

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

1.0. Introduction & Background

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

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

2.0. Summary Submission on the Fourth Basis of Revenue Sharing

- i. **The population parameter**, weighted at 42% in the 4th Basis, is aimed to measure county expenditure needs which are majorly population-based. The parameter, however, does not directly capture specific services mandated by the Constitution and overlooks factors like the transient population in urban counties. *The Senate should push for a more direct measure of expenditure needs for the services that counties provide, just like there was a measure for health services on the previous basis, there should be a direct measure for services such as disease burden, school enrolment, access to water index, climate change vulnerability, agriculture index balanced with other forms of agriculture such as blue economy.*
- ii. **The equal share allocation**, weighted at 22%, is intended to ensure minimum funding for all counties but does not consider differences in administrative costs, population size, or service demands, which risks inefficiency or administrative bloat.



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

- iii. **Poverty parameter-** The 4th basis has retained poverty at 14%. Whereas the poverty parameter has been taken as a key redistributive parameter, it remains to be an unstable parameter, to measure disparities and developmental needs in the counties. Even though poverty is correlated with underdevelopment, there is no correlation that a higher allocation would improve the livelihoods of poor households. *Despite the negative impacts of COVID-19, which could have impoverished some households, the poverty parameter should be decreasing over time, otherwise, the counties may be regressing in closing poverty gaps.*
- iv. **The income distance parameter,** is a new parameter, weighted at 13%. It is measured, by the Gross County Product (GCP), which will provide a monetary measure of the market value of all final goods and services produced with each of the 47 counties, thus the parameter is used as a proxy for tax capacity for county governments. Whereas the income distance is used as a proxy for tax capacity, it does not directly translate to a county's ability to generate revenue, as counties have varying revenue collection structures, enforcement capacities, and informal economies that GCP may not capture. Secondly, Counties with lower GCP may receive higher allocations under this formula, but without a direct link to improving local revenue collection, this could disincentivize efforts to enhance tax capacity and economic productivity. *The income distance parameter should be refined to include actual county revenue collection performance and potential tax capacity assessments, to ensure allocations incentivize economic growth and efficient own source revenue mobilization rather than relying solely on Gross County Product (GCP).*
- v. **The geographic size capped** at 10% and allocated a weight of 9%, is meant to provide counties with resources, for additional costs that are related to service delivery. While there is no justification for the capping, provided, it could be attributed to the marginal incremental costs associated with counties with larger geographical sizes. The 9% weight represents a 1% increase from 8%, weight which has been in place since the first-generation formula. There is a need to look at other dynamics of geographical areas such as terrains, counties with national parks/ reserves and those with water bodies, which may significantly increase service delivery costs, particularly in transportation, infrastructure maintenance, and service access. We propose the parameter to be weighted at 8%.



