and tea tourism would keep more value at home. | Promote county tea brands, support factories to add packing lines, and link tea estates to tourism circuits. |
| Coffee | Nyeri, Murang'a, Kirinyaga, Embu, Meru, Kisii, Bungoma, Tharaka-Nithi | About 94% of coffee exports are unroasted beans. Milling, roasting, packing and local cafés add value. | Support cooperatives to set up shared milling and roasting units in industrial parks, and promote local consumption. |
| Dairy | Nyandarua, Meru, Nyeri, Murang'a, Bomet, Nandi, Kericho, Uasin Gishu, Trans Nzoia, Elgeyo-Marakwet, Embu | Only about a fifth of milk reaches formal processors. Cooling, pasteurising, yoghurt, cheese, milk powder and animal feed add value. | Fund milk coolers at collection centres and host cooperative processors in industrial parks. |
| Potatoes, fruit and horticulture | Nyandarua, Meru, Elgeyo-Marakwet, Murang'a, Kisii, Kirinyaga, Embu | Produce is perishable and mostly sold fresh and ungraded. Cold storage, grading, crisps and chips, avocado oil, fruit pulp and export packhouses add value. | Build aggregation centres with cold storage near producing areas and offer serviced land in parks to processors. |
| Cereals and rice | Uasin Gishu, Trans Nzoia, Bungoma, Kakamega, Nandi, Kirinyaga | Grain is mostly sold at harvest. Drying, storage, milling, animal feed and rice milling and packing add value. | Invest in drying and storage facilities and support flour, feed and rice mills in industrial parks. |
| Sugarcane | Kakamega, Bungoma | Cane is crushed mainly for sugar. By-products such as ethanol, power and animal feed add value. | Work with mills and investors on by-product plants. |

*Source: Kenya National Bureau of Statistics, Gross County Product 2025*

167. **County industrialisation strategies should prioritise a limited number of commercially viable value chains rather than dispersing resources across numerous unrelated activities.** Each industrial park should be anchored on one or two products with established production capacity, reliable raw material supply and demonstrable market demand. For instance, dairy and potatoes could provide the foundation for industrial development in Nyandarua, while coffee and dairy could anchor processing investments in Nyeri.

168. **Investments in aggregation, cold storage and quality assurance are necessary to establish reliable supply chains for agro-processing industries.** Processing facilities require consistent volumes of raw materials of predictable

quality. County governments should therefore prioritise collection centres, milk cooling facilities, cold storage, grading infrastructure and transport links between production areas, markets and industrial parks. Such investments would also help reduce post-harvest losses and strengthen farmers' bargaining positions.

169. **Producer-owned processing models offer an opportunity to increase farmers' participation along the value chain and retain a greater share of agricultural earnings within producing counties.** The tea industry demonstrates the potential benefits of locating processing facilities near production areas and involving growers in factory ownership. Tea producing counties process locally because factories sit close to the farms and are owned by the growers who supply them. The same cooperative model could support dairy, potatoes, fruit and coffee processing, particularly where individuals lack the capital or scale required to establish viable facilities.

170. **Regional economic blocs provide a mechanism for overcoming the limited production scale and fiscal capacity of individual counties.** Capital-intensive facilities such as milk powder plants, large animal feed mills, and specialised processing centres may require raw material volumes and markets that extend beyond a single county. Counties within Mt Kenya and the Aberdares, North Rift and Lake Region economic blocs could therefore jointly develop processing infrastructure, coordinate supply chains and share access to larger markets.

## Policy Options: Tourism and Blue Economy Counties

171. **Tourism and blue economy counties possess significant opportunities for economic diversification, but the benefits of their natural assets are not yet fully reflected in local processing, trade and county revenue.** Ten counties – Mombasa, Kilifi, Kwale, Lamu, Narok, Taita-Taveta, Laikipia, Homa Bay, Siaya and Migori – have economies built on tourism, wildlife, beaches, fisheries and marine or lake resources. Together, they generated Kshs.2.29 trillion in output in 2024, equivalent to 15.3 percent of national GCP. Accommodation and food services accounted for 2.5 percent of their combined output, compared with 1.7 percent nationally, and the counties contributed 22.7 percent of national output in this activity. Samburu and Isiolo, which operate county game reserves, share many of the same tourism-related opportunities.

172. **The rapid expansion of tourism provides an opportunity to strengthen local supply chains, generate employment and diversify county economies.** Accommodation and food services grew by 31.8 percent in 2024, while tourism earnings reached a record Kshs.500 billion in 2025 supported by 2.7 million international visitors and 5.2 million domestic visitors[14]. However, the extent to which these earnings stimulate county economies depends on the strength of linkages with local agricultural producers, transport operators, artisans, hospitality suppliers and other service providers.

[14] Tourism Research Institute, 2026. Kenya Tourism Sector Performance Report 2025, Ministry of Tourism and Wildlife

173. **Fisheries constitute a major economic resource for coastal and lake region counties, but limited processing infrastructure constrains the value derived from fish production.** The ten counties landed 107,549 tonnes of fish in 2025, representing 57 percent of national production of 189,151 tonnes. Homa Bay and Siaya alone accounted for 86 percent of the Lake Victoria catch, while marine fish landed in Kilifi, Lamu, Kwale and Mombasa were valued at Kshs.12.2 billion[15] (Kenya Fisheries Service, 2025). National fish exports amounted to only 9,224 tonnes, with most of the catch sold fresh with limited processing. Investment in cold storage, preservation, packaging and fish processing could increase value retention and support employment in fishing communities.

**Table 24: Tourism and blue economy counties at a glance**

| County | Output, 2024 (Kshs. billion) | Main tourism and blue economy assets (indicative) | Accommodation and food share of economy | Fish landed, 2025 (tonnes) | Trade-related revenue, FY 2025/26 (Kshs. million) | Park fees, FY 2025/26 (Kshs. million) |
|---|---|---|---|---|---|---|
| Mombasa | 711.1 | Beaches, port, marine fisheries | 3.4% | 4,884 | 1,017.2 | – |
| Kilifi | 321.4 | Beaches, marine parks, marine fisheries, cashew and coconut | 2.6% | 15,173 | 151.7 | – |
| Kwale | 169.4 | Beaches, Shimba Hills, marine fisheries | 5.3% | 10,460 | 185.7 | – |
| Lamu | 50.2 | Heritage town, marine fisheries | 1.2% | 14,103 | 46.1 | – |
| Narok | 256.0 | Maasai Mara National Reserve | 1.0% | – | 196.3 | 3,964.8 |
| Taita-Taveta | 97.9 | Tsavo parks, lakes Chala and Jipe | 2.6% | – | 241.6 | – |
| Laikipia | 134.9 | Wildlife conservancies | 3.1% | – | 199.1 | – |
| Homa Bay | 200.6 | Lake Victoria fisheries, Ruma National Park | 1.3% | 38,057 | 172.5 | – |
| Siaya | 163.9 | Lake Victoria fisheries | 0.6% | 22,119 | 156.2 | – |
| Migori | 183.3 | Lake Victoria fisheries | 1.6% | 2,753 | 125.5 | – |
| **All 10 counties** | **2,288.6** | | **2.5%** | **107,549** | **2,492.0** | **3,964.8** |

*Source: Kenya National Bureau of Statistics, Gross County Product 2025*

174. **The contribution of tourism and fisheries to county own-source revenue remains limited relative to the economic significance of these activities.** Apart from Narok, tourism does not feature among the principal revenue streams reported by the ten counties, partly because the main levy on hotels and restaurants accrues to the national Tourism Fund. Similarly, only Lamu lists fish cess revenue, amounting to Kshs.5.6 million in FY 2025/26. Combined trade-related revenue in the ten counties increased modestly from Kshs.2.38 billion in FY 2023/24 to Kshs.2.49 billion in FY 2025/26, indicating that the expanding tourism and fisheries sectors have not translated into

[15] Kenya Fisheries Service (KeFS), 2025. Fisheries Statistical Bulletin, State Department for Blue Economy and Fisheries

commensurate growth in these local revenue streams.

175. **Increasing trade allocations have not been matched by improved development expenditure absorption in tourism and blue economy counties.** Combined trade budgets in the ten counties rose from Kshs.4.93 billion in FY 2023/24 to Kshs.5.74 billion in FY 2025/26, equivalent to approximately 4.2 percent of county budgets. However, development absorption declined from 45 percent to 31 percent, with particularly low rates in Siaya (16 percent), Laikipia (17 percent) and Narok (20 percent). This weak implementation performance delays investment in markets, tourism infrastructure and fisheries facilities that could support economic growth.

176. **The development of industrial parks offers opportunities for processing fish and coastal agricultural products, although construction delays remain a constraint.** The national government has fully disbursed its contribution to industrial parks under implementation in these counties. Reportedly, the Kwale park at Mwananyamala was 65 percent complete while the Mombasa Park stood at 48 percent in FY 2025/26 (Annex 4). Their completion and integration with fisheries, coconut, cashew and other local value chains could strengthen economic diversification.

