REVENUE SHARING IN KENYA

DEVELOPMENT, EQUITY AND ACCOUNTABILITY IN DEVOLVED GOVERNANCE

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PREFACE

The adoption of devolution through the Constitution of Kenya, 2010 fundamentally transformed Kenya's governance and public finance systems by establishing forty-seven county governments alongside the National Government. This reform sought to promote equitable development, strengthen democratic governance, enhance citizen participation, reduce regional disparities, and bring public services closer to the people.

More than a decade later, revenue sharing remains at the heart of Kenya's devolution agenda. As the financial foundation of devolved governance, it determines how nationally raised revenue is allocated between the National Government and County Governments, and how resources are distributed among the forty-seven counties to support service delivery, local development, and national cohesion.

This book examines the evolution of Kenya's revenue-sharing framework from 2013 to 2026. It explores the constitutional and legal foundations of fiscal decentralization, the development of both vertical and horizontal revenue-sharing arrangements, county revenue sources, conditional grants, the Equalization Fund, and the major policy debates shaping intergovernmental fiscal relations. The book also draws lessons from selected international experiences in fiscal decentralization and highlights emerging issues that are likely to influence future reforms.

Written from both a policy and practical perspective, this publication is intended for policymakers, legislators, public finance practitioners, county government officials, researchers, students, development partners, and all those interested in understanding Kenya's intergovernmental fiscal system.

It is my hope that this book will contribute to informed policy discussions and support efforts aimed at enhancing equity, accountability, fiscal sustainability, and effective service delivery. Ultimately, revenue sharing is not merely about allocating resources; it is about promoting inclusive development, reducing disparities, strengthening national cohesion, and improving the lives of all Kenyans.

Dr. David H. Shikumo

ABOUT THE AUTHOR

Dr. David H. Shikumo is a seasoned public finance expert, researcher, lecturer, and policy analyst with extensive experience in fiscal decentralization, public financial management, revenue mobilization, fiscal policy, and intergovernmental fiscal relations. He currently serves as an Interim Manager, County Affairs at the Commission on Revenue Allocation (CRA), where he plays a key role in shaping fiscal policy, strengthening county revenue systems, and promoting sustainable public finance practices.

Dr. Shikumo holds a Doctor of Philosophy (PhD) in Finance from Jomo Kenyatta University of Agriculture and Technology (JKUAT), a Master of Science (MSc) in Finance from the University of Nairobi, and a Bachelor of Commerce (First Class Honours) in Banking and Finance from Egerton University. He is a Certified Public Accountant of Kenya (CPA-K) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

In academia, Dr. Shikumo has served as a Part-Time Lecturer at Jomo Kenyatta University of Agriculture and Technology and Kisii University, where he taught courses in finance, accounting, and economics. He is an accomplished researcher and published scholar, having authored numerous peer-reviewed journal articles and conference papers on public finance, financial management and economic development. He also serves as a peer reviewer for the Journal of Finance and Accounting - Science Publishing Group, USA.

Dr. Shikumo has contributed to national policy reforms and fiscal governance initiatives aimed at strengthening county fiscal capacity, enhancing own-source revenue mobilization, improving intergovernmental fiscal relations, and promoting equitable and sustainable development across Kenya.

Through this book, he seeks to contribute to the growing body of knowledge on Kenya's fiscal devolution and support evidence-based policymaking that advances equity, accountability, and sustainable development.

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TABLE OF CONTENTS

LIST OF FIGURES

ABBREVIATIONS AND ACRONYMS

ASALs	Arid and Semi-Arid Lands
BPS	Budget Policy Statement
BROP	Budget Review and Outlook Paper
CARA	County Allocation of Revenue Act
CARB	County Allocation of Revenue Bill
CoB	Controller of Budget
CoG	Council of Governors
CRA	Commission on Revenue Allocation
DoRA	Division of Revenue Act
DoRB	Division of Revenue Bill
FY	Financial Year
GCP	Gross County Product
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IBEC	Intergovernmental Budget and Economic Council
IMF	International Monetary Fund
KRA	Kenya Revenue Authority
KSh	Kenya Shilling
MTRF	Medium-Term Revenue Framework
OSR	Own Source Revenue
PFMA	Public Finance Management Act
RAI	Rural Access Index
SBPs	Single Business Permits
UHC	Universal Health Coverage
USAID	United States Agency for International Development
Vision 2030	Kenya Vision 2030 Development Blueprint
WB	World Bank

CHAPTER ONE: KENYA'S INTERGOVERNMENTAL FISCAL STRUCTURE

1.1 Introduction

The promulgation of the Constitution of Kenya, 2010 fundamentally transformed the country’s governance and public finance architecture by introducing a devolved system of government. Prior to devolution, Kenya operated under a highly centralized governance structure in which most policy decisions, public resources, and service delivery functions were controlled by the central government. While this system facilitated centralized planning and administration, it was often criticized for contributing to regional inequalities, uneven development, limited citizen participation, and inadequate responsiveness to local needs.

The Constitution sought to address these challenges by establishing a two-tier system of government comprising the National Government and forty-seven County Governments. The objectives of devolution include promoting democratic and accountable governance, fostering national unity while recognizing diversity, enhancing equitable sharing of national and local resources, facilitating the decentralization of state organs and services, and bringing government closer to the people.

The introduction of county governments significantly altered Kenya’s fiscal framework by creating new centres of decision-making and service delivery. Counties were assigned substantial responsibilities in key sectors such as health, agriculture, county transport, trade development, water services, and urban planning. The effective performance of these functions requires adequate financial resources and a well-coordinated system of intergovernmental fiscal relations.

This chapter provides an overview of Kenya’s intergovernmental fiscal structure by examining the two levels of government, the principles of fiscal decentralization, the main sources of public revenue, the assignment of expenditure responsibilities, and the fiscal realities that necessitate intergovernmental transfers. The chapter lays the foundation for understanding the revenue-sharing framework that is discussed in subsequent chapters.

1.2 Kenya’s Two-Tier Government System

The Constitution establishes two distinct but interdependent levels of government: the National Government and County Governments. Although each level exercises powers and performs functions assigned by the Constitution, both are required to conduct their relations on the basis of consultation, cooperation, and mutual respect.

1.2.1 The National Government

The National Government is responsible for functions that are national in scope and require centralized coordination, uniform standards, or nationwide implementation. These functions are outlined in the Fourth Schedule of the Constitution and include national defence, foreign affairs, immigration, monetary policy, international trade, public debt management, and the formulation of national policies and standards.

The National Government also plays a central role in economic management and public finance. It is responsible for mobilizing the bulk of public revenue, formulating fiscal and economic policies, managing public debt, and coordinating national development priorities. Through institutions such as the National Treasury, Parliament, and other constitutional bodies, it oversees the allocation and management of public resources across the country.

Given the breadth of its constitutional responsibilities and its access to the most productive tax bases, the National Government remains the largest recipient and manager of public resources within Kenya's fiscal framework.

1.2.2 County Governments

County Governments constitute the second level of government and serve as the primary vehicles for implementing devolution. Each of the forty-seven counties has an elected Governor, a County Executive Committee responsible for administration, and a County Assembly responsible for legislation, representation, and oversight.

The Constitution assigns counties a range of functions that directly affect the daily lives of citizens. These include county health services, agriculture, county transport, trade development and regulation, pre-primary education, village polytechnics, local water services, urban planning, cultural activities, and other functions intended to promote local development and service delivery.

Because counties are responsible for many frontline public services, their effectiveness depends largely on the adequacy and predictability of financial resources available to them. The performance of county governments is therefore closely linked to the broader framework of fiscal decentralization and intergovernmental fiscal relations.

1.3 Fiscal Decentralization and Intergovernmental Fiscal Relations

Fiscal decentralization refers to the transfer of expenditure responsibilities, financial resources, and certain revenue-raising powers from the central government to subnational governments. It is a critical pillar of devolution because it provides county governments with the financial capacity necessary to perform the functions assigned to them under the Constitution.

The rationale for fiscal decentralization is based on the principle that public services can often be delivered more effectively when decisions are made closer to the people who consume those services. By empowering county governments with resources and decision-making authority, fiscal decentralization promotes responsiveness, accountability, efficiency, and citizen participation.

The implementation of fiscal decentralization requires a well-designed system of intergovernmental fiscal relations. Intergovernmental fiscal relations encompass the legal, institutional, and financial arrangements that govern how resources are raised, shared, transferred, and managed between different levels of government.

In Kenya, these relations are guided by the Constitution, the Public Finance Management Act, 2012, and other legislation governing public finance and intergovernmental relations. These frameworks seek to ensure that public resources are allocated fairly, managed prudently, and utilized efficiently in support of national development and service delivery objectives.

A central objective of intergovernmental fiscal relations is to balance national priorities with local development needs while promoting equity, accountability, fiscal sustainability, and national cohesion.

1.4 Revenue Sources of the Two Levels of Government

The successful operation of a devolved system of government requires both the National Government and County Governments to have access to adequate and sustainable financial resources. The Constitution of Kenya, 2010 assigns revenue-raising powers to both levels of government, although the National Government retains control over the most productive and broad-based tax instruments. This arrangement reflects international practice in fiscal decentralization, where major taxes are typically administered centrally while subnational governments are granted limited revenue-raising powers to support local service delivery.

1.4.1 Revenue Sources of the National Government

The National Government derives the bulk of its revenue from nationally administered taxes and other public receipts. These revenues form the primary source of financing for national functions and constitute the foundation upon which intergovernmental transfers to county governments are funded.

The largest source of national revenue is income tax, which includes both personal income tax and corporate income tax. This is complemented by Value Added Tax (VAT), a consumption tax levied on most goods and services, and excise duty, which is imposed on selected products such as fuel, alcohol, tobacco, and other specified goods and services. The National Government also collects customs and imports duties on goods entering the country, thereby generating revenue while supporting trade regulation and economic policy objectives.

In addition to tax revenues, the National Government receives appropriations-in-aid generated by Ministries, Departments, and Agencies through fees, charges, and service-related collections. It also receives grants from development partners and may borrow domestically or externally in accordance with constitutional and legal provisions governing public debt.

Collectively, these revenue sources account for the largest share of public resources in Kenya. They finance national government operations, support the implementation of national development programmes, service public debt obligations, and provide the resources that are subsequently shared with county governments through the intergovernmental fiscal framework.

1.4.2 Revenue Sources of County Governments

County Governments derive their revenues from a combination of locally generated sources and transfers received from the National Government. The Constitution grants counties limited but important revenue-raising powers intended to enhance local fiscal autonomy and accountability.

Article 209 of the Constitution empowers county governments to impose property rates, entertainment taxes, and charges for services they provide. Pursuant to this constitutional mandate, counties generate own-source revenue from a variety of taxes, fees, permits, licenses, and user charges. Major sources of county-generated revenue include property rates, single business permits, parking fees, market charges, building permits, advertisement fees, cess collections, land rents, and various service-related fees.

These locally generated revenues play an important role in strengthening county fiscal autonomy because they provide counties with a degree of flexibility in determining local spending priorities. They also enhance accountability by creating a direct link between taxpayers and service delivery at the local level.

Despite these powers, the capacity of counties to generate revenue varies considerably. Counties with large urban centres, vibrant commercial activities, and strong administrative systems generally collect substantially more revenue than predominantly rural or less developed counties. Consequently, own-source revenue contributes only a modest proportion of total county financing in most counties.

As a result, county governments remain heavily dependent on transfers from the National Government, particularly the equitable share of nationally raised revenue, conditional grants, and other forms of intergovernmental transfers. These transfers provide the bulk of the resources required to finance county operations, service delivery, and development programmes.

1.5 Functional Assignment of Government Responsibilities

A fundamental principle of fiscal decentralization is that expenditure responsibilities should be clearly assigned between levels of government. The Constitution of Kenya achieves this through the Fourth Schedule, which allocates functions between the National Government and County Governments. This assignment of responsibilities forms the basis upon which financial resources are allocated and shared within the intergovernmental fiscal system.

The allocation of functions seeks to ensure that services are delivered by the level of government best positioned to do so efficiently and effectively. Functions that require national coordination, uniform standards, or centralized management are assigned to the National Government, while functions that directly affect local communities and require proximity to citizens are assigned to County Governments.

1.5.1 Functions of the National Government

The National Government is responsible for functions that are national in scope and require centralized coordination. These include national defence and security, foreign affairs and international relations, immigration and citizenship, monetary policy and currency management, national economic policy, public debt management, and the regulation of national standards.

The National Government is also responsible for major national infrastructure and transport systems, including projects whose benefits extend beyond individual counties. In addition, it provides policy direction, regulatory oversight, and coordination across sectors to ensure consistency in national development and governance.

These responsibilities require substantial financial resources and often involve long-term planning, large-scale investments, and nationwide implementation. Consequently, the National Government retains access to the most productive revenue sources within the country.

1.5.2 Functions of County Governments

County Governments are responsible for functions that directly affect the daily lives and welfare of citizens at the local level. These functions include county health services, agriculture and livestock development, county transport, trade development and regulation, pre-primary education, village polytechnics, water and sanitation services, urban planning and development, cultural activities, and the management of public amenities.

Through these functions, county governments serve as the primary institutions responsible for frontline service delivery and local development. Their responsibilities place them at the centre of efforts to improve healthcare access, promote agricultural productivity, enhance local infrastructure, support economic development, and improve the overall quality of life for residents.

Because many of these functions require continuous service delivery and substantial development investments, counties require adequate, predictable, and sustainable financing. The effectiveness of devolution therefore depends not only on the assignment of functions but also on the availability of sufficient financial resources to enable counties to discharge their constitutional mandates effectively.