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

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

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

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

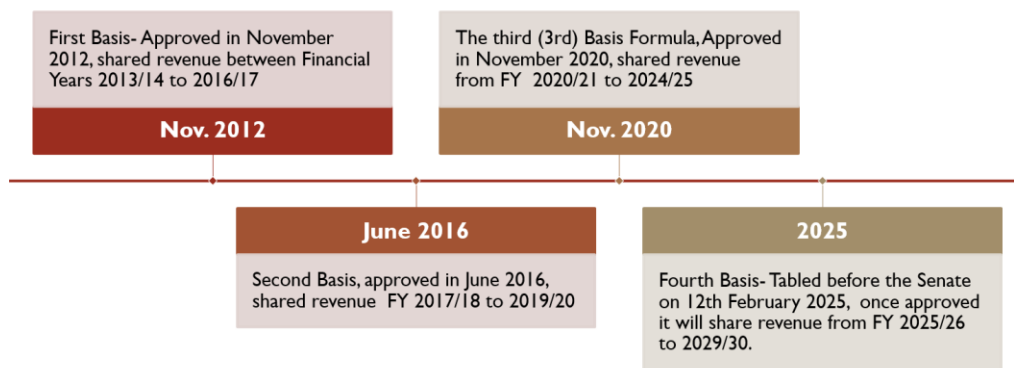


3.0 Detailed submission

3.1: Overview of the previous basis of Revenue Sharing

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

Figure 1: The Evolution of Revenue Sharing Basis



Source: Author's Analysis of Approved Basis

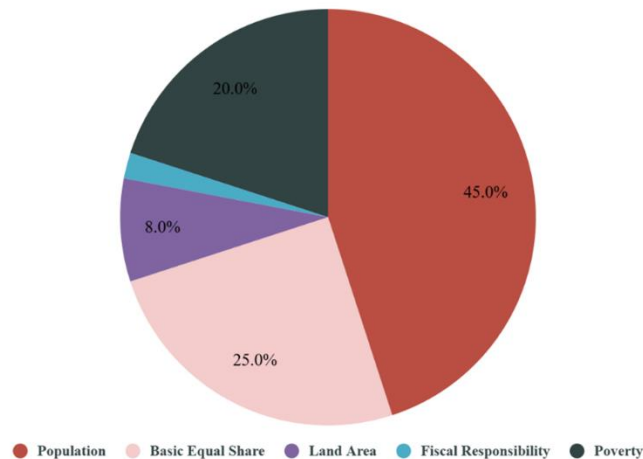
a) First Criteria

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



Figure 2: Approved First Criteria for Revenue Sharing

First Approved Criteria for Revenue Sharing among counties