### a) Tourism as a Source of County Revenue

177. **Counties that directly manage wildlife reserves demonstrate the potential for tourism assets to generate substantial own-source revenue.** Park fees constitute the largest revenue stream in Narok, Samburu and Isiolo, accounting for 89 percent, 59 percent and 51 percent of their respective own-source revenue collections in FY 2025/26 (Table 25). In FY 2024/25, Narok collected Kshs.5.67 billion in total own-source revenue, the second highest amount nationally after Nairobi City, with park fees contributing approximately 91 percent. These experiences illustrate the fiscal value of well-managed tourism assets.

**Table 25: Park fees in counties that run game reserves, FY 2023/24 to FY 2025/26 (Kshs. million)**

| County | FY 2023/24 | FY 2024/25 | FY 2025/26 | Share of own-source revenue, FY 2025/26 |
|---|---|---|---|---|
| Narok | 4,320 | 5,160 | 3,965 | 89% |
| Samburu | 208.5 | 214.4 | 269.6 | 59% |
| Isiolo | n/a | 107.7 | 110.1 | 51% |

*Source: Office of the Controller of Budget*

178. **Heavy dependence on tourism-related revenue also exposes county budgets to volatility arising from visitor demand, pricing decisions and other sector-specific shocks.** Narok's park fees collections declined from Kshs.5.16 billion in FY 2024/25 to Kshs.3.96 billion in FY 2025/26 (Table 25), a reduction attributed in part by the Controller of Budget to changes in park fees. In contrast, Samburu recorded a third consecutive annual increase, with collections reaching Kshs.269.6 million. These contrasting trends underscore the importance of prudent revenue forecasting and diversification of county revenue sources.

## Policy Options: Tourism and Blue Economy Development

179. **Strategic investments in tourism infrastructure, marketing and revenue administration can improve both visitor experiences and county revenue performance.** Samburu's own-source revenue increased by 16 percent in FY 2024/25 following improvements in access roads and marketing for the Samburu National Reserve, while park fee collections rose by a further 26 percent in FY 2025/26. This experience illustrates how targeted improvements in tourism assets can strengthen revenue generation.

180. **Stronger linkages between tourism establishments and local producers could increase the proportion of visitor expenditure retained within county economies.** Hotels, lodges and other tourism establishments create demand for food, crafts, transport, entertainment and related services. Connecting these businesses to county farmers, fisher cooperatives, artisans and processors would extend tourism benefits beyond accommodation facilities and support a wider range of local enterprises.

181. **Investment in fisheries infrastructure and processing could transform fish production into a more diversified source of incomes and employment.** Establishing hygienic landing sites, ice plants, cold storage, filleting facilities, drying and smoking units, and fish feed production for cage farming would help reduce losses and expand the marketability of the 107,549 tonnes landed in the ten counties. Complementary investments in cage aquaculture and fish markets could further strengthen value chains, particularly around Lake Victoria.

**Table 26: Value addition pathways in tourism and blue economy counties**

| Value chain | Main counties | Value addition opportunities | What counties can do |
|---|---|---|---|
| Wildlife and safari tourism | Narok, Laikipia, Taita-Taveta (and Samburu, Isiolo) | Gate fees, conservancy partnerships, guiding, crafts and cultural tourism, and lodges buying local food. | Invest in access roads, marketing and automated gate collection; agree fair revenue sharing with communities and conservancies. |
| Beach, marine and heritage tourism | Mombasa, Kilifi, Kwale, Lamu | Hotels, cruise visitors, events and heritage sites create demand for local food, crafts, transport and entertainment. | Keep beaches and heritage sites clean and safe, license and support local suppliers, and link hotels to county markets and industrial parks. |
| Marine fisheries | Kilifi, Lamu, Kwale, Mombasa | Fish worth Kshs.12.2 billion was landed in 2025, mostly sold fresh. Ice and cold storage, processing and deep-sea fishing add value. | Build landing sites with ice plants and cold storage, set up fish markets, and support fisher cooperatives to own processing units. |
| Lake fisheries and aquaculture | Homa Bay, Siaya, Migori | Homa Bay and Siaya land 86% of the Lake Victoria catch. Filleting, drying and smoking to standard, fish feed and cage farming add value. | Improve landing-site hygiene and cold chain, license and support cage farming, and build fish markets linked to industrial parks. |
| Coastal tree crops | Kilifi, Kwale, Lamu | Coconut oil and products, cashew processing and mango pulp keep more value at the coast. | Aggregate produce through cooperatives and anchor the Kwale and Kilifi industrial parks on these crops. |

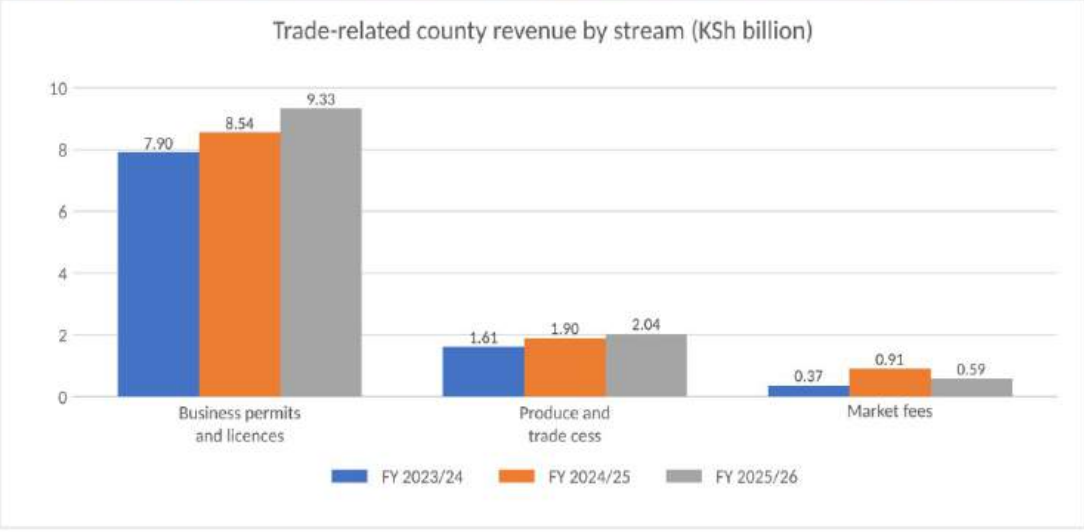
*Source: Kenya Fisheries Service, Fisheries Statistical Bulletin 2025; Kenya Tourism Sector Performance Report 2025.*

182. **County governments should adopt integrated tourism and blue economy development strategies that combine infrastructure investment, local enterprise participation and improved revenue management.** Priority interventions include improving access to reserves, conservancies, beaches, lakes, and heritage sites through investment in access roads; strengthening destination marketing; and introducing automated gate collection, as Samburu did. Counties should also establish stronger commercial linkages between tourism operators and local suppliers while prioritising fish landing facilities, cold chains, markets and processing infrastructure. In counties such as Siaya, Laikipia and Narok, improving development budget absorption should be an immediate priority to translate existing allocations into functional infrastructure.

### b) Enhancing Own-Source Revenue from Trade and Tourism

183. **Trade and tourism are important sources of county own-source revenue, demonstrating the potential for economic diversification to strengthen local fiscal sustainability.** Revenue from business permits, produce cess and market fees increased by 21.1 percent, from Kshs.9.88 billion in FY 2023/24 to Kshs.11.96 billion in FY 2025/26 (Figure 35). In addition, park fees collected by Narok, Samburu and Isiolo generated approximately Kshs.4.3 billion in FY 2025/26. These collections underscore the fiscal significance of commercial activity and the potential for investments in markets, value addition and tourism to expand the local revenue base.

**Figure 35: Composition and trends in county trade-related revenue streams, FY 2023/24 to FY 2025/26**




*Source: Office of the Controller of Budget*

**Table 27: Trade-related County revenue, FY 2023/24 to FY 2025/26**

| Revenue stream (Kshs. billion) | FY 2023/24 | FY 2024/25 | FY 2025/26 | Change, FY 2023/24 to FY 2025/26 |
|---|---|---|---|---|
| Business permits and licences | 7.90 | 8.54 | 9.33 | +18.1% |
| Produce and trade cess | 1.61 | 1.90 | 2.04 | +26.7% |

| Revenue stream (Kshs. billion) | FY 2023/24 | FY 2024/25 | FY 2025/26 | Change, FY 2023/24 to FY 2025/26 |
|---|---|---|---|---|
| Market fees | 0.37 | 0.91 | 0.59 | +59.5% |
| **Total trade-related revenue** | **9.88** | **11.35** | **11.96** | **+21.1%** |
| Ordinary own-source revenue, all streams | 42.29 | 42.71 | 55.68 | +31.7% |
| Trade-related share of ordinary revenue | 23% | 27% | 21% | −2 points |

*Source: Office of the Controller of Budget*

184. **Rural and agricultural counties depend more heavily on trade-related collections than their more diversified counterparts.** In FY 2024/25, revenue from business permits, produce cess and market fees accounted for 39 percent of ordinary own-source revenue in the average county and exceeded 40 percent in 21 counties. Among the 17 agricultural and agro-processing counties these revenue streams contributed 41 percent of ordinary own-source revenue. This dependence highlights the importance of strengthening local commercial activity while ensuring that county revenue measures do not discourage agricultural marketing and processing. Notably, counties collect approximately Kshs.13 million in trade-related revenue for every Kshs.1 billion of trade output, on average. Thus, policies supporting commercial expansion may also contribute to stronger revenue performance.