1.6 Vertical Fiscal Imbalance in a Devolved System

Although expenditure responsibilities are shared between the National Government and County Governments, revenue-raising powers remain concentrated at the national level. The

National Government controls the most productive tax bases, while County Governments rely largely on less buoyant local revenue sources.

This creates a vertical fiscal imbalance, a situation in which the expenditure responsibilities of subnational governments exceed their own revenue-raising capacity. Such imbalances are common in decentralized systems around the world and reflect the practical reality that national governments are generally better positioned to administer major taxes efficiently.

In Kenya, counties are responsible for delivering several critical public services but have limited capacity to generate sufficient revenues independently. Consequently, they require financial support from nationally raised revenue to perform their constitutional functions effectively.

The existence of this imbalance underscores the importance of a structured system of intergovernmental transfers and cooperative fiscal relations between the two levels of government.

1.7 What is Revenue Sharing?

Revenue sharing refers to the allocation of nationally raised public resources among different levels of government in accordance with constitutional and legal frameworks. In Kenya, revenue sharing is a constitutionally anchored process that governs the distribution of nationally collected revenue between the National Government and County Governments (vertical revenue sharing) and the allocation of county resources among the forty-seven County Governments (horizontal revenue sharing).

It is a fundamental component of Kenya's public finance system and a key mechanism for financing devolution. Through revenue sharing, resources collected nationally are redistributed to support the performance of constitutional functions at both levels of government.

Revenue sharing is guided by principles of equity, inclusivity, transparency, accountability, and national cohesion. It seeks to ensure that all parts of the country, regardless of their revenue-generating capacity, have access to adequate resources for service delivery and development. By providing a rules-based framework for allocating public resources, revenue sharing promotes fairness, reduces the risk of arbitrary allocations, and strengthens public confidence in government institutions.

The Constitution establishes revenue sharing as one of the principal instruments for promoting balanced development, reducing regional disparities, and supporting effective governance within Kenya's devolved system.

1.8 Why Revenue Sharing Matters

The effectiveness of Kenya's devolved system depends not only on the assignment of functions between the National Government and County Governments but also on the availability of adequate financial resources to support those functions. County Governments require predictable financing to deliver healthcare, agriculture, water services, county transport, urban services, and other devolved responsibilities. Similarly, the National Government requires sufficient resources to finance national functions, public debt obligations, national security, and strategic investments.

The importance of revenue sharing arises from the fact that the most productive revenue sources remain concentrated at the national level, while significant service delivery responsibilities have been assigned to county governments. Without a mechanism for redistributing nationally raised resources, counties would be unable to effectively discharge many of their constitutional mandates.

Revenue sharing therefore plays a critical role in ensuring that both levels of government have adequate resources to perform their functions. It supports service delivery, promotes equitable development, reduces regional disparities, strengthens national cohesion, and enhances the effectiveness of devolution.

In addition, revenue sharing contributes to fiscal stability by providing counties with predictable funding that facilitates planning, budgeting, and implementation of development programmes. It also reinforces accountability by linking public resources to constitutional responsibilities and subjecting their use to established oversight mechanisms.

Ultimately, revenue sharing is one of the most important pillars of Kenya's intergovernmental fiscal framework, serving as the financial foundation upon which the country's devolved system of governance operates.

CHAPTER TWO: FOUNDATIONS OF REVENUE SHARING IN KENYA

2.1 Constitutional Foundation

At the heart of Kenya's constitutional framework for revenue sharing are Articles 201, 202, and 203. These articles collectively form the legal foundation for the country's public finance system, outlining the principles, structure, and criteria for the equitable distribution of resources. Their inclusion in the Constitution is critical as it ensures that public financial management is not only legally mandated but also underpinned by values of fairness, transparency, and accountability. The provisions laid out in these articles guide the allocation of public resources, setting the stage for inclusive economic growth and responsible governance.

2.1.1 Article 201: Principles of Public Finance

Article 201 of the Constitution of Kenya establishes the guiding principles for managing public finances. It envisions a financial system that upholds the values of openness, accountability, and public participation in the management of resources. This article emphasizes the responsible and prudent use of public funds, with the primary goal of fostering a society that is fair and equitable for all citizens.

One of the fundamental aspects of Article 201 is the principle of openness. Public financial management must be transparent, ensuring that the allocation, expenditure, and auditing of public funds are visible to the public. This is not a mere administrative aspiration but a legal obligation, requiring all government entities to disclose relevant financial information. The transparency mandated by this article allows citizens to track how public funds are being spent, hold officials accountable for their actions, and participate meaningfully in governance processes.

The article also highlights the importance of accountability in financial management. Accountability goes beyond ensuring that public funds are used efficiently; it involves ensuring that those in charge of financial decisions are held responsible for their actions. By holding public officials accountable, Kenya's public finance system ensures that taxpayers' money is used in ways that reflect the public's best interests, rather than for personal or political gain.

Furthermore, public participation is a key element emphasized by Article 201. The inclusion of this principle underscores the need for the people of Kenya to be involved in decisions concerning the management of public finances. Public participation is not limited to passive observation but calls for active engagement in budget preparation, financial oversight, and policy discussions. By incorporating the voices of the citizens, particularly those from marginalized and vulnerable groups, the Constitution seeks to ensure that the benefits of public expenditure are distributed equitably and that no group is left behind.

Finally, the article stipulates that the use of public resources must be aimed at creating a fair and equitable society. This principle ties public finance management directly to the broader goals of social justice and economic equity. It implies that fiscal decisions should be made with a keen awareness of their social impact, ensuring that economic disparities are reduced and that public spending contributes to the welfare of all citizens, particularly the disadvantaged.

2.1.2 Article 202: Sharing of Revenue Raised Nationally

Article 202 of the Constitution of Kenya provides a foundational pillar for the country's system of intergovernmental fiscal relations. It sets out the framework for the equitable sharing of revenue that is raised at the national level, ensuring that both the National Government and the County Governments receive a fair allocation of these resources. This constitutional provision reflects the broader spirit of devolution by recognizing that effective governance and service delivery depend on providing all levels of government with sufficient financial capacity.

The article emphasizes that the distribution of nationally collected revenue must be equitable. However, equitable does not mean equal. Rather, it takes into account various factors such as population size, geographic characteristics, poverty levels, fiscal capacity, and development needs. These considerations help to address long-standing disparities and ensure that all counties, regardless of their economic base, can provide essential public services to their citizens.

In addition to the equitable share guaranteed to county governments, Article 202 also provides for the national government to make additional allocations to counties from its own share of revenue. These supplementary transfers fall into two main categories: conditional and unconditional allocations. Conditional allocations are funds that are provided for specific purposes, such as implementing national development priorities or supporting particular sectors like health, infrastructure, or education. These allocations come with specific guidelines and performance expectations to ensure that they are used for their intended objectives.

On the other hand, unconditional allocations are not tied to any specific use. They are designed to give county governments the freedom to identify and implement their own priorities based on the unique needs and preferences of their local populations. This flexibility enhances local autonomy and allows counties to make decisions that are more responsive and relevant to their contexts.

Crucially, Article 202 underscores the importance of ensuring that counties have access to adequate and predictable financial resources. County governments are tasked with providing a wide range of devolved services, including healthcare, early childhood education, agricultural support, and water supply. For them to perform these functions effectively, their financing must not only be sufficient but also stable and reliable over time. Financial uncertainty undermines planning and service delivery, while predictability allows for long-term investments and efficient budget execution.

Moreover, the provision strengthens the principle of cooperative governance by fostering collaboration between the two levels of government. By establishing a clear and structured framework for revenue sharing and by allowing additional resource transfers, the article promotes national cohesion and equitable development across the country. It also helps to mitigate the risk of fiscal marginalization, especially in historically underfunded regions.

In essence, Article 202 is more than just a technical guideline for budgetary allocations. It is a constitutional guarantee that ensures fairness, promotes local empowerment, and supports the realization of the developmental aspirations of all Kenyan citizens. Through this article, the Constitution affirms that the success of devolution depends not only on the transfer of functions but also on the transfer of adequate resources to make those functions meaningful and effective.

2.1.3 Article 203: Criteria for Equitable Revenue Sharing

Article 203 of the Constitution of Kenya provides a detailed and structured framework for the equitable sharing of revenue between the national government and county governments. While Article 202 establishes the obligation to share revenue equitably, Article 203 goes a step further by outlining the specific criteria that must guide this process. It ensures that revenue allocation is not arbitrary or subject to political interests but instead anchored in principles that promote fairness, national cohesion, and inclusive development.

At the core of Article 203 is the recognition that Kenya is a country of great diversity, with counties differing in their economic capacities, geographic features, development levels, and demographic characteristics. Therefore, the process of allocating national revenue must take into account these variations in order to achieve true equity. The Constitution requires that the allocation formula be guided by a range of factors that reflect both national priorities and the differing needs, circumstances, and levels of development of counties, while promoting equitable sharing of nationally raised revenue.

One of the primary considerations is the national interest. This includes ensuring that the country's overall well-being, sovereignty, and cohesion are maintained. National security, macroeconomic stability, and the sustainability of the economy are fundamental to the country's development and must be safeguarded in the allocation of resources.

Another key factor is the obligation to meet the costs of servicing public debt and other national commitments. Before revenue is shared with counties, the Constitution acknowledges the necessity of honoring existing financial obligations. These include both domestic and international debts, as well as other legally binding responsibilities such as pensions and contractual agreements.

The expenditure requirements of the national government are also a critical consideration. While counties are responsible for devolved functions, the national government retains responsibility for major national functions such as defense, foreign affairs, and national infrastructure. The allocation process must therefore ensure that the national government is adequately funded to perform these functions effectively.

On the side of counties, the Constitution mandates that consideration be given to each county's fiscal capacity and efficiency. Fiscal capacity refers to a county's ability to generate its own revenue, while efficiency relates to how well it uses the resources available to it. Counties with low fiscal capacity may require greater support to deliver basic services, while incentives for efficient resource use encourage good governance and accountability.

Equally important are the development needs of individual counties. These needs vary widely, with some counties requiring significant investments to catch up with others due to historical underdevelopment. The Constitution therefore calls for allocations to reflect these needs so that all parts of the country can progress equitably.

Article 203 also acknowledges the existence of entrenched economic disparities across counties. It affirms the need to address these imbalances by prioritizing counties that have been marginalized or disadvantaged in the past. This is reinforced by the provision for affirmative action, which ensures that targeted interventions are made in areas that have suffered long-term neglect or exclusion from national development.

A further consideration is the need to ensure that every county has the resources necessary to perform the functions assigned to it by the Constitution. This is a fundamental aspect of devolution, as the transfer of responsibilities from the national to the county level must be accompanied by an equivalent transfer of financial resources. Without adequate funding, county governments would be unable to deliver on their mandates, undermining the objectives of decentralization and public service delivery.

By incorporating these diverse yet interrelated criteria, Article 203 ensures that the revenue-sharing process is both principled and pragmatic. It transforms what could be a politically contentious process into one that is guided by constitutional safeguards and grounded in measurable indicators. This not only promotes transparency and fairness but also protects against arbitrary or politically motivated allocations.

Article 203 affirms that equitable revenue sharing is a cornerstone of Kenya's constitutional order. It recognizes that equity is not achieved through uniformity, but through deliberate and informed decisions that consider both historical injustices and contemporary realities. Through this article, the Constitution provides a robust mechanism to ensure that public resources are allocated in a way that supports inclusive growth, social justice, and national unity.

2.2 Statutory and Policy Framework

The Constitution's provisions on revenue sharing and public finance are operationalized through key statutes that establish the legal and institutional mechanisms for budgeting, allocation, and financial management.

The Public Finance Management Act of 2012 provides the primary legal and institutional framework for managing public resources. It operationalizes the Constitution's fiscal provisions by setting out processes for budgeting, planning, disbursement, reporting, and auditing. The Act establishes the Division of Revenue Act and the County Allocation of Revenue Act as annual instruments for allocating resources between the national and county governments. It also sets out guidelines for cash flow management, ensuring that funds are disbursed to counties in a timely and predictable manner. Fiscal reporting, accountability, and oversight mechanisms safeguard public resources, while procedures for monitoring conditional grants, equitable share allocations, and other transfers promote transparency and compliance with the law.

The Intergovernmental Relations Act complements the Public Finance Management Act (PFMA) by providing a legal framework for cooperation and coordination between the national and county governments. The Act establishes structures such as the Intergovernmental Budget and Economic Council (IBEC) to harmonize fiscal policies, and it sets out guidelines for negotiation, consultation, and dispute resolution in revenue allocation. By promoting collaboration in planning, resource mobilization, and performance monitoring, the Act enhances the efficiency and effectiveness of intergovernmental fiscal relations.

The County Government Act defines the organization, responsibilities, and operational procedures of county governments. It requires counties to prepare budgets that align with approved allocations and mandates robust financial management, procurement, and reporting systems at the county level. The Act also establishes frameworks for internal oversight and auditing, ensuring that national transfers are used efficiently and that public funds are managed with accountability.

2.3 Key Institutions and Their Roles

i. The Commission on Revenue Allocation (CRA)

The Commission on Revenue Allocation (CRA) is a constitutional body established under Article 215 of the Constitution of Kenya. Its primary mandate is to advise the national government on the equitable sharing of national revenue between the national government and the 47 county governments. The CRA plays a crucial role in ensuring that the allocation of resources aligns with constitutional principles, promoting fairness, equity, and justice.

One of the CRA's key functions is to review and recommend the revenue allocation formula, which dictates how resources are distributed among counties. CRA also monitors and proposes adjustments to the formula to address emerging challenges or evolving needs.