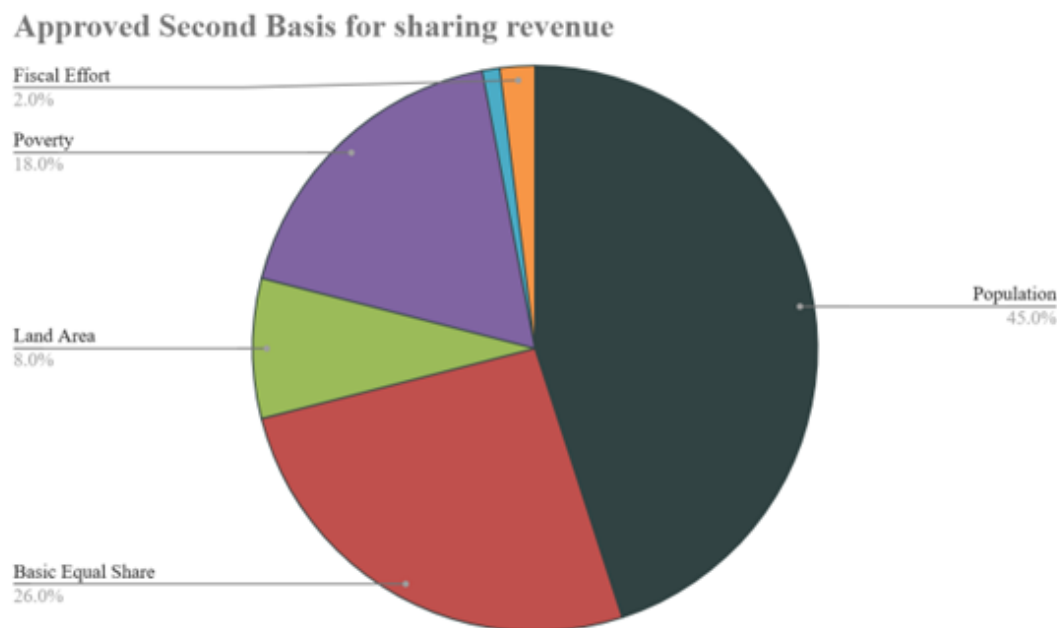
b) Second Basis

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

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



Figure 3: Approved Second Basis for Sharing Revenue



Source: Author's Analysis of CRA's Recommendations

c) 3rd Basis Criteria

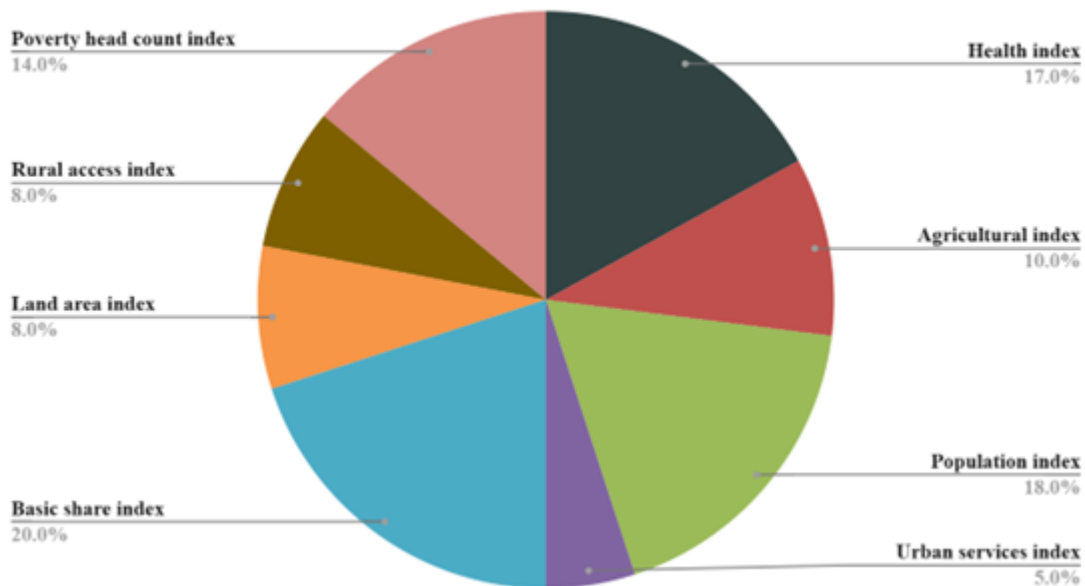
The Third basis was approved in November 2020 and has been used to share revenue between 2019/20 to 2024/25. The basis weights are shown in Figure 4. The formula addressed two main objectives, promotion of equitable development and enhancement of service delivery in the counties.

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



Figure 4: Approved Third Criteria parameters and weight.