185. **Market fee collections remain modest relative to other trade-related revenue streams, pointing to opportunities for improving market infrastructure and revenue administration.** Counties collected only Kshs.0.59 billion in FY 2025/26, down from Kshs.0.91 billion in the preceding financial year. Few counties report market fees among their principal revenue sources, reflecting the limited contribution of market facilities to revenue collection, and potentially pointing to concerns regarding the adequacy, utilisation and management of market facilities.

186. **Weak revenue collection performance and the accumulation of unpaid obligations continue to constrain county fiscal operations and undermine local businesses.** In FY 2025/26 counties collected Kshs.55.68 billion against an ordinary own-source revenue target of Kshs.72.77 billion. This represents 77 percent performance. Outstanding ordinary revenue arrears amounted to Kshs.100.38 billion. At the same time, county pending bills (trade payables) stood at Kshs.172.53 billion as of 30th June 2026, compared with Kshs.183.06 billion a year earlier and Kshs.181.98 billion in June 2024. Despite the reduction, the stock of unpaid obligations continues to constrain liquidity among local suppliers and traders, weakening the benefits of county public expenditure for local economic development.

## Policy Options: Trade and Tourism Revenue

187. **Expanding commercial activity in agricultural counties could generate additional revenue without necessarily increasing existing tax and fee rates.** Illustrative estimates indicate that raising the share of trade in the economies of the 12 farm-heavy counties to the median county level could generate approximately Kshs.0.8–1.8 billion in additional annual

revenue from business permits, produce cess and market fees, assuming prevailing collection rates. The corresponding expansion of trade activity would also strengthen local markets and employment opportunities.

188. **Investment in agro processing offers opportunities to broaden the county revenue base through the establishment of new enterprises and related economic activities.** Processing facilities located in county industrial parks may generate revenue from business permits and land rates while creating demand for transport, storage, maintenance, packaging and other local services. The fiscal benefits would therefore extend beyond the direct activities of processing firms to the wider commercial ecosystem.

189. **Trade-related revenue already exceeds county development expenditure on trade projects, suggesting that the sector has potential to support further productive investment.** In FY 2025/26, counties collected Kshs.11.96 billion against Kshs.6.50 billion spent on trade development projects. A similar pattern was observed in FY 2024/25, where collections of Kshs.11.35 billion exceeded development expenditure of Kshs.7.24 billion. While these comparisons exclude recurrent expenditure and do not establish the sector's net fiscal contribution, they demonstrate the scale of revenue associated with trade relative to direct development investment.

190. **Modernising revenue administration and reducing the cost of doing business should be central to county strategies for strengthening trade-related own-source revenue.** Counties should adopt a unified business permit system and expand cashless collection of market fees to improve transparency, reduce compliance costs and minimise revenue leakages. Revenue policies should prioritise predictable business permits and land rates rather than repeated cess on the same agricultural produce. Counties should also eliminate cess on goods in transit, consistent with the constitutional provisions on county revenue measures under Article 209(5).

191. **Clearing verified pending bills is essential to protecting local enterprises and restoring the effectiveness of public expenditure as a driver of county economic activity.** Counties should also establish credible, time-bound mechanisms for settling outstanding obligations, prioritising verified older claims and small local suppliers whose operations are particularly vulnerable to delayed payments. Improved commitment controls and payment discipline would also help prevent the accumulation of new arrears.

192. **Targeted investments in trade, markets, processing and tourism could unlock substantial economic value from productive assets that counties already possess.** The analysis identifies opportunities to increase output by improving trade intensity in agricultural counties, expanding manufacturing relative to agricultural production, completing industrial parks and strengthening tourism-related economic linkages. Notably, the estimates presented below are illustrative benchmarks derived from existing county performance rather than forecasts of future output.

**Table 28: Illustrative gains from trade, markets and value addition**

| Growth Opportunity | Illustrative Benchmark | Potential additional annual output | Potential fiscal implications |
|---|---|---|---|
| Markets and trade | Raise trade in 12 farm-heavy counties to the median county share of 4.8% of output | Approximately Kshs.62 billion in additional trade output | Kshs.0.8–1.8 billion in additional trade-related revenue |
| Manufacturing and Value addition | Ensure every county generates at least Kshs.10 in manufacturing per Kshs.100 of agricultural output | Approximately Kshs.67 billion in additional manufacturing across 24 counties | Additional business permits and land rates from processing enterprises |
| Agricultural and agro-processing counties | Increase manufacturing intensity in 17 counties to Kericho's benchmark of Kshs.17.2 per Kshs.100 of agricultural output | Approximately Kshs.144 billion in additional manufacturing output | Broader revenue base through permits and land rates from processing enterprises |
| Tourism development | Improve access, marketing and revenue administration in counties with tourism assets | Not estimated | Samburu's own-source revenue increased by 16% following tourism-related improvements |

*Source: Kenya National Bureau of Statistics*

## Policy Options

193. **Unlocking county economic growth requires a coordinated policy approach that prioritises market connectivity, commercially viable processing, productive infrastructure and an enabling business environment.** The policy options below address the structural constraints identified in the analysis and emphasise interventions that county governments can implement within their mandates, complemented by national government support and parliamentary oversight.

**Table 29: Policy options and recommendations for trade, market and value addition**

| Issue identified | Policy option | Recommendations |
|---|---|---|
| **1. Markets and trade** | | |
| Trade is only 2.5% of the economy in farm-heavy counties, against 7.0% elsewhere | Build working markets where produce is grown | Counties should prioritise wholesale and produce markets, aggregation centres and cold storage in farm-heavy counties, linked by feeder roads. |
| Trade's share of county budgets fell from 3.8% to 3.2% over three years, and only 45% of project money is spent | Raise trade allocations and tie new projects to delivery | Counties should set a minimum share of the budget for trade and markets and finish stalled market projects before starting new ones. The Controller of Budget should report trade and market spending separately each quarter. |
| **2. Value addition and manufacturing** | | |

| Issue identified | Policy option | Recommendations |
|---|---|---|
| The 31 industrial parks started are fully funded by the national government, but only 10 of the first 18 were complete by May 2026 | Complete county industrial parks and bring in processors | Counties should complete the parks on time and provide serviced land, water, power and a single business permit. The Senate should track completion and occupancy county by county. |
| **3. Agricultural and agro-processing value chains** | | |
| The 17 agricultural and agro-processing counties grow 55% of farm output but produce 17% of manufacturing | Anchor industrial parks on lead value chains and share plants through regional blocs | Each county should name one or two lead value chains for its park, build aggregation and cold storage to supply it, support grower-owned processors, and partner through regional economic blocs on larger plants. |
| **4. Tourism and blue economy** | | |
| Tourism earned a record Kshs.500 billion in 2025, but only a few counties earn significant revenue from it, and park fees are volatile | Develop county tourism assets as revenue sources | Counties with reserves, conservancies, lakes, coast or heritage sites should invest in access roads, marketing and automated gate collection, and link hotels and lodges to local produce suppliers. |
| Tourism and blue economy counties land 57% of Kenya's fish, but most is sold fresh and little reaches county revenue | Build the fish value chain | Counties should build landing sites with ice plants and cold storage, fish markets and processing units, support fisher cooperatives, and use their industrial parks for fish and coastal crops. |
| **5. Own-source revenue** | | |
| Market fees are small (Kshs.0.59 billion in FY 2025/26) and counties collected only 77% of their ordinary revenue target | Modernise fee collection and keep revenue rules friendly to processing | Counties should introduce one business permit per county and cashless payment of market fees, rely on permits and land rates rather than repeated cess, and end cess on goods in transit (Article 209(5)). |
| Unpaid bills of Kshs.172.53 billion (June 2026) drain cash from local suppliers | Protect local traders from late payment | Counties should clear verified pending bills oldest first and prioritise small local suppliers. |