Through its work, CRA contributes to fostering regional equity, helping to ensure that all counties, regardless of their economic status, receive sufficient resources to meet their service delivery obligations and promote balanced development across the country.

ii. The National Treasury

The National Treasury holds a central position in Kenya’s financial management system. Established under Article 225 of the Constitution, the Treasury is responsible for managing the collection, distribution, and expenditure of national resources. As a key player in Kenya’s public finance system, the Treasury ensures that national revenue is distributed according to the legal and constitutional framework established by the country’s financial governance principles.

The National Treasury works in close collaboration with the CRA to facilitate the timely and efficient allocation of resources to counties, ensuring that they receive their fair share of the national revenue. In this capacity, the Treasury not only collects taxes and other revenue but also ensures that these funds are distributed equitably to counties based on the revenue-sharing formula.

iii. The Senate

The Senate plays a unique and vital role in Kenya's decentralized governance framework. As outlined in Article 96 of the Constitution, the Senate represents the interests of counties and their governments. It ensures that the counties have a strong voice in the national legislature and that their concerns, particularly regarding resource allocation, are adequately addressed.

One of the Senate's most critical functions is to oversee the implementation of the revenue-sharing framework. It is tasked with approving the division of national revenue between the national and county governments, reviewing the formula for revenue allocation, and ensuring that it reflects the constitutional principles of equity and fairness. The Senate holds the national government accountable for the timely release of allocated funds to counties and ensures that the distribution is consistent with the needs of the counties, especially those that are marginalized or have lower fiscal capacities.

Additionally, the Senate plays an essential role in advocating for the needs of counties, ensuring that national policies and decisions do not disadvantage counties and that resource allocation meets the demands of local development priorities.

iv. The National Assembly

The National Assembly is responsible for approving the national budget, scrutinizing public financial management policies, and holding the national government accountable for its fiscal decisions. The National Assembly ensures that public funds are spent in ways that benefit all Kenyans, in accordance with the constitutional principle of responsibility. It plays a key role in debating and enacting legislation related to taxation, public borrowing, and financial management, ensuring that these policies align with national development goals and constitutional mandates.

CHAPTER THREE: VERTICAL REVENUE SHARING IN KENYA

3.1 Overview of Vertical Revenue Sharing

Vertical revenue sharing refers to the allocation of nationally raised revenue between the National Government and County Governments. It determines the share of national resources available to each level of government and therefore directly influences their capacity to discharge constitutional mandates and deliver public services.

The constitutional basis for vertical revenue sharing is found primarily in Articles 202, 203, 216, and 218 of the Constitution. Article 202 provides that county governments are entitled to an equitable share of nationally raised revenue sufficient to enable them to perform their functions. Article 203 outlines the criteria to be considered when determining the basis of revenue sharing, while Article 216 assigns the Commission on Revenue Allocation (CRA) the responsibility of making recommendations on the sharing of revenue between the two levels of government.

Vertical revenue sharing is significant for several reasons. First, it operationalizes fiscal devolution by ensuring that county governments receive financial resources necessary to perform devolved functions. Second, it promotes equitable development by enabling counties to finance public services and development programmes across the country. Third, it provides predictability and stability in public financing, allowing both levels of government to plan and budget effectively. Fourth, it helps maintain a balance between national priorities and local development needs by ensuring that resources are distributed in a manner consistent with constitutional principles.

Since the commencement of devolution in FY 2013/14, vertical revenue sharing has become one of the most important components of Kenya's intergovernmental fiscal relations framework. The annual determination of the revenue share between the National Government and County Governments remains a critical policy process that influences service delivery, development outcomes, fiscal sustainability, and the overall success of devolution. Vertical revenue sharing encompasses the following: -

3.1.1 Estimating National Revenue and Setting Expenditure Ceilings

The revenue allocation process begins with the estimation of national revenue, a critical step that underpins intergovernmental fiscal transfers. The National Treasury, working closely with the Kenya Revenue Authority and other revenue-collecting agencies, prepares revenue projections through the Medium-Term Revenue Framework (MTRF) as part of the broader budget formulation process. These projections are informed by macroeconomic indicators such as economic growth, inflation, exchange rates, and anticipated changes in tax policy.

National revenue comprises ordinary revenue collected through taxes and duties, appropriations-in-aid generated by ministries, departments, and agencies, and grants and loans where applicable. The resulting projections provide the basis for determining the overall fiscal envelope available for expenditure by both levels of government.

Following the preparation of revenue estimates, expenditure ceilings are established through key budget policy documents, including the Budget Review and Outlook Paper (BROP) and the Budget Policy Statement (BPS). These documents outline fiscal priorities, assess available resources, and guide the allocation of funds between the National Government and County Governments.

3.1.2 CRA's Recommendation and Public Consultations

The Commission on Revenue Allocation (CRA) plays a central role in Kenya's revenue-sharing system. Article 216 of the Constitution mandates the Commission to make recommendations concerning the basis for sharing revenue between the National Government and County Governments and among the forty-seven county governments.

In developing its recommendations, CRA considers the principles and criteria set out in Article 203 of the Constitution. These include national interests, public debt obligations, the needs of county governments, economic disparities, development requirements, fiscal capacity and efficiency, and the need to ensure stable and predictable allocations.

The Commission also takes into account national development priorities articulated in policy frameworks such as Kenya Vision 2030 and successive Medium-Term Plans. In addition, it assesses county expenditure needs, fiscal effort, demographic characteristics, poverty levels, and other indicators relevant to equitable resource distribution.

To enhance transparency, legitimacy, and inclusiveness, CRA undertakes extensive public consultations involving county governments, sector stakeholders, civil society organizations, professional bodies, research institutions, and members of the public. These engagements help ensure that revenue-sharing recommendations reflect both constitutional principles and practical development realities.

3.1.3 Division of Revenue and County Allocation of Revenue Bills

Following the recommendations of the Commission on Revenue Allocation (CRA), the National Treasury prepares the Division of Revenue Bill (DoRB), which sets out the share of nationally raised revenue between the national government and the county governments. The DoRB is then tabled in Parliament together with the County Allocation of Revenue Bill (CARB), which details how the counties' collective equitable share will be distributed among the 47 county governments in line with the approved revenue-sharing formula.

Key principles guiding these Bills include:

- Predictability and stability of allocations: Ensuring counties have reliable funding for effective planning and service delivery.
- Equity and responsiveness to county needs: Allocations take into account variations in population, poverty levels, and development needs.
- Adherence to constitutional thresholds on equitable sharing: Guaranteeing counties receive at least 15% of nationally raised revenue, as required under Article 203(2), alongside other constitutional principles of fairness and inclusivity.

CRA provides technical support throughout this process, ensuring that proposed allocations are consistent with constitutional principles and the approved revenue-sharing framework.

While the Division of Revenue Bill determines the vertical allocation of nationally raised revenue between the National Government and County Governments, the County Allocation of Revenue Bill operationalizes the distribution of the counties' equitable share among the forty-seven county governments. In this regard, the DoRB addresses vertical revenue sharing, whereas the CARB gives effect to horizontal revenue sharing. Consequently, the two legislative instruments are closely linked and together form the foundation of Kenya's intergovernmental fiscal transfer system.

3.1.4 Role of Parliament and the Presidency

Parliament plays a central role in the revenue allocation process. The National Assembly deliberates and passes the DoRB, while the Senate focuses on the CARB, given its constitutional mandate to protect and represent county interests.

While Parliament may adjust CRA's recommendations, any deviation must be tabled and justified. Public participation, often through legislative committees, ensures broad scrutiny and ownership of the process.

Once both Houses pass the Bills, they are forwarded to the President for assent. The Presidency ensures the Bills align with national priorities, legal thresholds, and the Constitution. Where there is a disagreement between the Houses, a mediation committee is established under Article 113 of the Constitution to resolve disputes.

3.1.5 Disbursement, Timing, and Accountability

Once the Division of Revenue Act (DoRA) and County Allocation of Revenue Act (CARA) are enacted, the National Treasury is mandated to disburse funds to county governments in accordance with the Cash Disbursement Schedule. This schedule is prepared by the National Treasury and submitted to Parliament for approval, as required under Section 17(7) of the Public Finance Management Act, 2012.

Timeliness is a fundamental principle of intergovernmental transfers. Article 219 of the Constitution requires that each county's equitable share be transferred without undue delay and without conditions. This provision ensures that counties can plan effectively and deliver services to their citizens. In practice, disbursements are typically made monthly or quarterly to provide counties with a steady flow of resources for recurrent and development expenditures.

Equity and compliance guide the conditions under which funds may be withheld. The National Treasury may suspend or reduce transfers only under circumstances permitted by Article 225 of the Constitution and the Public Finance Management Act. Such conditions include cases of financial mismanagement, breach of fiscal responsibility principles, or failure to comply with statutory financial obligations.

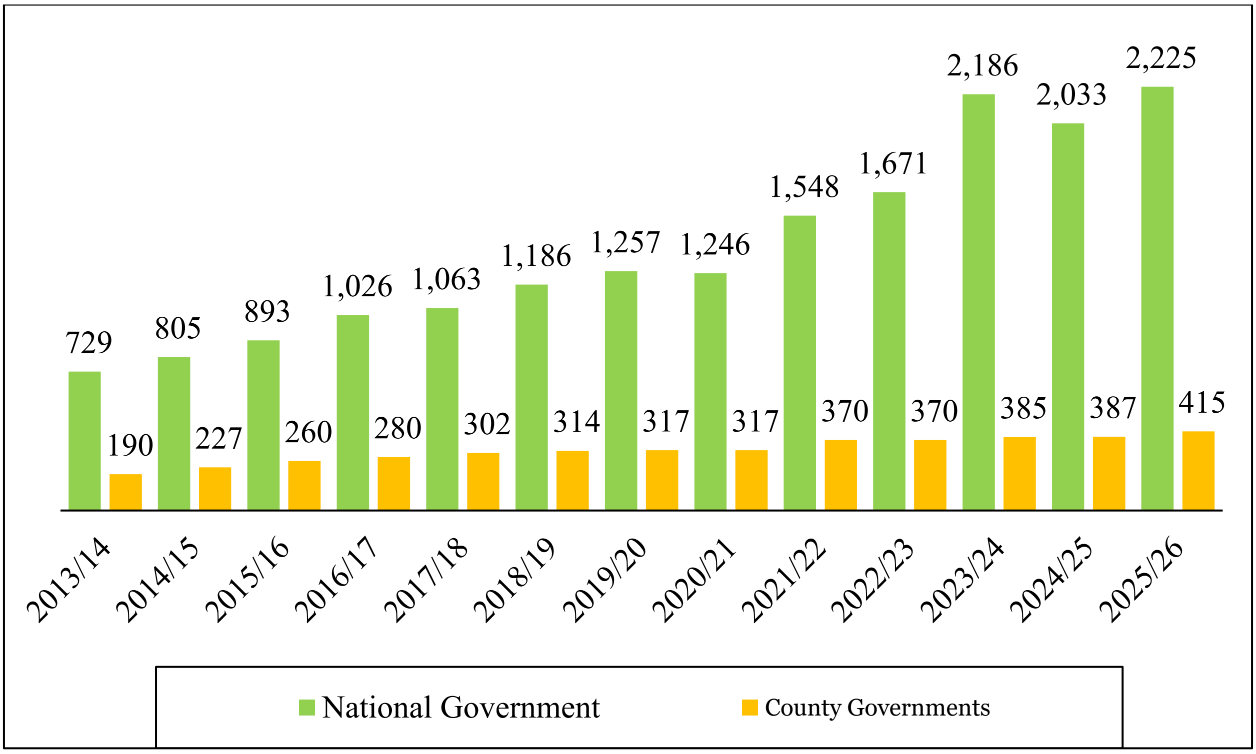
Accountability for allocated funds is enforced through multiple mechanisms. The Office of the Auditor-General conducts independent audits to assess the use of funds and adherence to financial management laws. The Controller of Budget authorizes withdrawals from the County Revenue Fund and monitors budget implementation, ensuring that disbursements align with approved budgets and legal requirements. At the county level, assemblies provide legislative oversight, while internal audit units monitor compliance with financial regulations, evaluate internal controls, and enhance accountability through regular reporting.

Timely and transparent disbursement of funds is vital for uninterrupted service delivery, macroeconomic stability, and the strengthening of intergovernmental trust. Proper accountability safeguards public resources and upholds the principles of devolved governance, promoting both efficiency and national cohesion.

3.2 Evolution and Trends in Vertical Revenue Sharing (2013–2026)

Since the inception of devolution in the financial year 2013/14, Kenya has witnessed substantial growth in allocations to both the National Government and County Governments. This growth reflects the expansion of government functions, rising expenditure demands, economic growth, and the increasing role of government in supporting development and service delivery.

Figure 1: Vertical Sharing of Revenue Between the National Government and County Governments



At the onset of devolution, the National Government was allocated KSh. 729 billion compared to KSh. 190 billion allocated to County Governments. By the 2025/26 financial year, these allocations had increased to KSh. 2.225 trillion and KSh. 415 billion, respectively. This growth demonstrates the government's commitment to strengthening public service delivery while simultaneously supporting the implementation of devolved functions across the country. However, the data also reveals that the National Government has consistently retained the larger share of public resources, reflecting its responsibility for national security, debt servicing, foreign affairs, major infrastructure projects, higher education, and other functions assigned under the Constitution.

The expansion of allocations over the thirteen-year period reflects both economic growth and increasing public expenditure requirements. The National Government crossed the KSh. 1 trillion mark in 2016/17, signaling a new phase in Kenya's fiscal development characterized by ambitious infrastructure investments and enhanced public sector spending. Subsequent years witnessed sustained budget growth, culminating in allocations exceeding KSh. 2 trillion from 2023/24 onwards. This period coincided with significant investments in transport infrastructure, energy generation and transmission, social protection programmes, universal health initiatives, and education reforms.