Approved Third Basis Formula



Source: Analysis of CRA's Data

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



4.0 Fourth Basis of Revenue Sharing

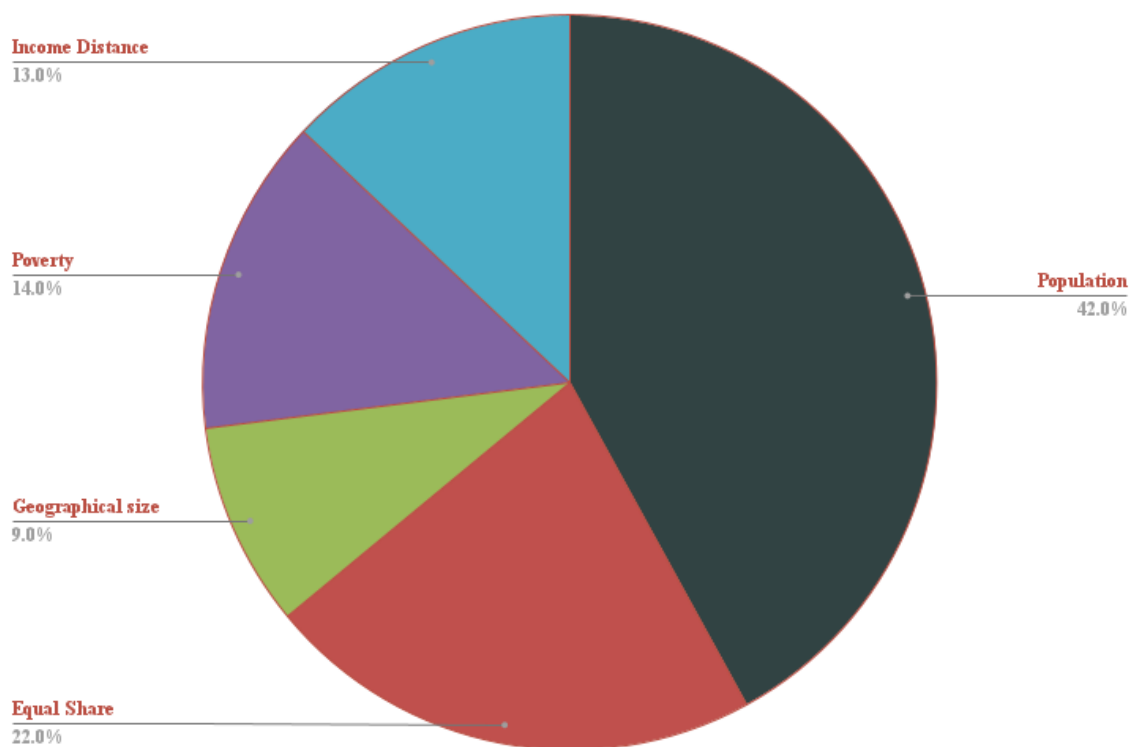
4.1: Overview

Just like the third basis of revenue sharing, the proposed 4th basis is focused on two main objectives, sharing revenues equitably for service delivery and addressing economic disparities to promote development, as per Article 187 (2) and 203(f) (g) and (h) of Constitution of Kenya 2010.¹

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

Figure 5: The Fourth Recommended Basis

The fourth Basis of Revenue Sharing as Recommended by the CRA



Source: CRA,2025

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

4.2. Concerns in the proposed parameters and weights.

i. Population

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

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

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

ii. Equal Share

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

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



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

iii. Poverty

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

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

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

iv. Income Distance Parameter

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

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

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

v. Geographic size of the county Parameter



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

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

Key Asks: Retain the land area at 8%

4.3 Holding Harmless Principle.

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

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

4.4 Slow Development in Counties Despite Consistent Revenue-Sharing Objectives

According to Kenya's Controller of Budget (CoB), 45% of counties in Kenya have struggled to meet the minimum fiscal performance standards, with poor utilization of allocated resources often leading to unspent funds. Data from the Kenya Revenue Authority (KRA)



highlights that counties generate less than 2% of their total revenue on average, creating a dependency on national transfers and hindering financial autonomy while fostering complacency in local revenue mobilization. Disparities between counties in terms of human development indices (HDI), as shown by the Kenya National Bureau of Statistics (KNBS), remain wide, with counties like Nairobi, Kiambu, and Mombasa having better access to services, while counties such as Mandera, Wajir, and Turkana continue to lag. Additionally, the World Bank reports that service delivery has been inconsistent, with significant gaps in healthcare, education, infrastructure, and water. The Kenya Health Sector Performance Report reveals that despite an increase in health funding, access to services remains skewed, especially in northern counties where maternal and child mortality rates remain disproportionately high.

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

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

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

4.5 Lessons for Kenya from Global best practices in revenue sharing

4.5.1. Case study: Germany

Germany's **fiscal equalization system (Länderfinanzausgleich)** redistributes revenue among federal states to ensure uniform living standards and balanced development. Wealthier states contribute a portion of their tax revenues, while poorer states receive additional



transfers to bridge economic gaps. The system is formula-driven, considering factors like **tax capacity, population size, and infrastructure needs**, with a strong emphasis on **equalizing financial capabilities** rather than just funding gaps.