## Summary of Sectoral Policy Options for FY 2027/2028

| Sector | Policy challenge | Current trajectory | Budget option | Fiscal implication / trade-off | Expected result |
|---|---|---|---|---|---|
| Education | ECDE facilities and staffing below service standards | Education spending 6.88% of county expenditure FY25/26; inadequate classrooms, sanitation and staffing | Cost minimum ECDE standards and finance priority gaps in phases | Additional requirement county-specific; cost classrooms, teachers, materials and sanitation before committing | Improved access and quality of early learning |
| | Underfunding of devolved education functions | Education allocations remain below 8% | Consider minimum 10% of county expenditure for education, focused on ECDE/VTC | Illustrative gap: 3.12 percentage points of total expenditure relative to FY25/26 actual share; not an automatic funding entitlement | Higher investment in foundational education and skills |
| | Bursaries crowd out devolved education | Bursaries Kshs.4.52bn FY23/24, Kshs.0.49bn FY25/26 | Phase out non-devolved bursaries; redirect to ECDE/VTC capitation, facilities and feeding | Reprioritisation; up to Kshs.0.49bn based on FY25/26 spending if fully redirected, not guaranteed FY27/28 funding | Greater mandate alignment and learner support |
| | VTC financing obscured | ECDE and VTC expenditure aggregated | Separate programme budgets and reporting; disclose enrolment, capitation and staffing | Mainly administrative/reporting costs; actual VTC gap requires baseline | Transparent skills funding and accountability |
| Health | Incomplete and underused health facilities | Capital expansion alongside low absorption and operational gaps | Ring-fence health development funds; finish ongoing projects before starting new ones | Reprioritisation within capital budget; completion balances require project inventory | More functional facilities and higher completion rates |
| | Facility revenues not consistently available for care | Weak FIF compliance and financial autonomy | Align county FIF arrangements with FIF Act 2023 and publish facility-level revenue/use | Administrative and system costs; protect existing facility-generated resources | Better facility financing and service continuity |
| | Medicine shortages and KEMSA arrears | Inadequate supply budgets and unsettled obligations | Cost essential medical commodities and provide verified KEMSA arrears settlement schedule | Additional cash requirement = annual commodity gap + verified arrears instalment; no defensible aggregate from this chapter | More reliable essential supplies |
| | Installed equipment risks underutilisation | NESP expansion without sufficient staffing, consumables or technical capacity | Fund NESP operating inputs, qualified staff and contract management | Recurrent personnel, consumables, maintenance and contractual costs; cost per installed unit | Higher equipment utilisation and diagnostics access |
| | Health workforce and preventive care gaps | Facility expansion and community care needs outpace operational resources | Link workforce plans and primary-care staffing to new facilities and CHPs | Recurrent staffing and support costs; cost from approved establishment and service package | Improved access and preventive outcomes |

| Sector | Policy challenge | Current trajectory | Budget option | Fiscal implication / trade-off | Expected result |
|---|---|---|---|---|---|
| Agriculture | Stalled irrigation and rain-fed production | Irrigation investments delayed or incomplete | Complete viable irrigation schemes before initiating new projects | Primarily reprioritisation; project-specific completion balances needed | More reliable irrigation and higher productivity |
| | High last-mile cost of subsidised inputs | Farmers face distance and distribution barriers | Strengthen local distribution and targeted access to subsidised inputs | Distribution and logistics costs; determine by beneficiary volumes and outlets | Higher input uptake and farm yields |
| | Post-harvest losses and low value addition | Fragmented storage, cooling and processing infrastructure | Invest selectively in aggregation, cold storage, drying, grading and processing tied to local value chains | Capital plus O&M; prioritise commercially viable projects, potentially co-financed | Lower losses, stronger farm-gate prices and jobs |
| | Weak implementation of conditional agricultural allocations | Funds available under externally financed agriculture and livestock programmes but execution risks remain | Improve readiness, disbursement, monitoring and implementation of existing grants/loans | Primarily absorption of committed financing; avoid treating programme totals as new fiscal space | Faster delivery and smallholder commercialisation |
| | Land fragmentation and weak production scale | Subdivision of agricultural land undermines viability | Strengthen land-use planning and enforce minimum planning standards; support aggregation | Planning, extension and enforcement costs; mostly existing budgets | More viable farm units and productivity |
| Climate | Climate financing dependent on time-bound grants | FLLoCA requires minimum 1.5% of county development budgets as counterpart | Phase county climate allocation from 1.5% toward 3%, subject to risk and affordability | Incremental envelope = 1.5% of county development budgets at full target, assuming same base | More predictable locally led climate investment |
| | Delayed transfers undermine climate grants | CRF to special-purpose-account delays | Automate transfers and target 48-hour processing subject to PFM requirements | One-off systems/process costs, potentially offset by existing administrative budgets | Faster execution and grant compliance |
| | Climate assets lack post-project maintenance | Donor-financed assets face O&M gaps | Create asset registers and dedicated medium-term O&M budgets | Additional recurrent O&M based on commissioned asset inventories | Sustained resilience benefits beyond donor support |
| Water | High non-revenue water and distribution losses | Water systems prioritise new production over efficiency | Ring-fence at least 10% of water/sanitation/irrigation development budgets for three-year NRW programme | Reallocate 10% of relevant development envelope; chapter estimates up to Kshs.7.4bn annual potential revenue at 25% NRW benchmark, not guaranteed | Lower losses and higher collections |
| | Leaking and ageing distribution networks | Physical losses remain high | Repair leaks, rehabilitate pipes and maintain networks | Capital rehabilitation and recurring maintenance; cost through utility asset surveys | More water delivered and reduced production wastage |

| Sector | Policy challenge | Current trajectory | Budget option | Fiscal implication / trade-off | Expected result |
|---|---|---|---|---|---|
| | Inaccurate consumption measurement | Defective meters and weak readings | Meter replacement, calibration and digital consumption monitoring | Meter procurement, installation and system costs; utility-level business cases | Higher billed consumption and collection efficiency |
| | Illegal connections and revenue leakage | Weak customer records and enforcement | Improve customer databases, billing controls and illegal-connection detection | Administrative and digital investments; partially self-financing if collections improve | Reduced commercial losses |
| | Tariffs not aligned with cost recovery | Outdated tariffs and avoidable operational inefficiencies | Review tariffs with WASREB and couple reform with efficiency safeguards | Potential revenue gains; affordability trade-off; avoid passing avoidable losses to users | Sustainable service financing and fairer pricing |
| Trade | Trade infrastructure spending poorly absorbed | Trade allocations rise but completion lags, especially tourism counties | Prioritise viable market projects, access roads and completion of existing infrastructure | Reprioritisation and better absorption of approved capital funds | Functional markets and lower transaction costs |
| Industry | CAIPs incomplete or commercially unready | National and county cost-share Kshs.250m each per park; construction and utilities lag | Finish parks, provide utilities, engage processors and anchor each on 1–2 viable products | Kshs.500m original planned per park (not outstanding balance); additional utility/O&M costs require park-level costing | Operational processing capacity and employment |
| Industry | Low manufacturing intensity in farm-heavy counties | Processing value remains below agricultural production potential | Concentrate investment on county-specific value chains and quality infrastructure | Targeted reallocation plus private co-investment; Kshs.67bn output benchmark for 24 counties is illustrative, not public budget cost | More local manufacturing and retained value |
| Industry | Fragmented supply chains and small production scale | Individual counties lack scale for large processing facilities | Fund aggregation, cold chains and regional shared processing; enable producer ownership | Capital co-financing and possible intercounty pooling; feasibility studies essential | Reliable supply and viable processing plants |
| Tourism | Underexploited visitor economy | Weak access, marketing, automated gate collections and local linkages | Invest in access, destination marketing, digital collection and local supplier connections | Targeted infrastructure/ICT and marketing expenditure; revenue gain depends on visitors and fee policy | Higher local incomes and more reliable park collections |
| Blue economy | Fish losses and limited local processing | Fish landed but inadequate hygienic landing, cold storage and processing | Prioritise landing sites, ice plants, cold chains, processing and aquaculture markets | Project-specific capital and O&M; co-investment where feasible | Reduced spoilage and increased fish value addition |
| Trade revenue | Trade activity below potential in farm-heavy counties | Heavy reliance on permits, cess and fees rather than broad commercial growth | Expand trade intensity and productive markets instead of increasing fees | Chapter illustrative potential Kshs.0.8–1.8bn additional annual revenue across 12 farm-heavy counties; not guaranteed | Broader OSR base and local employment |
| Trade revenue | High compliance costs and revenue leakages | Multiple permits, cash collection and repeated produce cess | Unified permits, cashless market fees, predictable charges and remove transit cess | One-off digital reform costs; possible revenue gains without rate increases | Lower business costs and improved collections |

| Sector | Policy challenge | Current trajectory | Budget option | Fiscal implication / trade-off | Expected result |
|---|---|---|---|---|---|
| Trade | Pending bills weaken local enterprises | County trade payables remain high | Settle verified older bills with priority to vulnerable small suppliers and tighten commitments | Cash requirement equals verified eligible bills under phased plan; no full stock should be treated as one-year spending | Improved supplier liquidity and payment credibility |