For County Governments, the increase from KSh. 190 billion to KSh. 415 billion represents an important milestone in the consolidation of devolution. The growth in county allocations has enabled local governments to expand healthcare services, improve rural road networks, enhance agricultural extension services, invest in water infrastructure, and strengthen local governance systems. Nevertheless, the rate of growth in county allocations has been slower than that of the National Government, resulting in an increasingly wider fiscal gap between the two levels of government. While counties received approximately 26 percent of the National Government allocation in 2013/14, this ratio had declined to less than 19 percent by 2025/26. This trend has continued to generate policy debates regarding the adequacy of resources available for the performance of devolved functions.

A notable feature of Kenya's fiscal evolution is the substantial increase in combined government spending. Total allocations to both levels of government increased from KSh. 919 billion in 2013/14 to approximately KSh. 2.64 trillion in 2025/26. The rapid expansion of public expenditure underscores the growing role of government in supporting economic development, improving social welfare, and responding to emerging national and local challenges. It also reflects the increasing complexity of public administration in a devolved system where both levels of government require adequate resources to fulfill their respective mandates.

3.3 Emerging Issues in Vertical Revenue Sharing

More than a decade after the implementation of devolution, Kenya's vertical revenue-sharing framework continues to face a number of emerging challenges. While the constitutional framework has provided a stable basis for sharing nationally raised revenue between the National Government and County Governments, changing fiscal realities and evolving service delivery demands have generated new concerns regarding the adequacy, sustainability, and effectiveness of the current arrangement.

3.3.1 Adequacy of County Funding

One of the most persistent issues in vertical revenue sharing is whether counties receive sufficient resources to effectively discharge their constitutional functions. Since the establishment of county governments in 2013, counties have consistently argued that the equitable share allocated to them is inadequate relative to their expenditure responsibilities. The expansion of devolved services, increasing population demands, rising operational costs, and inflationary pressures have intensified calls for a larger county share of nationally raised revenue.

Supporters of increased county funding contend that counties are responsible for critical sectors such as health, agriculture, county roads, water services, and local development, all of which require substantial financial resources. They argue that inadequate funding constrains service delivery and undermines the objectives of devolution.

3.3.2 Public Debt Obligations

The growing burden of public debt has emerged as a significant factor in vertical revenue-sharing discussions. The National Government is responsible for servicing Kenya's public debt, which consumes a substantial portion of annual revenues before resources are shared between the two levels of government.

A key concern is whether debt obligations should continue to be treated as a national government responsibility or whether counties should indirectly bear part of the burden through reduced allocations. County governments generally maintain that most public debt was contracted by the National Government and should not diminish resources intended for devolved functions. Conversely, national policymakers argue that debt servicing is a constitutional obligation that must be prioritized before allocating resources to both levels of government.

3.3.3 National Government Fiscal Pressures

The National Government faces increasing fiscal pressures arising from debt servicing, wage obligations, infrastructure investments, security expenditures, and economic shocks. These competing demands often influence negotiations over the division of revenue.

Periods of economic slowdown, revenue shortfalls, and fiscal consolidation measures have heightened tensions between the two levels of government. Counties frequently argue that fiscal pressures at the national level should not be used to limit constitutionally guaranteed allocations, while the National Government emphasizes the need to maintain overall fiscal sustainability.

3.3.4 Function-Resource Mismatch

Another emerging concern is the mismatch between devolved functions and the resources allocated to perform them. Counties have repeatedly argued that certain functions transferred from the National Government were not accompanied by adequate financial resources.

The mismatch is particularly evident in sectors such as health, urban management, water services, and agricultural extension. In some cases, counties are expected to deliver services whose costs have increased significantly since the original allocation framework was established. This has generated calls for periodic reviews to ensure that resource allocations remain aligned with evolving expenditure needs and constitutional responsibilities.

3.3.5 Conditional Grants versus Equitable Share

The growing use of conditional grants has sparked debate regarding the balance between national policy priorities and county autonomy. Conditional grants are designed to finance specific programmes or sectors and often come with expenditure requirements and reporting obligations.

Proponents argue that conditional grants promote accountability, support national development priorities, and ensure resources are directed toward critical sectors. Critics, however, contend that excessive reliance on conditional grants undermines county autonomy by limiting local discretion over resource allocation. They argue that increasing the equitable share would provide counties with greater flexibility to respond to local development needs and priorities.

3.3.6 Delayed Disbursements

Although counties are constitutionally entitled to a share of nationally raised revenue, delays in the disbursement of allocated funds remain a recurring challenge. Delayed transfers disrupt county budgeting, project implementation, procurement processes, and service delivery.

Many counties have experienced cash flow constraints resulting from late disbursements, leading to delays in salary payments, stalled development projects, accumulation of pending bills, and reduced effectiveness of public service provision. Despite improvements in intergovernmental coordination, timely and predictable disbursement remains a critical issue in Kenya's fiscal decentralization framework.

Overall, these emerging issues underscore the continuing evolution of Kenya's vertical revenue-sharing system and highlight the need for ongoing reforms to strengthen fiscal sustainability, enhance service delivery, and improve intergovernmental relations.

CHAPTER FOUR: HORIZONTAL REVENUE SHARING IN KENYA

4.1 Overview of Horizontal Revenue Sharing

The introduction of devolution under the Constitution of Kenya, 2010 necessitated the establishment of a framework for distributing nationally raised revenue among the forty-seven county governments. While vertical revenue sharing determines how revenue is allocated between the National Government and County Governments, horizontal revenue sharing focuses on how the counties' equitable share is distributed among individual counties.

Horizontal revenue sharing is a critical component of Kenya's intergovernmental fiscal system because counties differ significantly in terms of population size, geographical area, levels of poverty, infrastructure deficits, economic potential, and access to public services. These disparities make it impossible to distribute resources equally among all counties while still achieving the constitutional objectives of equity and balanced development. Consequently, a revenue-sharing formula is required to ensure that resources are distributed fairly and objectively based on the varying needs and circumstances of counties.

The primary objective of horizontal revenue sharing is to promote equitable development across the country by ensuring that all counties have adequate resources to perform their constitutional functions and provide basic services to their residents. Through the allocation formula, counties with greater expenditure needs, higher poverty levels, larger geographical areas, or significant service delivery challenges receive additional resources to address these disadvantages. In this way, horizontal revenue sharing serves as an important instrument for reducing regional inequalities and promoting national cohesion.

The concept of horizontal sharing is closely linked to the constitutional objectives of devolution outlined in Article 174 of the Constitution. These objectives include promoting democratic and accountable exercise of power, fostering national unity while recognizing diversity, giving powers of self-governance to the people, enhancing public participation, protecting the interests of marginalized communities, and promoting equitable social and economic development throughout the country.

Since the commencement of devolution in 2013, horizontal revenue sharing has evolved through several generations of revenue-sharing formulas developed by the Commission on Revenue Allocation (CRA) and approved by the Senate. These formulas have progressively incorporated various parameters aimed at balancing equity, efficiency, and service delivery needs. The evolution of the formula reflects continuous efforts to respond to emerging development challenges, changing demographic realities, and lessons learned from the implementation of devolution.

At the centre of horizontal revenue sharing lies the challenge of balancing competing interests. Counties with large populations often advocate for greater emphasis on population-based allocation, arguing that resources should follow people and service demand. Conversely, sparsely populated counties, particularly those in arid and semi-arid areas, emphasize factors such as land area, poverty, historical marginalization, and infrastructure deficits. The resulting allocation formula therefore represents a compromise between these competing perspectives while seeking to uphold constitutional principles of equity and fairness.

More than a decade after the introduction of devolution, horizontal revenue sharing remains one of the most significant and frequently debated aspects of Kenya's public finance system. The allocation formula directly influences county budgets, development outcomes, service delivery capacity, and the pace at which regional disparities are addressed. As such, it continues to play a central role in shaping the success and sustainability of Kenya's devolved system of governance.

4.2 Evolution of the Horizontal Revenue Sharing Formula (2013–2026)

4.2.1 The First Formula (2013–2017)

4.2.1.1 Overview of the First Formula

The introduction of the first revenue-sharing formula in 2013 marked a historic milestone in the operationalization of Kenya's devolved fiscal framework. Designed to give effect to the constitutional principles of equitable sharing of nationally raised revenue among the 47 county governments, this formula was the foundation for fiscal transfers during the formative years of devolution.

The Commission on Revenue Allocation (CRA), established under Article 215 of the Constitution of Kenya (2010), was tasked with developing this initial formula in line with Article 203. After extensive consultations, research, and technical analysis, CRA recommended a framework that guided the equitable distribution of the counties' equitable share for the financial years 2013/14 to 2016/17.

At its core, the first formula emphasized simplicity, equity, and predictability, recognizing that county governments were in the early stages of building institutional capacity and administrative systems. It sought to provide a stable fiscal environment that would enable counties to meet their recurrent expenditure needs while simultaneously initiating priority development programmes.

This formula not only facilitated the transition to devolved governance but also created a benchmark for subsequent revenue-sharing frameworks. By embedding fairness and transparency, it set the tone for the evolution of intergovernmental fiscal transfers in Kenya.

The formula was based on five key parameters, each reflecting a specific principle of equity or efficiency:

i. **Population (45%)**

Population served as a proxy for expenditure needs, reflecting the logic that the demand for public services, such as health, water, and education, rises with population size. This criterion significantly favored populous counties, including Nairobi, Nakuru, and Kiambu.

ii. Basic Equal Share (25%)

This allocation ensured that every county received a baseline amount to cover fixed administrative and operational costs. It served as a safeguard for smaller counties with low populations, enabling them to meet minimum governance and service delivery requirements.

iii. Poverty (20%)

Poverty was included to address historical marginalization and socio-economic disparities, channeling more resources to underdeveloped and disadvantaged counties such as Turkana, Mandera, and Wajir. The parameter aligned with the constitutional objective of reducing inequalities between regions.

iv. Land Area (8%)

Recognizing that service delivery costs are higher in expansive and sparsely populated regions, this parameter compensated counties with large geographical areas, such as Marsabit and Garissa, for the additional infrastructure and logistical challenges they face.

v. Fiscal Responsibility (2%)

Though modest, this component aimed to incentivize prudent financial management and encourage counties to enhance accountability, improve local revenue collection, and minimize wastage. However, its small weight rendered its influence largely symbolic.

While this formula facilitated a smooth transition to devolution, it attracted criticism for not fully capturing sectoral service needs and for heavily favoring population at the expense of infrastructure gaps in less-populated counties.

Figure 2: Total Equitable Share Allocation Under the First Formula (2013/14 –2016/17)

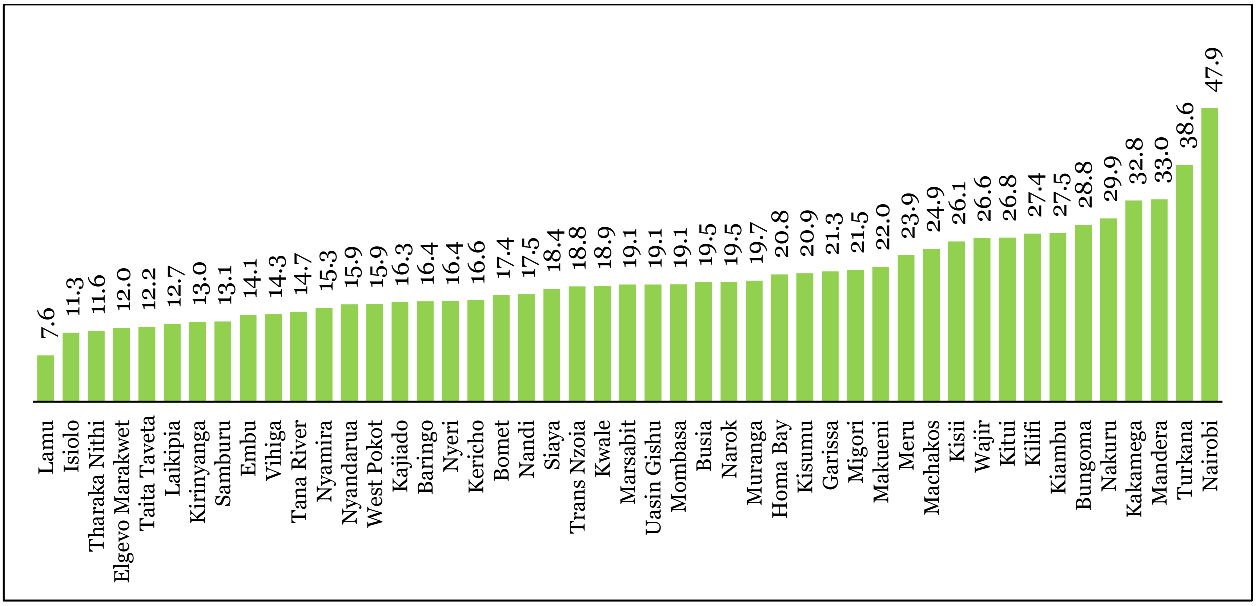


Figure 2 reveals substantial variation in the amount allocated to different counties, with allocations ranging from approximately KSh. 7.6 billion for Lamu County to KSh. 47.9 billion for Nairobi County. A notable feature of Figure 2 is the dominance of Nairobi County, which received by far the largest allocation. This outcome reflects the significant weight assigned to the population parameter (45%), given that Nairobi has the country's largest population and correspondingly high demand for public services.