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

4.5.2 More comparisons on revenue sharing models across the world

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

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



4.0 Annexes

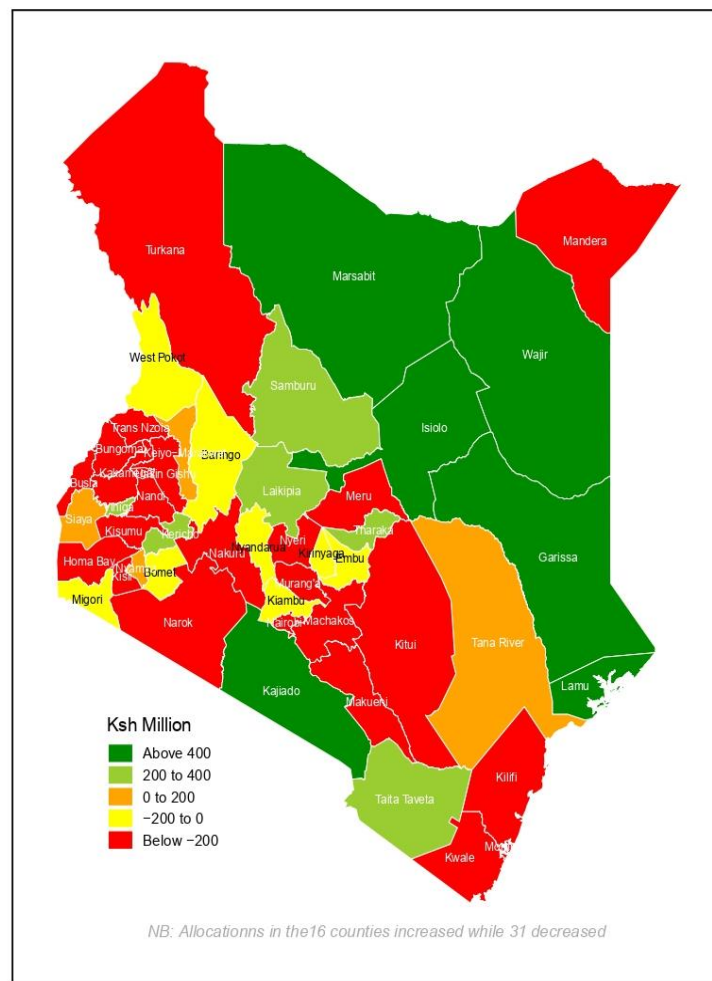
Annexe I: The evolution of the basis for revenue sharing

Table: Evolution of Kenya's revenue sharing formulas					BudgetTalk GLOBAL
Parameter		1st Formula (Last Qrt FY 2012/13, 2013/14 -2016/17)	2nd Formula (FY 2017/18-2020/21)	3rd Formula (FY 2021/22-2024/25)	4th Formula CRA Recommendation (FY 2025/26-2029/30)
Population		45%	45%	18%	42%
Equal Share (Basic Allocation)		25%	26%	20%	22%
Poverty Level		20%	18%	14%	14%
Land Area/Geographical size		8%	8%	8%	9%
Fiscal Responsibility		2%	2%	-	-
Development Factor			1%	-	-
Health Services		-	-	17%	-
Agriculture		-	-	10%	-
Rural access		-	-	8%	-
Urban Services		-	-	5%	-
Income Distance					13%
	Total	100%	100%	100%	100%
	Approval & Allocation amounts	Approved Nov 2012 Amount shareable 966,5192 billion Kes/ 11.307 billion USD (exchange rate Nov 2012)	Approved Nov 2016 Amount shareable 932.5 billion Kes/ 9.163 billion USD (exchange rate Nov 2016)	Approved Nov 2016 Amount shareable 1.842042 trillion Kes/ 18.0 billion USD (exchange rate Nov 2019)	FY 2025/26 BPS- 405.1 Billion Kes CRA Recommendation 417 Billion Kes
	Formula objectives	1. Provide service delivery 2. Redistribute resources to address economic disparities & dev. needs of County Govts.	1. Provide adequate funding to allow counties perform their functions 2. Correct economic disparities & reduce dev. gaps. 3. Stimulate economic optimization & incentivize Counties to optimize capacity to raise revenues	1. Enhance service delivery 2. Promote balanced Dev.	1. Share revenues equitably to facilitate service delivery 2. Address economic disparities to promote Dev.