# ANNEXES

## Annex 1: County output by selected activity and county, 2024 (Kshs. billion)

| County | Agriculture, forestry and fishing | Manufacturing | Wholesale and retail trade | Accommodation and food services | All county output (GCP) |
|---|---|---|---|---|---|
| Baringo | 49.1 | 6.1 | 3.3 | 0.5 | 119.1 |
| Bomet | 112.4 | 19.2 | 1.8 | 2.0 | 221.4 |
| Bungoma | 133.4 | 10.9 | 14.7 | 4.4 | 305.3 |
| Busia | 46.6 | 4.1 | 3.8 | 0.3 | 132.2 |
| Elgeyo-Marakwet | 94.1 | 3.2 | 2.9 | 0.4 | 150.3 |
| Embu | 60.7 | 5.3 | 13.7 | 3.3 | 218.9 |
| Garissa | 34.2 | 1.7 | 7.6 | 1.1 | 89.2 |
| Homa Bay | 94.6 | 6.5 | 7.0 | 2.6 | 200.6 |
| Isiolo | 14.0 | 0.8 | 3.9 | 1.0 | 46.2 |
| Kajiado | 35.5 | 13.7 | 12.3 | 8.5 | 243.4 |
| Kakamega | 122.4 | 20.4 | 20.0 | 4.7 | 316.4 |
| Kericho | 115.3 | 19.8 | 16.0 | 4.1 | 251.3 |
| Kiambu | 130.3 | 92.3 | 45.1 | 11.4 | 819.8 |
| Kilifi | 69.3 | 56.1 | 15.5 | 8.2 | 321.4 |
| Kirinyaga | 75.8 | 9.0 | 10.7 | 10.1 | 186.0 |
| Kisii | 114.7 | 8.2 | 15.0 | 4.6 | 287.5 |
| Kisumu | 58.9 | 41.5 | 26.5 | 9.4 | 370.9 |
| Kitui | 68.9 | 5.0 | 8.9 | 3.6 | 196.3 |
| Kwale | 55.1 | 8.7 | 2.6 | 8.9 | 169.4 |
| Laikipia | 32.3 | 3.9 | 13.8 | 4.2 | 134.9 |
| Lamu | 16.7 | 1.7 | 3.6 | 0.6 | 50.2 |
| Machakos | 72.6 | 100.2 | 42.8 | 8.0 | 476.4 |
| Makueni | 42.1 | 6.1 | 14.3 | 3.7 | 159.2 |
| Mandera | 34.7 | 1.8 | 2.0 | 0.3 | 88.4 |
| Marsabit | 23.4 | 1.0 | 2.3 | 0.4 | 88.8 |
| Meru | 306.8 | 23.9 | 14.0 | 1.8 | 525.8 |
| Migori | 73.3 | 4.9 | 6.2 | 3.0 | 183.3 |
| Mombasa | 5.9 | 119.0 | 78.8 | 24.2 | 711.1 |
| Murang'a | 144.9 | 12.5 | 7.9 | 5.3 | 295.9 |
| Nairobi City | 7.2 | 420.4 | 580.8 | 55.3 | 4,105.6 |
| Nakuru | 227.5 | 48.8 | 74.7 | 18.6 | 771.8 |
| Nandi | 134.6 | 17.8 | 5.2 | 2.6 | 235.5 |
| Narok | 123.8 | 10.2 | 8.5 | 2.6 | 256.0 |
| Nyamira | 83.1 | 7.8 | 6.6 | 2.7 | 169.2 |
| Nyandarua | 152.2 | 3.5 | 2.9 | 3.1 | 218.2 |
| Nyeri | 107.2 | 15.6 | 27.9 | 4.5 | 286.9 |
| Samburu | 8.7 | 1.8 | 3.1 | 3.1 | 44.8 |
| Siaya | 67.7 | 4.6 | 1.7 | 1.0 | 163.9 |
| Taita-Taveta | 23.8 | 3.5 | 17.0 | 2.5 | 97.9 |
| Tana River | 18.2 | 1.1 | 1.9 | 0.1 | 51.1 |
| Tharaka-Nithi | 36.3 | 4.1 | 2.1 | 2.7 | 95.1 |
| Trans Nzoia | 104.5 | 7.1 | 22.4 | 4.4 | 247.9 |
| Turkana | 76.1 | 3.6 | 7.9 | 0.7 | 178.4 |
| Uasin Gishu | 115.1 | 14.1 | 30.4 | 8.8 | 382.7 |
| Vihiga | 51.1 | 1.9 | 4.5 | 0.1 | 116.1 |

| County | Agriculture, forestry and fishing | Manufacturing | Wholesale and retail trade | Accommodation and food services | All county output (GCP) |
|---|---|---|---|---|---|
| Wajir | 26.6 | 1.7 | 1.4 | 0.1 | 76.4 |
| West Pokot | 44.3 | 1.3 | 3.7 | 0.8 | 111.1 |
| **All 47 counties** | **3,646.1** | **1,176.4** | **1,219.7** | **254.5** | **14,968.1** |

*Source: Kenya National Bureau of Statistics, Gross County Product 2025, Annexe I (GCP by Economic Activity at Current Prices, 2024).*

## Annex 2: Non-Revenue Water loss FY 2024/25

| S/No | Financial Statement | Water Produced M3 | Water Billed M3 | Non - Revenue Water $M^3$ | Loss of Sales (Kshs.) |
|---|---|---|---|---|---|
| 1 | Garissa Water and Sewerage Company Limited | 4,927,213 | 3,041,527 | 1,885,686 | 190,536,498 |
| 2 | Limuru Water and Sewerage Company Limited | 2,139,886 | 1,368,598 | 771,288 | 88,698,120 |
| 3 | Nakuru Rural Water and Sanitation Company Limited | 6,061,654 | 3,971,482 | 3,112,910 | 339,307,190 |
| 4 | Ngagaka Water and Sanitation Company Limited | 1,442,361 | 952,834 | 489,527 | 25,162,843 |
| 5 | Ngandori Water and Sanitation Company Limited | 2,340,094 | 1,613,477 | 726,617 | 41,520,622 |
| 6 | Nithi Water and sanitation Company Limited | 2,662,811 | 1,191,371 | 1,471,440 | 125,097,372 |
| 7 | Nairobi City Water and Sewerage Company Limited | 215,292,106 | 108,383,164 | 106,908,942 | 11,961,024,350 |
| 8 | Nolturesh Water and Sanitation Company Ltd | 3,024,000 | 612,352 | 2,411,648 | 11,964,869 |
| 9 | Nyahururu Water and Sanitation Company Limited | 2,951,680 | 1,866,541 | 1,085,138 | 108,871,896 |
| 10 | Othaya Mukurwe-ini Water and Sanitation Company Ltd | 6,990,634 | 2,966,813 | 4,023,821 | 312,433,748 |
| 11 | Trans-Nzoia County Water and Sanitation Company Limited | 3,669,674 | 2,020,816 | 1,648,858 | 90,687,190 |
| 12 | Marsabit Water and Sewerage Company Limited | 109,956 | 65,972 | 43,984 | 16,094,144 |
| 13 | Embu Water and Sanitation Company Limited | 6,937,041 | 4,496,634 | 2,440,407 | 209,875,002 |
| 14 | Embe Water and Sanitation Company Limited | 1,095,384 | 519,911 | 575,473 | 31,220,479 |
| 15 | Amatsi Water Services Company Limited | 2,551,161 | 1,433,843 | 1,117,318 | 89,184,536 |
| 16 | Bomet Water and Sanitation Company Limited | 1,296,892 | 477,615 | 819,277 | 61,445,775 |
| 17. | Busia Water and Sewerage Services Company Limited | 644,805 | 368,538 | 276,267 | 15,950,924 |
| 18. | Eldama Ravine Water and Sewerage Company Limited | 1,793,329 | 816,778 | 976,551 | 32,519,148 |
| 19. | Eldoret Water and Sanitation Company Limited | 15,442, 959 | 9,520,106 | 5,922,853 | 373,139,705 |
| 20. | Gatundu Water and Sanitation Company Limited | 3,741,896 | 2,266,154 | 1,475,742 | 123,519,605 |
| 21. | Githunguri Water and Sanitation Company Limited | 1,409,956 | 581,565 | 828,391 | 67,099,671 |
| 22. | Karuri Water and Sanitation Company Limited | 1,853,767 | 1,086,159 | 767,608 | 55,693,184 |
| 23. | Kiambu Water and Sewerage Company Limited | 3,536,533 | 2,387,565 | 1,148,968 | 135,137,182 |
| 24. | Gulf Water Services Company Limited | 893,795 | 256,111 | 637,684 | 414,235 |
| 25. | Lodwar Water and Sanitation Company Ltd | 969,016 | 488,341 | 480,675 | 31,778,094 |
| 26 | Migori Water and Sanitation Company Ltd | 640,004 | 363,325 | 276,679 | 16,562,005 |
| 27 | Muranga South Water and Sanitation Company Ltd | 4,303,958 | 2,647,543 | 1,656,415 | 175,917,599 |
| 28 | Muranga West Water and Sanitation Company Ltd | 2,647,458 | 1,473,087 | 1,274,371 | 64,590,405 |