Figure 2 further demonstrates the redistributive effect of the formula. Counties such as Turkana, Mandera, Wajir, Garissa, Marsabit, and Isiolo received allocations that were relatively high compared to their population sizes. This reflects the influence of the poverty (20%) and land area (8%) parameters, which were designed to address historical marginalization, widespread poverty, and the higher costs of service delivery in vast and sparsely populated regions.

At the lower end of the spectrum are counties such as Lamu, Isiolo, Tharaka Nithi, Elgeyo Marakwet, Taita Taveta, and Laikipia, each receiving between approximately KSh. 7.6 billion and KSh. 13 billion. Despite their lower allocations, these counties benefited from the basic equal share component (25%), which guaranteed every county a minimum level of funding to support governance and service delivery functions regardless of population size.

Figure 2 also shows that allocations are relatively clustered among many counties, particularly those receiving between KSh. 15 billion and KSh. 25 billion. This suggests that the equal share component moderated extreme disparities that would otherwise arise from population differences alone, thereby promoting a degree of fiscal equity across counties.

Overall, Figure 2 shows how the first revenue-sharing formula sought to balance competing objectives of equity, need, and administrative viability. While populous counties benefited substantially from the population criterion, poorer and geographically expansive counties also received significant allocations through the poverty and land area parameters. Consequently, the formula played a critical role in supporting the transition to devolution by ensuring that all counties had adequate resources to establish governance structures and deliver basic public services during the formative years of county government.

4.2.1.2 Critique of the First Formula (2013–2017)

The first revenue-sharing formula played a critical role in operationalizing devolution and establishing the foundation for county financing. Its greatest strength was its simplicity and predictability. By relying on a limited number of parameters, the formula was easy to understand and implement during the transition to a new system of government. The inclusion of the Basic Equal Share ensured that all counties received a minimum allocation necessary to establish administrative structures and begin delivering devolved services. Furthermore, the poverty and land area parameters promoted equity by directing additional resources to historically marginalized and geographically expansive counties.

Despite these strengths, the formula attracted criticism for its heavy reliance on population as the dominant allocation criterion. Critics argued that population alone did not adequately capture variations in service delivery costs, infrastructure deficits, or sector-specific expenditure needs. Consequently, some sparsely populated counties with significant development challenges felt disadvantaged. In addition, the Fiscal Responsibility parameter carried only a minimal weight, limiting its effectiveness as an incentive for prudent financial management and own-source revenue mobilization.

Overall, the first formula successfully facilitated the transition to devolution by providing a stable and transparent allocation framework. However, its limited consideration of service delivery functions and development disparities highlighted the need for a more sophisticated and responsive revenue-sharing mechanism.

4.2.2 Second-Generation Formula (2017–2021)

4.2.2.1 Overview of the Second Formula

The introduction of the second revenue-sharing formula marked an important refinement of Kenya’s intergovernmental fiscal transfer system. Building on the transitional framework of the first formula, it aimed to align fiscal transfers more closely with development needs, service delivery outcomes, and county performance.

This formula retained the central focus on population as the primary driver of allocations but introduced modest adjustments and new parameters to address infrastructure gaps, incentivize revenue mobilization, and balance equity with performance. It was a step toward a more nuanced and development-oriented revenue-sharing framework.

The second formula was based on six parameters, each reflecting a specific principle of equity, capacity building, or efficiency:

i. **Population (45%)**

Population remained the dominant parameter, reinforcing the principle that counties with larger populations require more resources to meet service delivery demands. This parameter continued to benefit counties such as Nairobi, Nakuru, and Kiambu, which are among the most populous in the country.

ii. **Basic Equal Share (26%)**

The weight of the Basic Equal Share was increased slightly from 25% to 26%, with the aim of strengthening the institutional and administrative capacity of counties. This adjustment provided a larger baseline allocation for smaller counties such as Lamu, Isiolo, and Tharaka Nithi.

iii. **Poverty (18%)**

The weight assigned to the poverty parameter was reduced from 20% to 18%. While poverty remained a critical factor for addressing historical marginalization, this reduction was intended to create space for new performance and development-related indicators without significantly diminishing support to disadvantaged counties such as Turkana, Mandera, and Wajir.

iv. **Land Area (8%)**

The land area parameter was maintained at 8%, recognizing that counties with large geographical expanses incur higher service delivery costs due to infrastructure requirements and logistical challenges. Counties like Marsabit, Garissa, and Kajiado continued to benefit from this allocation.

v. **Fiscal Effort (2%)**

Replacing the earlier Fiscal Responsibility component, the Fiscal Effort parameter aimed to encourage counties to enhance their own-source revenue collection and demonstrate prudent financial management. While this parameter was well-intentioned, its low weight of 2% limited its impact as a performance incentive.

vi. **Development Factor (1%)**

A new component, the Development Factor, was introduced to address infrastructure gaps by using indicators such as road network coverage, access to water, and electricity connectivity. It provided an additional boost to infrastructure-poor counties, particularly in arid and semi-arid regions.

Figure 3: Total Equitable Share Allocation Under the Second Formula (2017/18 – 2020/21)

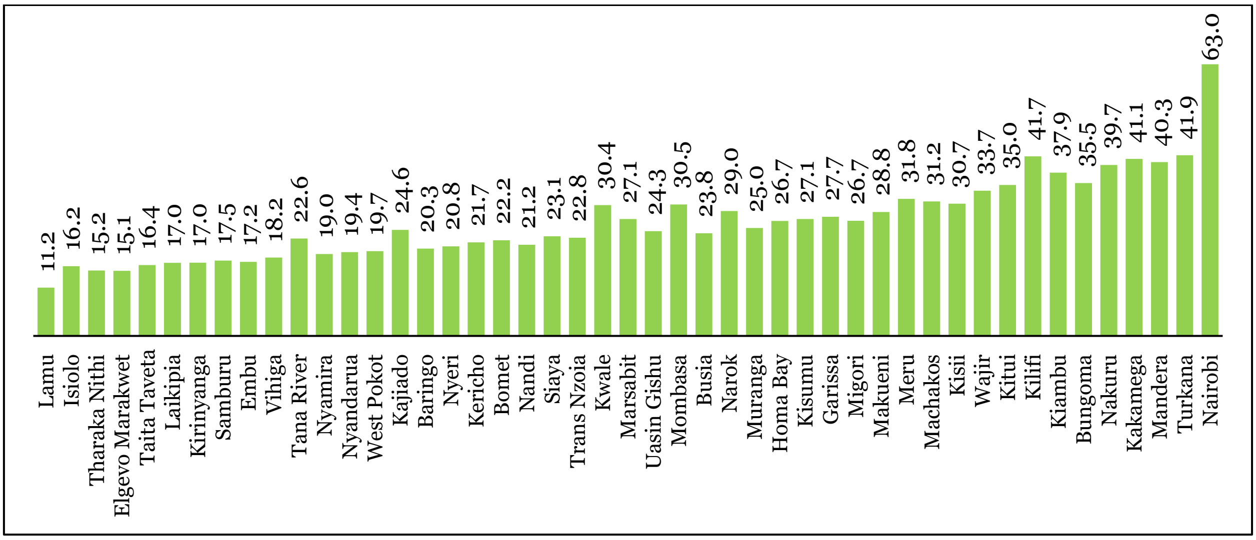


Figure 3 presents the distribution of county allocations under the Second-Generation Revenue Sharing Formula for the period 2017/18–2020/21. Figure 3 reveals an overall increase in allocations across all counties compared to the first formula, reflecting both the growth in the equitable share allocated to counties and adjustments introduced in the revised formula.

As in the first formula, Nairobi County remained the largest beneficiary**,** receiving approximately KSh. 63.0 billion**,** significantly higher than any other county. This reflects the continued dominance of the population parameter, which retained a weight of 45 per cent. Other counties receiving substantial allocations include Turkana (KSh. 41.9 billion), Kakamega (KSh. 41.1 billion), Kiambu (KSh. 37.9 billion), Kilifi (KSh. 41.7 billion), Nakuru (KSh. 39.7 billion), and Mandera (KSh. 40.3 billion)**.** These allocations demonstrate the combined effects of population size, poverty levels, and geographical characteristics.

Figure 3 also highlights the continued support for historically marginalized counties. Counties such as Turkana, Mandera, Wajir, Garissa, Marsabit, and Kilifi received relatively high allocations despite having smaller populations than some urban counties. This outcome reflects the influence of the poverty criterion, land area parameter, and the newly introduced development factor, which directed additional resources toward counties facing infrastructure deficits and development challenges.

At the lower end of the spectrum, counties such as Lamu (KSh. 11.2 billion), Isiolo (KSh. 16.2 billion), Tharaka Nithi (KSh. 15.1 billion), Elgeyo Marakwet (KSh. 15.5 billion), and Taita Taveta (KSh. 16.4 billion) continued to receive the smallest allocations. Nevertheless, the increase in the Basic Equal Share from 25 per cent to 26 per cent strengthened their fiscal position by guaranteeing a larger minimum allocation to support county administration and service delivery.

A notable feature of figure 3 is the upward shift in allocations for many counties compared to the first formula. For example, Nairobi's allocation increased from approximately KSh. 47.9 billion under the first formula to KSh. 63.0 billion under the second formula, while many other counties also recorded substantial increases. This indicates that the revised formula not only redistributed resources differently but also operated within a larger overall county revenue envelope.

The distribution pattern further suggests that the introduction of the Development Factor (1%) and Fiscal Effort (2%) parameters had only a modest impact on the ranking of counties. While these parameters introduced important policy objectives relating to infrastructure development and local revenue mobilization, their relatively small weights meant that population, poverty, and the basic equal share continued to be the primary determinants of county allocations.

Overall, figure 3 demonstrates that the second formula maintained the core equity objectives of the first formula while introducing a stronger developmental and performance-oriented dimension. The allocation outcomes indicate a deliberate effort to balance service delivery needs, regional equity, infrastructure development, and fiscal responsibility, thereby strengthening the effectiveness of Kenya's intergovernmental fiscal transfer system.

4.2.2.2 Critique of the Second Formula (2017–2021)

The second-generation formula represented an important improvement over the first formula by introducing additional considerations related to development and fiscal performance. The inclusion of the Development Factor signaled a growing recognition of infrastructure deficits and the need to support less developed counties. Similarly, the replacement of Fiscal Responsibility with Fiscal Effort reflected an attempt to encourage counties to strengthen own-source revenue mobilization and improve financial management practices. The increase in the Basic Equal Share also enhanced the financial capacity of smaller counties.

Nevertheless, the formula faced criticism for making only incremental changes to the allocation framework. Population remained the dominant determinant of allocations, meaning that the overall distribution pattern changed little from the first formula. The Development Factor and Fiscal Effort parameters, while conceptually important, were assigned relatively small weights and therefore had limited influence on final allocations. Some stakeholders argued that the formula did not go far enough in addressing infrastructure disparities and regional inequalities.

In summary, the second formula improved upon the original framework by incorporating developmental and performance-oriented considerations. However, its modest adjustments meant that many of the structural concerns associated with the first formula remained largely unresolved.

4.2.3 Third-Generation Formula (2022–2025)

4.2.3.1 Overview of the Third Formula

The third formula marked a significant shift by adopting a sectoral approach. Unlike the earlier formulas, which were more general, this framework linked transfers directly to devolved functions such as health, agriculture, roads, and urban services, while retaining foundational considerations like population and poverty.

The parameters and weights were as follows:

i. **Basic Equal Share (20%)**

This component continued to guarantee every county a foundational allocation to support administrative and governance functions. Smaller counties such as Lamu, Isiolo, and Samburu benefitted from this baseline protection.

ii. **Population (18%)**

Population remained a central factor, reflecting the principle that counties with larger populations bear higher service delivery demand. Counties such as Nairobi, Kiambu, and Nakuru continued to gain significantly under this parameter.

iii. **Health Index (17%)**

A new and critical component, the health index was based on service utilization data such as outpatient visits, inpatient days, and health facility coverage. It ensured counties with higher disease burdens and greater health service demand—such as Kisumu, Kakamega, and Mombasa—received proportionally more resources.

iv. **Poverty Headcount (14%)**

This parameter measured the proportion of people living below the poverty line, thereby channeling funds to historically marginalized and disadvantaged counties such as Turkana, Mandera, and Wajir. It reinforced the equity principle central to Kenya's devolution.

v. **Agriculture Index (10%)**

Acknowledging agriculture as the backbone of many county economies, this component allocated funds based on the size of rural populations engaged in farming. Agrarian counties like Meru, Bungoma, and Kirinyaga were major beneficiaries.

vi. **Land Area (8%)**

Land area continued to capture the higher costs of service provision in geographically expansive counties. Counties such as Marsabit, Kajiado, and Garissa counties benefited due to the logistical expenses associated with delivering services over vast territories.

vii. **Rural Access (8%)**

This parameter, based on the Rural Access Index (RAI), measured the proportion of the rural population living within 2 km of an all-weather road. It aimed to support counties facing infrastructural deficits, with benefits accruing to areas like West Pokot, Kitui, and Tana River.

viii. Urban Services (5%)

For the first time, explicit recognition was given to the unique service demands of urbanized counties. Counties with large towns and cities, such as Nairobi, Kisumu, and Mombasa, received additional support to address challenges of waste management, housing, water supply, and public transport.

The third formula was politically contentious, particularly due to perceptions that some counties would lose significant allocations while others gained. Following heated debates in the Senate, a phased implementation approach was adopted: for the first two years, 50% of the equitable share was distributed under the old (second) formula, while the remaining 50% used the new parameters. Full implementation took effect from 2022/23 onwards.