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

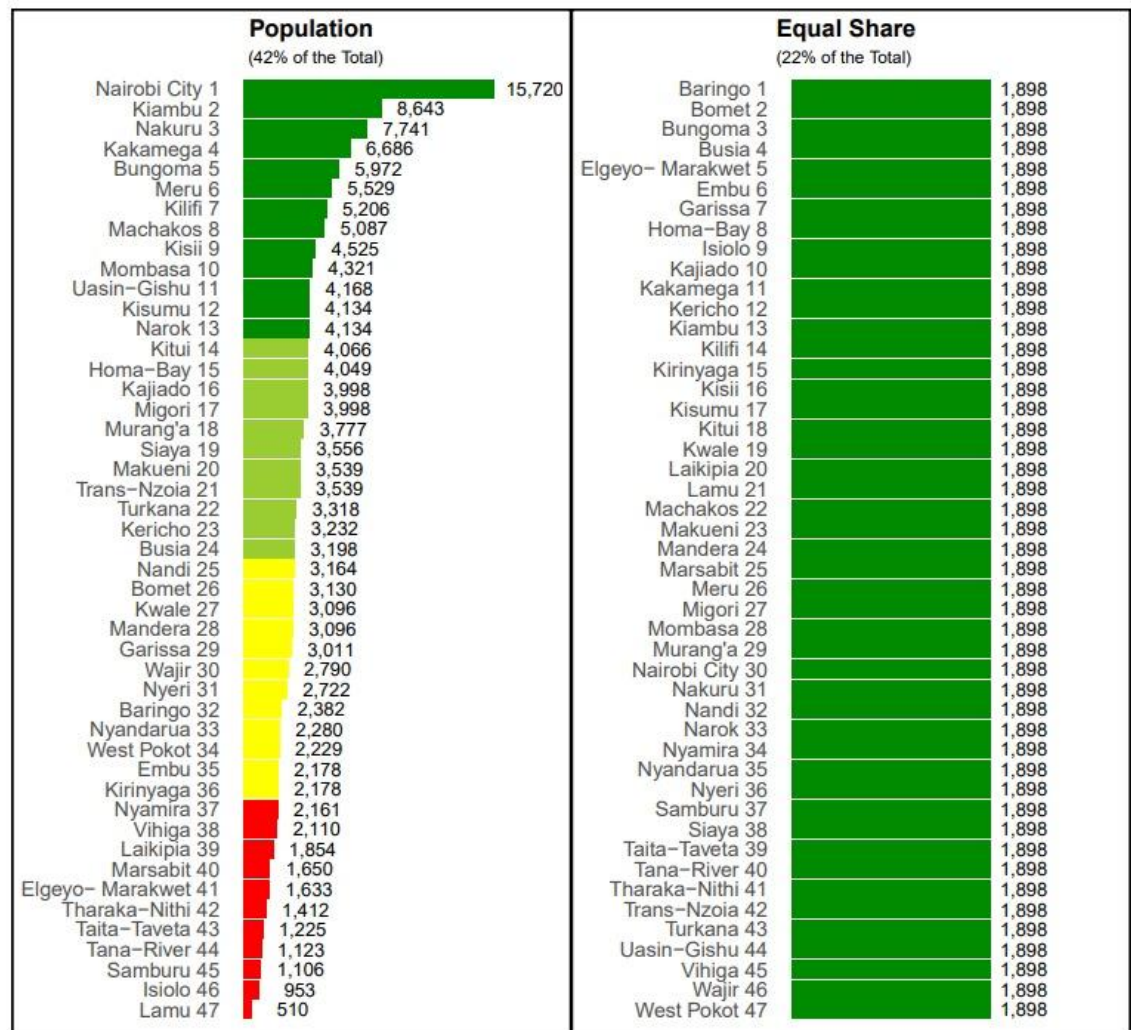
Annexe 2: Losers and gainers in the transition from third to fourth Basis