| S/No | Financial Statement | Water Produced M3 | Water Billed M3 | Non - Revenue Water $M^3$ | Loss of Sales (Kshs.) |
|---|---|---|---|---|---|
| 29 | Naromoru Water and Sanitation Company Ltd | 358,460 | 256,195 | 102,265 | 7,669,895 |
| 30 | Nyanas Water and Sanitation Company Ltd | 1,149,971 | 351,980 | 740,492 | 43,824,038 |
| 31 | Nyandarua Water and Sanitation Company Limited | 731,896 | 448,855 | 283,041 | 21,262,496 |
| 32 | Oloolaiser Water and Sewerage Company Limited | 1,919,552 | 980,036 | 939,516 | 164,375,587 |
| 33 | Tana Water and Sanitation Company | 700,933 | 272,703 | 428,230 | 50,171,427 |
| 34 | Tavevo Water and Sewerage Company Limited | 5,767,858 | 2,871,077 | 2,896,781 | 388,654 |
| 35 | Meru County Rural Water and Sanitation Company Ltd | 1,332,624 | 825,627 | 506,997 | 45,627,730 |
| 36 | Thika Water and Sewerage Company Limited | 15,331,819 | 9,965,682 | 5,366,137 | 268,306,850 |
| 37 | Kapsabet Nandi Water and Sanitation Company Limited | 1,238,156 | 774,127 | 464,029 | 59,730,783 |
| 38 | Iten Tambach Water and Sewerage Company Limited | 731,443 | 515,032 | 216,411 | 14,599,086 |
| 39 | Nanyuki Water and Sanitation Company Limited | 4,016,462 | 2,976,601 | 1,039,861 | 82,149,019 |
| 40 | Kakamega County Rural Water and Sanitation Company Ltd | 333,536 | 221,157 | 112,378 | 5,558,781 |
| 41 | Elwak Water and Sewerage Company Limited | 113,436 | 72,223 | 41,213 | 4,945,560 |
| 42 | Narok Water and Sewerage Services Company Limited | 1,292,226 | 863,625 | 428,601 | 55,718,130 |
| 43 | Samburu Water and Sanitation Company Limited | 411,497 | 245,848 | 165,649 | 13,276,950 |
| | **TOTAL** | | | | **15,633,051,377** |

## Annex 3: Main own-source revenue streams in counties that run game reserves, FY 2025/26

| County | Revenue stream | Kshs. million |
|---|---|---|
| Narok | PARK FEES | 3,964.8 |
| Narok | Other Sources | 208.2 |
| Narok | Health/Hospital Fees/FIF | 190.0 |
| Narok | CESS REVENUE | 170.0 |
| Narok | Administration Control Fees and Charges | 36.7 |
| Narok | Single/Business Permits | 20.2 |
| Narok | Parking Fees | 14.1 |
| Narok | Physical Planning and Development | 12.5 |
| Narok | Miscellaneous Receipts | 11.9 |
| Narok | MARKETS & SLAUGHTER FEES | 6.1 |
| Samburu | Game Parks/Nature Reserves Fees | 269.6 |
| Samburu | Health/Hospital Fees/FIF | 117.1 |
| Samburu | Single Business Permits | 16.2 |

| County | Revenue stream | Kshs. million |
|---|---|---|
| Samburu | Land Rates | 15.3 |
| Samburu | Other Sources | 10.1 |
| Samburu | Total Cess Receipts | 10.1 |
| Samburu | Miscellaneous Revenue | 6.6 |
| Samburu | Environment and conservancy | 5.2 |
| Samburu | Liquor License | 3.8 |
| Isiolo | Game Park entrance/Royalties | 110.1 |
| Isiolo | Health/Hospital Fees/FIF | 67.4 |
| Isiolo | S.B.P fees/Promotion/Advertisement/Branding | 10.6 |
| Isiolo | Sand Cess | 6.5 |
| Isiolo | Other Sources | 6.3 |
| Isiolo | Land Rent/Rates | 6.0 |
| Isiolo | Miraa export/cess | 4.9 |
| Isiolo | Street parking fees | 3.1 |
| Isiolo | Livestock Auction Cess | 1.7 |

*Source: Office of the Controller of Budget, County Governments Budget Implementation Review Report for FY 2025/26 (August 2026), county "Top Own Source Revenue Streams" figures (Chapter Three)*

## Annex 4: Industrial Park construction progress reported by counties, FY 2025/26

| County | Park site | Contract sum (Kshs. million) | Planned completion | Reported completion |
|---|---|---|---|---|
| Tana River | Wayu | 250.0 | n/a | 84% |
| Machakos | Machakos | 476.6 | June 2025 | 80% |
| Uasin Gishu | Moiben | 535.0 | August 2026 | 70% |
| Kiambu | Ngewa | 498.8 | September 2026 | 65% |
| Kwale | Mwananyamala | 497.4 | December 2025 | 65% |
| Bungoma | Sang'alo | 474.2 | September 2026 | 60% |
| Baringo | County headquarters | 250.0 | December 2026 | 50% |
| Mombasa | Mombasa | 461.2 | May 2025 | 48% |
| Trans Nzoia | Matisi | 500.0 | March 2025 | 46% |
| Isiolo | Isiolo | 625.0 | June 2026 | 20% |

*Source: Office of the Controller of Budget, County Governments Budget Implementation Review Report for FY 2025/26 (August 2026), county development project tables (Chapter Three). Note: Only counties whose project tables report a completion rate for the park are shown. Contract sums are as reported by each county and may cover only part of the works.*

## Annex 5: Selected counties irrigation projects

| Project Name | Project Scope | County | Project Status | Area Under Irrigation (Acres) | No. of Beneficiaries |
|---|---|---|---|---|---|
| Bura Irrigation and Settlement Scheme Rehabilitation Project Lot 1 | Construction of diversion canal, head regulator, siltation basin and associated structures | Tana River | 99.33% complete and ongoing | 20,000 | 6,000 |
| Bura Irrigation and Settlement Scheme Rehabilitation Project Lot 2 | Excavation and lining of the 25km canal and associated structures | Tana River | 60% complete and ongoing | - | - |
| Rehabilitation of Rahole Irrigation Project canal | Desilting of main canal | Garissa | 5% complete and ongoing | 500 | 400 |
| El-Gade Irrigation Project | Water pans,Borehole, Diversion and intake works, Delivery and distribution canals, Farm preparation | Marsabit | 12% complete and ongoing | 300 | 500 |
| Rumanti Irrigation Project | Mainline repair & extension, provision of solar system, piping works for laterals, infield. | Meru | 92% complete and ongoing | 44 | 252 |
| Kamburu Mbeu Irrigation Project | Intake works, sedimentation works, installation of conveyance line, mainline and laterals, infields. | Meru | 46.4% complete and ongoing | 350 | 350 |
| Canaan Irrigation Project | Intake works, rehabilitation, pipe works, infields. | Meru | 1% complete and ongoing | 220 | 220 |
| Iraru Irrigation Project | Intake chamber and valve chamber, Sedimentation basin,Main pipeline, laterals lines,Gully crossings along conveyance, mainlines and distributions. | Meru | 50.5% complete and ongoing | 200 | 200 |
| Gamanti Irrigation Project | SB, Conveyance pipeline, laterals, gully crossings, infield system and associated fittings | Meru | 20.3% complete and ongoing | 325 | 650 |
| Gankondi Irrigation Project | Construction of storage tanks, spring protection works and pipe work | Meru | 73% complete and ongoing | 300 | 600 |
| Baitigitu Rubiri Irrigation Project | Construction of intake, spring protection works, distribution work and pipe work | Meru | 23% complete and ongoing | 250 | 500 |
| Mwenda Antu Irrigation Project | Construction of valve chambers, Laying of submains, mains and laterals | Meru | 99% complete and ongoing | 75 | 298 |