Figure 4: Total Equitable Share Allocation Under the Third Formula (2017/18 –2020/21)

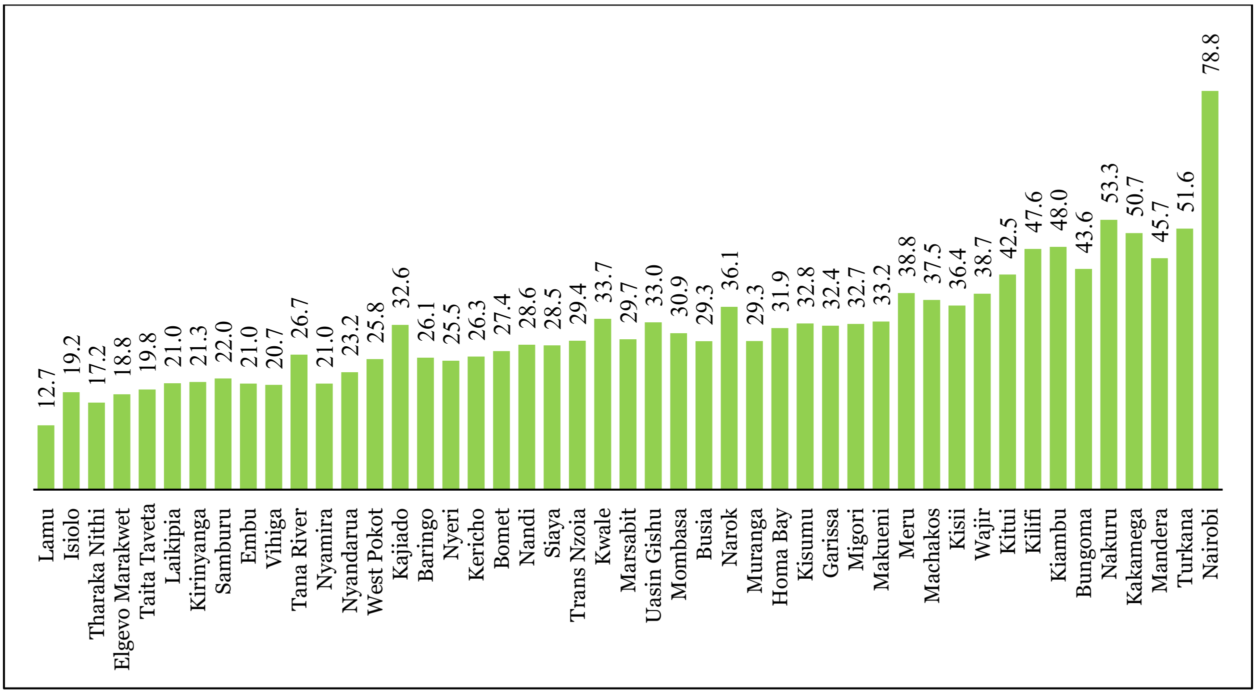


Figure 4 presents the distribution of county allocations under the Third-Generation Revenue Sharing Formula. Figure 4 reflects a notable shift from previous allocation frameworks by incorporating sector-specific indicators such as health, agriculture, rural access, and urban services in addition to traditional parameters such as population, poverty, and land area. As a result, the allocation pattern exhibits a more balanced consideration of service delivery responsibilities and development needs across counties.

As in the previous formulas, Nairobi County remained the largest beneficiary, receiving approximately KSh. 78.8 billion, significantly ahead of all other counties. Nairobi's position is attributable not only to its large population but also to the introduction of the urban services parameter, which explicitly recognizes the additional costs associated with managing major urban centres. Other counties receiving substantial allocations include Nakuru (KSh. 53.3 billion), Kakamega (KSh. 50.7 billion), Kiambu (KSh. 48.0 billion), Kilifi (KSh. 47.6 billion), Turkana (KSh. 51.6 billion), and Mandera (KSh. 45.7 billion).

Figure 4 further demonstrates the continued commitment to equity and regional balancing. Historically marginalized counties such as Turkana, Mandera, Wajir, Garissa, and Marsabit maintained relatively high allocations due to the influence of the poverty headcount and land area parameters. These counties also benefited from the rural access component, which sought to address infrastructure deficits and the higher costs of providing services in remote areas.

A notable feature of the third formula is the improved position of counties with significant agricultural activity and health service demands. Counties such as Meru, Bungoma, Kirinyaga, Kakamega, and Kisii benefited from the agriculture index, while counties with high health service utilization, including Kakamega, Kisumu, Mombasa, and Nairobi, gained from the health index allocation. This demonstrates the formula's deliberate effort to align resources with the actual expenditure needs associated with devolved functions.

At the lower end of the allocation spectrum, counties such as Lamu (KSh. 12.7 billion), Tharaka Nithi (KSh. 17.8 billion), Elgeyo Marakwet (KSh. 19.8 billion), Taita Taveta (KSh. 19.8 billion), and Isiolo (KSh. 19.2 billion) continued to receive comparatively smaller allocations. However, the Basic Equal Share component ensured that these counties retained sufficient funding to support governance structures and essential public services.

Compared to the second formula, figure 4 suggests that allocations became more closely linked to sectoral responsibilities and service delivery needs rather than being driven predominantly by population. While populous counties continued to receive substantial allocations, counties with significant health burdens, agricultural activity, urban centres, or infrastructure deficits also experienced notable gains. This indicates a shift toward a more function-based approach to intergovernmental fiscal transfers.

Figure 4 also illustrates the effects of the phased implementation adopted following the political debates surrounding the formula. Although concerns were raised that some counties would lose resources under the new framework, the gradual transition helped moderate abrupt changes and provided counties with time to adjust to the revised allocation structure.

Overall, figure 4 demonstrates that the third formula represented the most sophisticated and service-oriented revenue-sharing framework since the inception of devolution. By explicitly linking allocations to devolved functions, it sought to enhance the efficiency, responsiveness, and equity of county financing while continuing to uphold the constitutional objective of reducing regional disparities.

4.2.3.2 Critique of the Third Formula (2022–2025)

The third-generation formula is widely regarded as a significant milestone in the evolution of Kenya's revenue-sharing framework. Its major strength lay in its adoption of a sectoral approach, linking allocations more directly to devolved functions such as health, agriculture, urban services, and rural access. By incorporating service delivery indicators, the formula better aligned county resources with expenditure responsibilities and actual service needs. The inclusion of urban services and health indices was particularly important in recognizing the diverse functional demands facing counties.

However, the formula generated substantial political controversy. Counties that stood to lose resources under the new framework opposed its implementation, arguing that it would undermine their fiscal capacity and development prospects. The complexity of the formula also attracted criticism, as the introduction of multiple sectoral indices increased technical demands and made the allocation process less transparent to the general public. Furthermore, concerns were raised regarding the quality, availability, and consistency of data used to construct some of the sectoral indicators.

Overall, the third formula represented a major advancement in aligning resource allocation with county functions and service delivery needs. However, its complexity and redistributive effects generated political resistance, necessitating a phased implementation approach to ease the transition.

4.2.4 Fourth-Generation Formula (2025/26–2029/30)

4.2.4.1 Overview of the Fourth Formula

The fourth-generation revenue-sharing formula represents a critical juncture in Kenya's fiscal decentralization. Building on lessons from prior frameworks, this formula marks a shift toward using expenditure proxies rather than purely functional measures. It is designed to balance equitable service delivery with the promotion of development and economic resilience, especially in light of emerging challenges such as climate change and regional disparities.

At its core, the formula pivots on two overarching objectives:

i. Enhancing equitable service delivery through allocations that reflect population needs, administrative baseline costs, and logistical challenges.
ii. Addressing economic disparities and promoting development by targeting high-poverty areas and accounting for income gaps.

The formula comprises five parameters, each capturing a unique dimension of fiscal need or equity:

Objective	Parameter	Weight
Facilitate service delivery	Population	42%
	Basic Equal Share	22%
	Geographical Size	9%
Address disparities and promote development	Poverty	14%
	Income Distance	13%

i. **Population (42%):**

Continues to be the foundational parameter, reflecting per-capita service demands such as health, education, and water provision. It ensures that counties with higher populations receive proportionately more funding to meet the service delivery burden. Population data is drawn from the 2019 Kenya Population and Housing Census and remains central to equitable distribution.

ii. **Basic Equal Share (22%):**

Guarantees every county a minimum baseline allocation to cover essential administrative and governance costs, regardless of population or size. This provision safeguards smaller or sparsely populated counties by ensuring they retain adequate capacity to run devolved functions effectively.

iii. **Geographical Size (9%):**

Acknowledges the higher logistical and infrastructural costs of service delivery in counties with large land areas, such as transportation, health outreach, and administrative coverage. To prevent distortion, the parameter is capped so that extremely large counties do not disproportionately benefit at the expense of others.

iv. **Poverty (14%):**

Prioritizes counties with high poverty incidence, ensuring more resources are directed toward regions where residents face greater socio-economic challenges. By focusing on poverty reduction, the formula seeks to enhance equity and foster balanced regional development.

v. **Income Distance (13%):**

Captures disparities in economic capacity by measuring the gap in per-capita Gross County Product (GCP) between Nairobi (the wealthiest county) and all other counties. It serves as a proxy for economic potential and helps channel additional resources to counties with weaker economies, thereby promoting convergence and reducing inequality.

Figure 5: Equitable Share Allocation Under the Fourth Formula (2025/26)

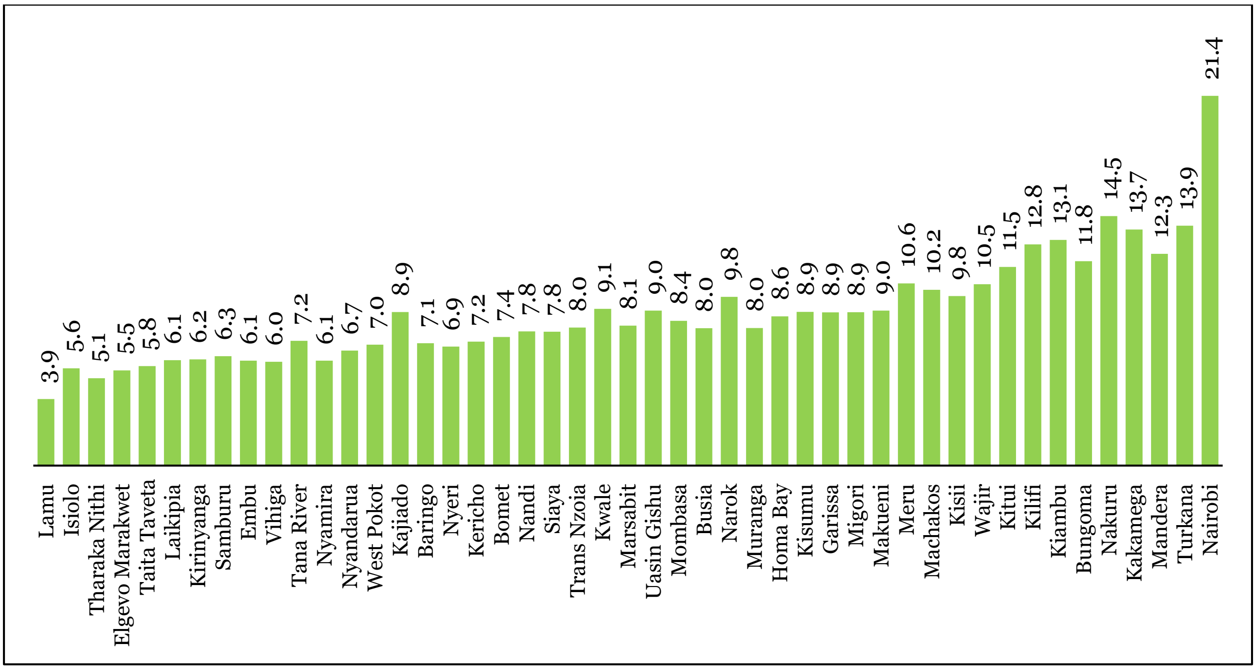


Figure 5 presents the distribution of county allocations under the Fourth-Generation Revenue Sharing Formula for the 2025/26 financial year. Figure 5 reflects a deliberate structural re-balancing from previous allocation frameworks by transitioning toward macro-expenditure proxies, combining foundational demographic factors with a heavy emphasis on economic convergence. By evaluating the visual spread of the 47 counties, the allocation pattern exhibits a highly institutionalized and stratified architecture, carefully calibrating the immense service strains of high-population urban zones against the severe logistical vulnerabilities of arid and semi-arid lands (ASAL).

As in all previous fiscal cycles under devolution, Nairobi County remains the largest beneficiary under the fourth formula, receiving an allocation of KSh. 21.4 billion, which places it significantly ahead of all other Counties. Nairobi's dominant position is structurally sustained by its large population baseline from the 2019 Census, alongside its position as the national economic hub. However, under this generation, its allocation advantage is partly moderated by the introduction of the Income Distance parameter (13%), which measures the per-capita Gross County Product (GCP) gap between Nairobi and the rest of the country, acting as a progressive mechanism to redistribute balancing capital outward. Following Nairobi, a high-allocation tier firmly establishes itself, led by Nakuru (KSh. 14.5 billion), Turkana (KSh. 13.9 billion), Kakamega (KSh. 13.7 billion), Kiambu (KSh. 13.1 billion), and Kilifi (KSh. 12.8 billion). For populous regions like Nakuru, Kakamega, and Kiambu, their substantial allocations are primarily driven by the dominant Population parameter (42%), which directly corresponds to heavy local healthcare and primary infrastructural utilization burdens.