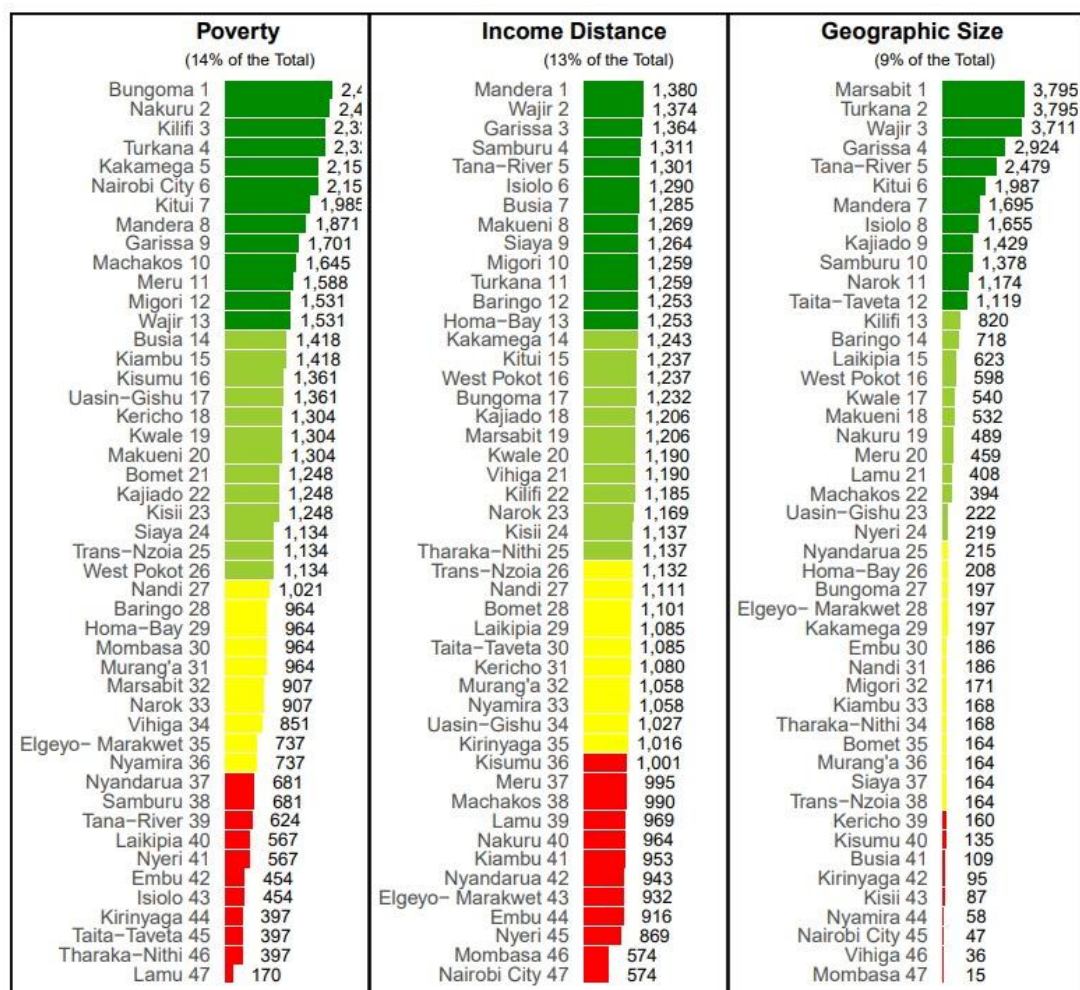
Distribution of Counties by the margins of the Allocations Gains and Losses in the Fourth Basis Revenue Allocation formula



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

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





References

- World Bank (2019). *Kenya Devolution and Governance*.
- Kenya National Bureau of Statistics (2021). *Kenya County Data*.
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- ASALs Policy (2020). *Development Strategies for Arid and Semi-Arid Lands in Kenya*.
- Public Finance Management Act (2012). *National Treasury of Kenya*.