| Project Name | Project Scope | County | Project Status | Area Under Irrigation (Acres) | No. of Beneficiaries |
|---|---|---|---|---|---|
| Nithi Kaari Irrigation Project | Headworks, SB, River and gully crossings, conveyance lines, mainline, laterals and infield system | Tharaka Nithi | 62% complete | 573 | 1,145 |
| Rianthinga Irrigation Project | Intake, SB, Conveyance system, mainlines, laterals and sprinkler system | Tharaka Nithi | 11% complete | 1,000 | 1,000 |
| Mukui-Uri-Mbugi Irrigation Project | Intake, SB, Conveyance system, mainlines, laterals and infield for 300 farmers | Tharaka Nithi | 54% complete | 250 | 500 |
| Mweteri Irrigation Project | Construction of intake works, sedimentation basin, conveyance, mainline and submains, infield system for 300 farmers | Tharaka Nithi | 15% complete | 150 | 300 |
| Itabua Muthatari Irrigation Project | Rehabilitation of intake, SB, Main Conveyance, mainline, distribution and infield system | Embu | 85% complete | 765 | 1,050 |
| New Kithimu Irrigation Project | Construction of intake,SB, Main conveyance, mainline, distribution and infield system | Embu | 61.8% complete | 600 | 1,230 |
| Kiamuringa Irrigation Project | Construction of intake,SB, Main conveyance, mainline, distribution and infield system | Embu | 54% complete | 600 | 1,200 |
| Kanyuambora Irrigation Project | Construction of intake,SB, Main conveyance, mainline, distribution and infield system | Embu | 33% complete | 625 | 1,250 |
| Iriari Irrigation Project | Rehabilitation of intake, SB, Main Conveyance, mainline, distribution and infield system | Embu | 10% complete | 600 | 1,230 |
| Gathimaki Irrigation Project | Conveyance, distribution and infield system | Nyandarua | Works stopped indefinitely due to a court case | 200 | 200 |
| Gathima Irrigation Project | Conveyance, distribution and infield system | Nyandarua | Works stopped indefinitely due to a court case | 200 | 200 |
| Magomano Irrigation Project | Reticulation works of the project | Nyandarua | Complete | 75 | 300 |
| Muhonia Tulasha Irrigation Project | Expansion of the project | Nyandarua | Complete | 50 | 400 |
| Engineer Town Water Supply Project | Construction of the masonry tank, conveyance system and fittings | Nyandarua | 75% Complete | 10,625 | 170 |
| Changachicha Irrigation Project | Intake works, conveyance lines, main lines, distribution lines | Nyeri | Complete and handed over | 400 | 1,600 |

| Project Name | Project Scope | County | Project Status | Area Under Irrigation (Acres) | No. of Beneficiaries |
|---|---|---|---|---|---|
| Muthuini Irrigation project | Intake works, conveyance lines, main lines, distribution lines | Nyeri | 90% complete | 250 | 1,000 |
| Mwea Irrigation Development Project | Construction of link canal III, irrigation canals, canal gates, improvement of link canal I&II | Kirinyaga | 90% complete | 250 | 1,000 |
| Mwea Irrigation Development Project | Construction of drainage canals, road networks, Kathiga bridge, building works | Kirinyaga | 59.01% complete | - | - |
| Kibaratani Irrigation Project | Intake works, sedimentation basin and conveyance pipeline | Kirinyaga | 50% complete | 1,521 | 700 |
| Kihumbu Irrigation Project | The project involves rehabilitation of existing infrastructure, with a few new components e.g. SB | Kirinyaga | 98% complete | 146 | 350 |
| Mirira Irrigation Project | Construction of intake and installation of water conveyance systems and infield | Murang'a | 63% complete | 1,150 | 2,300 |
| Nginda Irrigation Project | Construction of intake and installation of water conveyance systems and infield | Murang'a | 60% complete | 675 | 1,350 |
| Mukurwe wa Nyagathanga Irrigation Project | Construction of intake and installation of water conveyance systems and infield | Murang'a | 17% complete | 585 | 1,170 |
| Kiamboka Irrigation Project | Conveyance, distribution and infield system | Murang'a | 61% complete | 30 | 30 |
| Gakaki Irrigation Project | Conveyance, distribution and infield system | Murang'a | 36% complete | 120 | 120 |
| Kahithe Gitiri Irrigation Project | Conveyance, distribution and infield system | Murang'a | 65% complete | 100 | 100 |
| Gikindu Kandabibi Irrigation Project | Intake Works, Conveyance, distribution and infield system | Murang'a | 85% complete | 300 | 300 |
| Kieni Kathongo Irrigation Project | Construction of intake and water conveyance pipeline | Murang'a | Complete | 100 | 100 |
| Ndonga Matheraini Irrigation Project | Construction of intake, SB, distribution lines and laterals | Murang'a | 1.3% complete | 200 | 400 |
| Maragwa Ridge Irr. Dev. Project | Conveyance, mainlines and submains | Murang'a | 85.01% complete | 212 | 848 |
| Lower Sabor Project (Last Mile connectivity) Irrigation Project | Construction of distribution system | Uasin Gishu | 77.3% complete | 850 | 2,000 |
| Kaptamwua Irrigation Project | Weir and intake work, Sedimentation tank, pipeline | Nandi | 100% complete | 200 | 400 |
| Kapkoros Irrigation Project | Intake works, SB, Conveyance, mainlines, sub mains, laterals and infields | Nandi | 35% complete | 400 | 800 |
| Molo Sirwe (Last Mile Connectivity) Irrigation Project | Intake rehabilitation, mainline completion and branch pipeline completion | Baringo | 86.62% complete | 125 | 500 |

| Project Name | Project Scope | County | Project Status | Area Under Irrigation (Acres) | No. of Beneficiaries |
|---|---|---|---|---|---|
| Narok clusters Irrigation Project | Construction of intake works, installation of conveyance lines and distribution systems | Narok | 33% complete | 1,000 | 1,000 |
| Rombo Clusters Irrigation Project | Construction of canal, intake and spring protection | Kajiado | 40% complete | 335 | 670 |
| Soin Lot 3 Irrigation Project | Extension of mainline, completion of 4 blocks, break-pressure tanks, infield for 300 farmers | Kericho | 50% complete | 350 | 600 |
| Navakholo Irrigation Project | Construction of intake, conveyance, mainlines and submains | Kakamega | 75.72% complete | 1,000 | 2,000 |
| Lower Sio Irrigation Project - Lot 1 | Construction of irrigation infrastructure for area 1, area 2 and area 5 | Busia | 40% complete | 1,500 | 10,000 |
| Galana Model Farm -Lot 1 | Construction of pump house, pump installation, genset installation, associated pipe work and auxilliaries | Kilifi and Tana River | 54% complete | 4,900 | 10,000 |
| Galana Model Farm -Lot 2 | Installation of 36.919km DN-225800 pipeline, 25 No. centre pivots, fence with guard houses and electrification | Kilifi and Tana River | 90% complete | - | - |
| Lower Nzoia Irrigation Project | Diversion weir, intake structures, connecting channel | Siaya/Busia | 96.13% complete | 10,000 | 12,600 |
| Muranga Cluster Lot 3 | Construction of 3No Intake weirs 3 No conveyance and distribution systems for Riakome, Gathuya and Gacharaigu | Muranga | Ongoing - 97% | 427 | 855 |
| Waga Machame Irrigation Project | Construction of river training structures, intake weir, conveyance canal distribution canal for rice production | Kwale | Ongoing - 55% | 1,211 | 750 |
| Anyiko Ujwanga Kathieno Irrigation Project | Construction of intake weir conveyance canal transmission canals, distribution canals for rice production | Siaya | Ongoing - 22% | 1,600 | 800 |
| Kanyenyaini Irrigation Project - Phase 1 | Construction of intake weir conveyance line, distribution system | Muranga | Ongoing - 78% | 600 | - |
| Gatene Irrigation Project | Construction/rehabilitation of the schemes' intakes and also carry out the following works; Construction of conveyance lines, mainline, submain and distribution lines | Embu | Commenced | 203 | 398 |
| Kandeki Irrigation Project | Construction/rehabilitation of the schemes' intakes and also carry out the following works; Construction of conveyance lines, mainline, submain and distribution lines | Kirinyaga | Commenced | 225 | 246 |
| Miuka Irrigation Project | Construction/rehabilitation of the schemes' intakes and also carry out the following works; Construction of conveyance lines, mainline, submain and distribution lines | Kirinyaga | Commenced | 340 | 350 |

| Project Name | Project Scope | County | Project Status | Area Under Irrigation (Acres) | No. of Beneficiaries |
|---|---|---|---|---|---|
| Magatianthi Irrigation Project | Construction/rehabilitation of the schemes' intakes and also carry out the following works; Construction of conveyance lines, mainline, submain and distribution lines | Tharaka Nithi | Commenced | 275 | 276 |
| Kiramanti Irrigation Project | Construction/rehabilitation of the schemes' intakes and also carry out the following works; Construction of conveyance lines, mainline, submain and distribution lines | Tharaka Nithi | Commenced | 270 | 269 |
| **TOTAL** | | | | **70,727** | **76,027** |