Figure 5 further demonstrates the fourth formula's continued and robust commitment to horizontal equity and regional balancing. Geographically vast and historically marginalized frontier counties, most notably Turkana (KSh. 13.9 billion), Mandera (KSh. 12.3 billion), Wajir (KSh. 10.5 billion), and Marsabit (KSh. 8.1 billion) maintained relatively high allocations. This resilience is directly attributable to the combined interaction of the Geographical Size parameter (9%) and the Poverty parameter (14%). Even though the geographical parameter incorporates a strict cap to prevent outsized distortion by massive territories, it provides vital extra funding to cushion the high logistical and transportation costs of operating administrative and medical services across expansive terrain. Concurrently, high poverty headcount weights help redirect substantial equalizing capital to these ASAL regions to systematically target long-standing infrastructure deficits.

A notable feature of the middle-tier spectrum is the compact clustering of counties characterized by robust rural-urban blended economies and intense agricultural production. Counties such as Bungoma (KSh. 11.8 billion), Meru (KSh. 10.6 billion), Kisii (KSh. 9.8 billion), Narok (KSh. 9.8 billion), and Uasin Gishu (KSh. 9.0 billion) occupy a remarkably stable, escalating middle band. The positioning of these productive counties highlights how the fourth formula balances competing needs: while these regions may not possess the vast landmass of the frontier nor the sheer volume of Nairobi, their steady populations and intermediate poverty levels keep them securely anchored. Furthermore, the newly integrated Income Distance metric works to their advantage, recognizing their economic distance from Nairobi and channeling proxy resources to foster regional economic convergence.

At the lower end of the allocation spectrum, counties such as Lamu (KSh. 3.9 billion), Tharaka Nithi (KSh. 5.1 billion), Elgeyo Marakwet (KSh. 5.5 billion), Taita Taveta (KSh. 5.8 billion), and Isiolo (KSh. 5.6 billion) continue to receive comparatively smaller absolute allocations. This lower positioning is a natural structural outcome of their highly constrained geographical sizes or exceptionally low population baselines. However, figure 5 clearly demonstrates the vital fiscal floor provided by the Basic Equal Share parameter, which carries a powerful 22% weight in this generation. By guaranteeing a flat, minimum baseline allocation to every county regardless of size or demographic weight, this parameter provides a protective baseline. It ensures that lower-tier units like Lamu and Isiolo retain sufficient, protected revenues to run essential local governance structures, pay civil service wages, and sustain basic public services without severe fiscal strain.

Compared to the third formula, Figure 5 suggests that allocations have become more closely linked to structural equity and economic catching-up rather than being driven exclusively by specific sector-by-sector utilization variables. While highly populous counties continue to receive substantial capital to reflect their sheer volume of consumers, counties with deep poverty pockets and wider income gaps relative to the capital city have experienced noticeable stabilization. This indicates a definitive shift toward an objective-based approach to intergovernmental fiscal transfers, ensuring that resource allocation directly serves the dual constitutional mandates of shared national prosperity and localized service equity.

4.2.4.2 Critique of the Fourth Formula (2025/26)

The fourth-generation formula reflects a further maturation of Kenya's fiscal decentralization framework by seeking to balance service delivery needs with broader development objectives. One of its most innovative features is the introduction of the Income Distance parameter, which explicitly addresses disparities in economic capacity among counties. This approach recognizes that counties with weaker economic bases require additional support to promote inclusive development and reduce regional inequalities. The formula also maintains a strong emphasis on population, poverty, and geographical size, thereby preserving important principles of equity and fiscal need.

Despite these strengths, the formula has attracted criticism from some stakeholders who argue that the Income Distance parameter may be difficult to measure accurately and could introduce new sources of contention. Questions have also been raised regarding the reliability of Gross County Product estimates, which form the basis for calculating income disparities. Additionally, reducing the weight assigned to the Basic Equal Share compared to previous formulas may raise concerns among smaller counties that rely heavily on guaranteed baseline allocations. Critics further contend that expenditure proxies may not always capture actual service delivery costs as effectively as direct sectoral indicators.

In conclusion, the fourth formula represents an innovative attempt to integrate equity, economic development, and fiscal sustainability within a single allocation framework. While it introduces important mechanisms for addressing regional disparities, its success will depend largely on the quality of underlying economic data and the ability of stakeholders to build consensus around the new allocation criteria.

4.3 Controversies, Delays, and Political Negotiations

The revenue-sharing formula has frequently been at the center of intense political debate in Kenya. Changes to the formula inevitably create counties that stand to gain and others that stand to lose, making the process highly sensitive and politically charged. As a result, negotiations often become prolonged and contentious, with significant implications for county financing and service delivery.

One of the most notable controversies occurred in 2020, when prolonged debates in the Senate resulted in a stalemate that delayed county disbursements for several months. The impasse threatened essential services, including health, water, and payroll operations, and highlighted the vulnerability of counties to national-level disagreements.

A central tension in these debates revolves around the balance between equity and equality. Some leaders argue that population should carry more weight to ensure that resources follow people and service demand. Others contend that land area and historical marginalization should receive greater emphasis to ensure that sparsely populated and historically disadvantaged counties are not left behind. These divergent perspectives have fueled ongoing disagreements during each formula review cycle.

Political bargaining has also become an integral part of the process. Final formulas often emerge only after high-level negotiations involving the President, Senate leadership, the Commission on Revenue Allocation, and the Council of Governors. These behind-the-scenes compromises help break deadlocks but also reflect the political realities that shape intergovernmental fiscal relations.

Data reliability has been another source of tension. Counties have at times challenged the validity of population census results, poverty statistics, or other indicators used in the formula. Such disputes complicate decision-making and undermine confidence in the fairness of the adopted formulas.

Despite these recurring challenges, the revenue-sharing formula remains a foundational pillar of Kenya's devolution. Over time, successive refinements have contributed to a more equitable and accountable system, even as debates continue over the best approach to distributing national resources among counties.

4.4 Impact of Horizontal Revenue Sharing on County Development

Since the establishment of county governments in 2013, horizontal revenue sharing has played a pivotal role in shaping the trajectory of local development across Kenya. By providing counties with a constitutionally guaranteed share of nationally raised revenue, the revenue-sharing framework has enabled subnational governments to finance service delivery, invest in infrastructure, and address regional disparities that characterized the pre-devolution era.

One of the most significant impacts of horizontal revenue sharing has been the enhancement of equitable development. Counties that were historically marginalized, particularly those in arid and semi-arid regions such as Turkana, Mandera, Wajir, Marsabit, and Garissa, have received substantial fiscal resources through parameters such as poverty, land area, and equal share allocations. These transfers have facilitated investments in roads, health facilities, water infrastructure, and educational services, thereby improving access to essential public services and reducing regional inequalities.

Horizontal revenue sharing has also contributed to improved service delivery outcomes. County governments have expanded healthcare infrastructure, increased staffing in health facilities, improved access to clean water, and enhanced agricultural extension services. The introduction of sector-specific parameters under the third-generation formula further strengthened the alignment between resource allocation and service delivery responsibilities, particularly in sectors such as health, agriculture, and urban services.

In addition, revenue sharing has strengthened local governance and administrative capacity. The guaranteed flow of resources has enabled counties to establish governance structures, recruit personnel, develop institutional systems, and implement county development plans. This has deepened fiscal decentralization by empowering county governments to make decisions that reflect local priorities and development needs.

The revenue-sharing system has also stimulated local economic development. County-funded infrastructure projects have improved connectivity, facilitated trade, and attracted investment in many regions. Increased public expenditure at the county level has generated employment opportunities and stimulated economic activity through procurement, construction, and service delivery programs. In some counties, investments in agriculture, tourism, and local markets have contributed to enhanced economic growth and livelihoods.

Despite these achievements, the impact of horizontal revenue sharing has not been uniform across all counties. Variations in governance quality, institutional capacity, planning effectiveness, and financial management have influenced the extent to which counties have translated fiscal transfers into tangible development outcomes. While some counties have successfully leveraged allocations to improve socio-economic conditions, others continue to face challenges related to inefficiency, corruption, project delays, and weak absorptive capacity.

Furthermore, continued dependence on equitable share transfers has limited fiscal autonomy in many counties. Own-source revenue collection remains relatively low in most counties, raising concerns about long-term fiscal sustainability and resilience. Consequently, while horizontal revenue sharing has significantly contributed to county development, its effectiveness ultimately depends on the capacity of county governments to utilize resources efficiently and accountably.

Overall, horizontal revenue sharing has been instrumental in advancing the objectives of devolution by promoting equitable development, improving service delivery, strengthening local governance, and fostering economic growth. Nevertheless, sustaining these gains will require continued reforms aimed at enhancing county capacity, accountability, and revenue mobilization.

4.5 Emerging Issues and Future Directions

More than a decade after the introduction of devolution, Kenya's horizontal revenue-sharing system continues to evolve in response to emerging economic, social, and institutional challenges. While the successive revenue-sharing formulas have progressively refined the allocation framework, several issues remain critical to the future effectiveness and sustainability of intergovernmental fiscal relations.

One emerging issue is the growing demand for greater alignment between revenue allocation and expenditure needs. As counties mature and service delivery responsibilities become more complex, there is increasing pressure to develop allocation mechanisms that more accurately reflect actual costs of providing public services. This has prompted a shift from simple demographic indicators toward expenditure proxies and sector-specific measures, as evidenced by the third and fourth-generation formulas.

A second challenge concerns the quality, availability, and reliability of data used in formula design. Modern allocation frameworks increasingly rely on sophisticated indicators such as health utilization, rural access, agricultural activity, and Gross County Product estimates. Ensuring that such data are accurate, consistent, and regularly updated is essential for maintaining the credibility and fairness of the revenue-sharing process. Weak data systems can undermine confidence in formula outcomes and generate disputes among counties.

The issue of regional economic disparities remains another important concern. Despite significant fiscal transfers since 2013, substantial inequalities persist between counties in terms of income levels, infrastructure development, employment opportunities, and access to services. The introduction of the Income Distance parameter in the fourth-generation formula reflects a growing recognition that revenue sharing must not only facilitate service delivery but also promote economic convergence and balanced regional development.

Climate change and environmental vulnerabilities are also emerging considerations in fiscal decentralization. Counties increasingly face challenges associated with droughts, floods, resource degradation, and climate-induced displacement. These pressures create additional expenditure demands that are not always adequately captured by traditional allocation parameters. Future formulas may therefore need to incorporate climate resilience indicators or environmental vulnerability measures to ensure counties can effectively respond to emerging risks.

Another important issue relates to county fiscal sustainability. Most counties remain heavily dependent on transfers from the national government, with own-source revenue accounting for a relatively small proportion of total revenues. Strengthening county revenue mobilization, improving valuation systems, digitizing revenue collection, and expanding local economic bases will be essential for reducing fiscal dependence and enhancing financial autonomy.

Political contestation is likely to remain a recurring feature of revenue-sharing debates. Because allocation formulas directly affect the distribution of resources among counties, changes to formula parameters often generate competing interests and perceptions of winners and losers. Building broad stakeholder consensus, enhancing transparency, and strengthening evidence-based decision-making will therefore remain crucial for maintaining public confidence in the revenue-sharing process.

Looking ahead, future reforms are likely to focus on developing more objective, data-driven, and performance-oriented allocation frameworks. Greater emphasis may be placed on service delivery outcomes, economic development indicators, climate resilience, fiscal effort, and governance performance. Advances in data analytics and digital technologies could also improve the precision and transparency of revenue-sharing mechanisms.

Ultimately, the future of horizontal revenue sharing in Kenya will depend on striking an appropriate balance between equity, efficiency, accountability, and development. As counties continue to mature and the demands on devolved governments evolve, the revenue-sharing framework must remain flexible and responsive to emerging challenges while preserving the constitutional principles of fairness, inclusiveness, and equitable development.

CHAPTER FIVE: COUNTY REVENUES AND COMPLEMENTARY INTERGOVERNMENTAL TRANSFERS IN KENYA

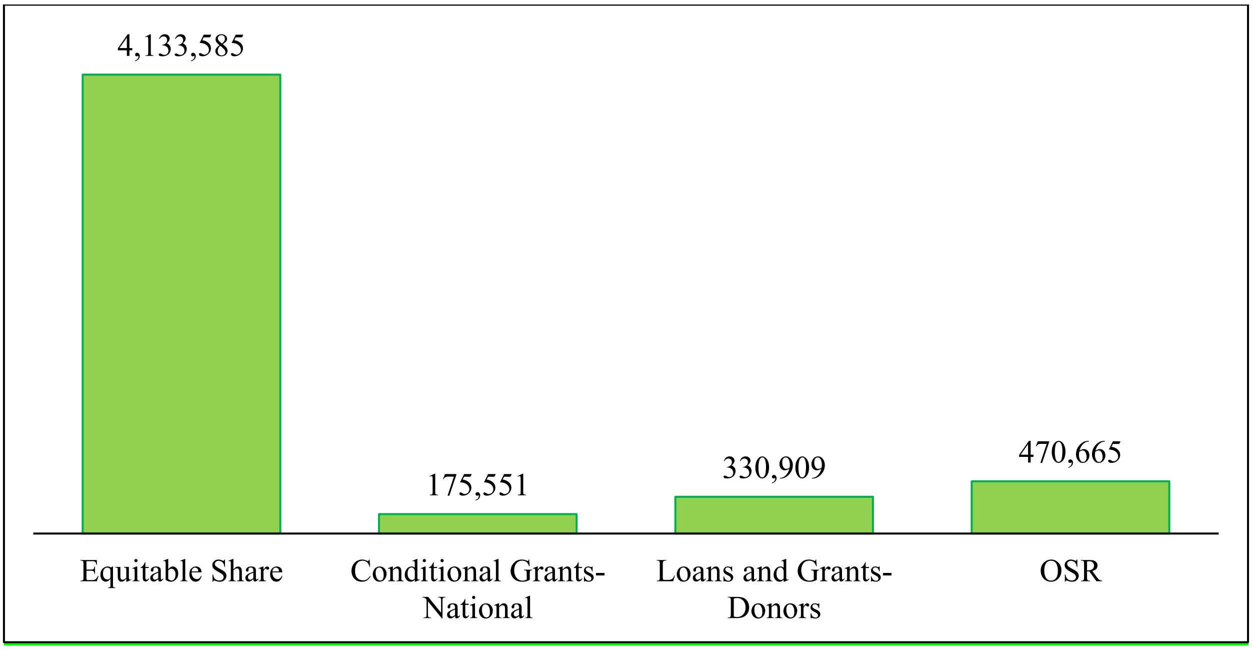
5.1 Overview of County Revenue Sources

The fiscal sustainability of County Governments depends on the availability of adequate and predictable financial resources to perform devolved functions. Under Kenya's devolved system of governance, county revenues are derived from multiple sources that collectively support service delivery, infrastructure development, and local economic growth. These sources include the equitable share of nationally raised revenue, own source revenue (OSR), conditional grants, the Equalization Fund, and donor-funded programmes and loans.