*Source: National Irrigation Authority*

## Annex 6: County government trade payables as of 30th June 2026 and the proposed settlement framework (Kshs. million)

| SN | County | FY 2027/28 | FY 2028/29 | FY 2029/30 | Total to be settled |
|---|---|---|---|---|---|
| 1 | Lamu | 1.3 | | | 1.3 |
| 2 | Samburu | 117.3 | | | 117.3 |
| 3 | Elgeyo/Marakwet | 238.7 | | | 238.7 |
| 4 | West Pokot | 301.6 | | | 301.6 |
| 5 | Kwale | 310.9 | | | 310.9 |
| 6 | Nyamira | 357.7 | | | 357.7 |
| 7 | Makueni | 424.3 | | | 424.3 |
| 8 | Kitui | 495.0 | | | 495.0 |
| 9 | Kirinyaga | 564.5 | | | 564.5 |
| 10 | Nyeri | 572.1 | | | 572.1 |
| 11 | Vihiga | 811.2 | | | 811.2 |
| 12 | Kisumu | 850.5 | | | 850.5 |
| 13 | Tharaka-Nithi | 858.6 | | | 858.6 |
| 14 | Baringo | 870.2 | | | 870.2 |
| 15 | Laikipia | 983.1 | | | 983.1 |
| 16 | Migori | 1,000 | 30.0 | | 1,030.0 |
| 17 | Homa Bay | 1,000 | 118.0 | | 1,118.0 |
| 18 | Uasin Gishu | 1,000 | 153.7 | | 1,153.7 |
| 19 | Kisii | 1,000 | 247.7 | | 1,247.7 |
| 20 | Siaya | 1,000 | 276.9 | | 1,276.9 |
| 21 | Marsabit | 1,000 | 427.6 | | 1,427.6 |
| 22 | Bomet | 1,000 | 431.4 | | 1,431.4 |
| 23 | Murang'a | 1,000 | 479.9 | | 1,479.9 |
| 24 | Kericho | 1,000 | 483.0 | | 1,483.0 |
| 25 | Garissa | 1,000 | 485.7 | | 1,485.7 |
| 26 | Embu | 1,000 | 625.0 | | 1,625.0 |
| 27 | Isiolo | 1,000 | 672.5 | | 1,672.5 |
| 28 | Tana River | 1,000 | 771.3 | | 1,771.3 |
| 29 | Meru | 1,000 | 901.8 | | 1,901.8 |
| 30 | Nyandarua | 1,000 | 595.3 | 595.3 | 2,190.5 |
| 31 | Taita Taveta | 1,000 | 648.4 | 648.4 | 2,296.7 |
| 32 | Trans Nzoia | 1,000 | 687.0 | 687.0 | 2,374.1 |
| 33 | Kajiado | 1,000 | 777.7 | 777.7 | 2,555.4 |
| 34 | Busia | 1,000 | 797.2 | 797.2 | 2,594.4 |
| 35 | Kakamega | 1,000 | 904.4 | 904.4 | 2,808.8 |
| 36 | Turkana | 1,000 | 1,038.7 | 1,038.7 | 3,077.5 |
| 37 | Bungoma | 1,000 | 1,062.9 | 1,062.9 | 3,125.7 |
| 38 | Nakuru | 1,000 | 1,068.8 | 1,068.8 | 3,137.7 |
| 39 | Wajir | 1,000 | 1,152.4 | 1,152.4 | 3,304.8 |
| 40 | Mandera | 1,000 | 1,412.5 | 1,412.5 | 3,825.0 |
| 41 | Mombasa | 1,000 | 1,422.3 | 1,422.3 | 3,844.6 |
| 42 | Narok | 1,000 | 1,622.8 | 1,622.8 | 4,245.7 |
| 43 | Machakos | 1,000 | 1,746.8 | 1,746.8 | 4,493.5 |
| 44 | Kiambu | 1,000 | 2,400.1 | 2,400.1 | 5,800.1 |
| 45 | Kilifi | 1,000 | 3,545.8 | 3,545.8 | 8,091.5 |
| | **Total** | **37,756.9** | **26,987.4** | **20,883.0** | **85,627.3** |

*Source: County Governments Budget Implementation Review Report by COB. Note: The list does not contain trade payables for Nandi and Nairobi County governments.*

## Annex 7: County typologies

| Typology | Counties | Main Economic Characteristics | Why It Matters Fiscally |
|---|---|---|---|
| Metropolitan/urban, industrial and service economies | Nairobi City, Nakuru, Kiambu, Machakos and Kisumu | • On a five-year average, Nairobi City accounted for 27.5 percent of national GCP, followed by Kiambu (5.6 percent) and Nakuru (5.1 percent). Machakos contributed 3.2 percent.<br>• Service activities are concentrated in these counties, led by Nairobi City at 37.6 percent, with Kiambu at 4.9 percent and Nakuru at 4.3 percent. | Urban transport, industrial parks, reliable utilities and digital infrastructure can increase investment, industrial productivity, business growth and employment. |
| Agricultural and agro-processing economies | 2a Tea and dairy: Kericho, Bomet, Nandi, Kisii and Nyamira | • In 2024, Bomet County had the highest area under tea at 47.2 thousand hectares. This is 21 percent of the total area under tea. Other counties that account for the high area under tea include Kericho and Nandi at 39.2 thousand hectares and 38.5 thousand hectares, respectively.<br>• More than 90 percent of tea production is exported, making the sector an important source of foreign exchange and income for producing counties and households. | Tea farming and processing supports livelihoods in counties such as Bomet, Kericho and Nandi. Increased household incomes can stimulate local trade and economic activity, indirectly supporting county revenue collection. |
| | 2b Coffee, tea and horticulture: Meru, Embu, Kirinyaga, Murang'a, Nyeri and Tharaka-Nithi | • Kirinyaga, Murang'a, Nyeri and Embu have substantial areas under coffee production. In FY 2023/24, Kirinyaga county emerged as the top producer of coffee with 10,412 hectares under coffee followed by Nyeri with 10,016 hectares.<br>• The leading milk-producing county in 2024 was Meru with 479 million kilograms. | |
| | 2c Grain, potato and dairy: Uasin Gishu, Trans Nzoia, Nyandarua and Elgeyo-Marakwet | • Production of maize is concentrated in a number of counties, with Uasin Gishu and Trans Nzoia among the leading producers. In 2023 Uasin Gishu was the leading with 476,538 tonnes and 483,211 tonnes in 2024.<br>• On the other hand, Nyandarua was the leading in production of Irish potatoes with 394,325 tonnes in 2024. | |
| | 2d Sugar and maize: Kakamega and Bungoma | • Kakamega county is the leading producer of sugar with 188,756 tonnes in 2022, 87,367 tonnes in 2023 and 159,975 tonnes in 2024. | |
| Tourism and blue economies | Mombasa, Kilifi, Kwale, Lamu, Narok, Homa | • Together, the ten counties generated Kshs.2.29 trillion in output in 2024, equivalent to 15.3 percent of | Park fees are the largest own-source revenue stream in Narok, at 89 |

| Typology | Counties | Main Economic Characteristics | Why It Matters Fiscally |
|---|---|---|---|
| | Bay, Siaya, Taita Taveta, Laikipia and Migori | national GCP, and contributed 22.7 percent of national output in accommodation and food services.<br>• In 2024, total production of marine landings and mariculture was 48,608 MT with an ex-vessel value of 15.2 billion Kenya shillings compared to 39,950 MT with an ex-vessel value of 9.9 billion Kenya shillings in 2023.<br>• Kilifi County accounted for the highest quantity of marine artisanal landings, with a total of 12,094 MT (30.5% of the total landings). The corresponding ex-vessel value for Kilifi County was Kshs.3.1 billion. Kwale County contributed 11,730 MT (29.5%) with an ex-vessel value of Kshs.3.4 billion. Lamu County followed with 9,813 MT (24.7%) and an ex-vessel value of Kshs.2.1 billion.<br>• Homa Bay is the leading county by fish production. It accounted for 51.5% of Lake Victoria's 2024 catch and 58% in 2023. An analysis was done to compare fish catch from Lake Victoria per County. Homa Bay County recorded the highest catch at 54%, Siaya 32%, while Busia and Migori recorded the lowest catch at 3% and 4% respectively. | percent of collections in FY 2025/26.<br>Fish landing sites, fish markets, traders and related businesses can contribute to county revenue through applicable market fees and permits.<br>Value addition and expenditure efficiency: Investments in refrigeration, processing, packaging and market access can reduce post-harvest losses and increase the value retained locally. |
| ASAL and livestock economies | Turkana, Marsabit, Isiolo, Garissa, Wajir, Mandera, Baringo, West Pokot, Tana River and Samburu | • Garissa and Mandera are the leading counties in indigenous cattle, sheep, goat and camel. Reported 2019 KNBS livestock census figures put Garissa at about 1.4 million indigenous cattle, 2.7 million sheep and 3.9 million goats and 0.8 million camels with over 80 percent of the population depending on livestock for livelihoods and food security. Mandera on the other hand had 1.1 million indigenous cattle, 2.2 million sheep and 1.9 million goats and 0.8 million camels. | Value addition and trade: better livestock marketing, meat processing, hides and skins processing, and access to external markets can increase the value retained within the counties and create employment. |
| Emerging and diversifying economies | Kajiado, Kitui, Makueni, Busia and Vihiga | • These counties can leverage their agricultural activities, trade, mining, services and connectivity to diversify production and create employment. | Support for viable opportunities in agriculture, trade, mining and connectivity can broaden economic diversification and expand the local revenue base. |

Source: [16], [17], [18], [19]

[16] National-Agriculture-Production-Report-2025
[17] https://www.knbs.or.ke/
[18] https://kefs.go.ke/
[19] 2019-Kenya-population-and-Housing-Census-Volume 1



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