The equitable share remains the primary source of county financing and forms the foundation of county budgets. However, counties increasingly rely on other funding mechanisms to supplement equitable share allocations, address development gaps, and finance strategic investments. Together, these revenue streams constitute the broader county financing framework and play a critical role in determining the fiscal capacity of county governments.

The diversity of county revenue sources reflects the constitutional objective of promoting fiscal decentralization while ensuring that counties have sufficient resources to deliver public services effectively. Each source serves a distinct purpose and is governed by specific legal, institutional, and policy frameworks.

Figure 6: Composition of Counties' Total Revenues from 2013-2026 (KSh. Millions)



5.2 Equitable Share

The equitable share is the largest and most predictable source of county revenue. Established under Article 202 of the Constitution, it guarantees counties a share of nationally raised revenue sufficient to enable them to perform their constitutional functions.

The equitable share is distributed among counties using the revenue-sharing formula approved by the Senate based on recommendations from the Commission on Revenue Allocation (CRA). The formula considers factors such as population, poverty, land area, basic equal share, and fiscal responsibility. Through this mechanism, the equitable share promotes equity, predictability, and balanced regional development.

Between FY 2013/14 and FY 2025/26, counties collectively received more than KSh. 4 trillion through equitable share transfers. These allocations have enabled counties to expand healthcare services, improve rural roads, strengthen agricultural extension services, enhance water infrastructure, and support local economic development initiatives.

Despite its importance, reliance on the equitable share has created a high degree of fiscal dependence among counties. In many counties, transfers from the National Government account for more than 80 percent of total revenues, highlighting the need to strengthen alternative sources of financing.

5.3 Own Source Revenue (OSR)

5.3.1 Constitutional and Legal Basis for Own Source Revenue

Own Source Revenue (OSR) is anchored in the Constitution of Kenya, 2010, which recognizes county governments as distinct and interdependent levels of government with the authority to mobilize revenue for the performance of their constitutional functions. The constitutional framework for county revenue generation is primarily provided under Article 209 of the Constitution.

Article 209(3) grants county governments the power to impose property rates, entertainment taxes, and any other taxes authorized by an Act of Parliament. In addition, Article 209(4) empowers counties to impose charges for services they provide. These provisions establish the legal foundation for counties to generate revenue from a wide range of local sources, including business permits, market fees, parking fees, building approvals, advertisement fees, cess collections, and user charges for public services.

Further support for county revenue administration is provided through the Public Finance Management Act, 2012, the County Governments Act, 2012, the Rating Act, the Valuation for Rating Act, and various sector-specific laws. Together, these legal instruments provide the framework within which counties mobilize, collect, account for, and manage locally generated revenues.

The constitutional recognition of county revenue-raising powers reflects one of the key objectives of devolution: strengthening local fiscal autonomy and reducing overreliance on transfers from the National Government. By empowering counties to generate their own revenues, the Constitution promotes local accountability, encourages efficient service delivery, and enhances the financial sustainability of devolved governance.

5.3.2 Nature and Importance of Own Source Revenue

Own Source Revenue (OSR) comprises revenues generated directly by county governments from taxes, fees, charges, permits, licenses, property rates, parking fees, market fees, advertisement fees, cess collections, and other locally administered revenue streams authorized under the Constitution and relevant legislation.

OSR occupies a unique position within county financing because it represents the primary source of locally generated revenue over which counties exercise substantial control. Unlike intergovernmental transfers, OSR provides counties with greater flexibility in budgeting and expenditure decisions, thereby strengthening local fiscal autonomy.

The Constitution empowers county governments to impose property rates, entertainment taxes, and other charges authorized by national legislation. Consequently, counties have developed diverse revenue administration systems aimed at maximizing collections while supporting local economic activity.

Since the inception of devolution, county governments have implemented various reforms to strengthen revenue mobilization. These reforms include digitization of revenue collection systems, automation of payment processes, integration of revenue databases, expansion of taxpayer registers, and strengthening of enforcement mechanisms.

The impact of these reforms has become increasingly visible in recent years. County-generated revenues increased significantly from approximately KSh. 37.8 billion in FY 2022/23 to about KSh. 67.3 billion in FY 2024/25. Despite this progress, several challenges continue to constrain OSR growth. These include weak valuation rolls, political resistance to new taxes and fees, inadequate enforcement mechanisms, fragmented revenue systems, informal economic activities, and limited administrative capacity in some counties. Addressing these constraints remains critical to enhancing fiscal self-reliance and reducing dependence on transfers from the National Government.

5.4 Conditional Grants

Conditional grants are earmarked transfers from the National Government or development partners designed to finance specific programmes, projects, or services within county governments. Unlike the equitable share, conditional grants are accompanied by explicit conditions regarding utilization, reporting, and performance.

The rationale for conditional grants is to support national priorities, promote minimum service standards, strengthen accountability, and finance strategic interventions requiring coordinated implementation across counties.

Several important conditional grant programmes have been implemented since the onset of devolution. In the health sector, grants have supported referral hospitals, medical equipment programmes, and universal health coverage initiatives. In infrastructure, conditional grants have financed county roads, water supply projects, and urban development programmes. The Kenya Urban Support Programme has particularly played a significant role in strengthening urban governance and infrastructure development.

While conditional grants provide valuable resources, implementation challenges persist. Delayed disbursements, complex reporting requirements, duplication with county priorities, and sustainability concerns have occasionally limited their effectiveness. Nevertheless, conditional grants remain an important instrument for advancing national policy objectives within the devolved system.

5.5 The Equalization Fund

The Equalization Fund is established under Article 204 of the Constitution as a special mechanism for addressing historical marginalization and reducing regional disparities in access to basic services.

The Fund receives one half percent of nationally raised revenue annually and is intended to finance programmes that improve access to water, healthcare, roads, and electricity in marginalized areas. The ultimate objective is to bring the quality of these services in disadvantaged regions closer to national standards.

The Commission on Revenue Allocation identifies eligible marginalized areas using indicators such as poverty levels, service access, geographical isolation, and historical disadvantage. Parliament subsequently approves allocations while the National Treasury oversees disbursement and implementation arrangements.

Despite initial operational delays and implementation challenges, the Equalization Fund has supported investments in roads, water infrastructure, health facilities, and rural development projects, particularly within arid and semi-arid counties such as Turkana, Marsabit, Garissa, Mandera, Wajir, and Tana River.

5.5.1 Evolution and Trends of the Equalization Fund (2013–2026)

Since the commencement of devolution in the 2013/14 financial year, allocations to the Equalization Fund have generally increased in line with growth in nationally collected revenue. As the Fund is constitutionally pegged at 0.5 percent of nationally raised revenue, increases in government revenue collections have translated into higher allocations over time.

Figure 7: Trend of Equalization Fund Allocations (KSh. Billions)

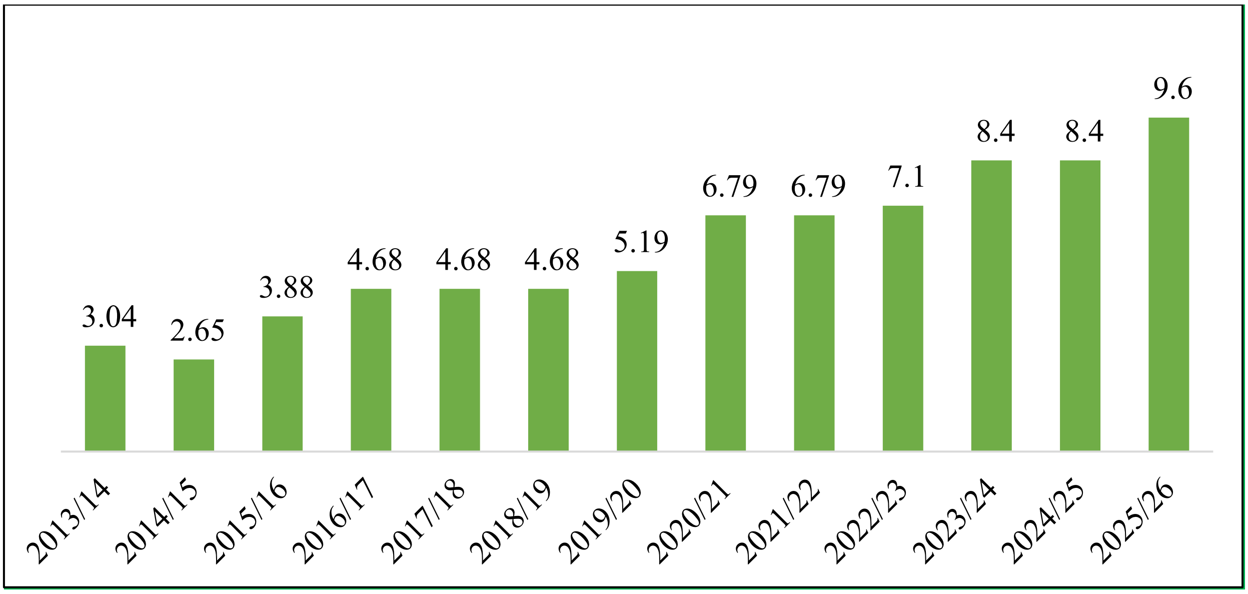


Figure 7 illustrates the evolution of Equalization Fund allocations from FY 2013/14 to FY 2025/26, showing a generally upward trajectory driven by growth in nationally collected revenue, notwithstanding occasional fluctuations and implementation challenges.

5.6 Donor and Development Partner Contributions

Donor and development partner contributions constitute an important supplementary source of county financing. Beyond financial resources, development partners provide technical assistance, institutional strengthening, knowledge transfer, and innovation that enhance public service delivery.

Major development partners have supported devolution through programmes focusing on governance, public financial management, healthcare, urban development, agriculture, climate resilience, and infrastructure development. The World Bank, International Monetary Fund, USAID, Foreign, Commonwealth and Development Office, GIZ, and other partners have played significant roles in supporting county governments.

Donor-funded programmes have contributed to improvements in healthcare systems, urban governance, climate adaptation, agricultural productivity, and capacity building. However, concerns remain regarding sustainability, alignment with county priorities, coordination challenges, and the creation of parallel implementation systems.

Although donor funding provides valuable development resources, counties cannot rely on it as a permanent source of financing because donor priorities and funding levels are subject to change.

5.7 Comparative Assessment of County Revenue Sources

The various sources of county revenue serve different but complementary functions within Kenya's fiscal decentralization framework. The equitable share provides the core financing necessary for counties to perform constitutional functions. Own Source Revenue strengthens fiscal autonomy and local accountability. Conditional grants support national priorities and minimum service standards. The Equalization Fund addresses historical marginalization and regional inequalities, while donor financing contributes technical expertise, innovation, and additional development resources.

Together, these revenue streams promote equity, service delivery, and local development. However, they also present challenges relating to coordination, accountability, sustainability, and dependence on external financing. Consequently, strengthening county revenue systems requires a balanced approach that combines adequate intergovernmental transfers with enhanced local revenue mobilization and prudent financial management.

The long-term success of devolution will depend not only on increasing financial resources available to counties but also on improving the efficiency, effectiveness, and sustainability with which those resources are mobilized, allocated, and utilized.

CHAPTER SIX: COMPARATIVE MODELS OF FISCAL DEVOLUTION

6.1 South Africa: Equitable Share and Conditional Grants

South Africa has one of the most developed intergovernmental fiscal systems in Africa, characterized by a combination of equitable share allocations and conditional grants. The system seeks to balance fiscal equity, national policy priorities, and accountability within a decentralized governance framework. Through the equitable share mechanism, provinces and municipalities receive formula-based transfers that primarily reflect population, service delivery obligations, developmental needs, and socio-economic conditions. This approach ensures that subnational governments have access to predictable funding to discharge their constitutional responsibilities.

In addition to the equitable share, the national government provides conditional grants to finance specific programmes and national priorities such as health services, education, housing, transport infrastructure, and urban development. These grants are designed to ensure that critical national objectives are achieved consistently across all regions while maintaining minimum service delivery standards.

A defining feature of South Africa’s system is its strong emphasis on transparency, accountability, and fiscal discipline. Clear allocation criteria, detailed reporting requirements, and robust oversight mechanisms enable the national government to monitor expenditure performance and assess whether transferred resources are achieving intended outcomes. The South African experience demonstrates the importance of combining predictable formula-based transfers with targeted conditional funding, supported by effective monitoring and institutional capacity. For Kenya, this model offers valuable lessons on balancing county autonomy with national development priorities.

6.2 Nigeria: Oil Revenue Sharing and the Derivation Principle

Nigeria operates a federal system in which intergovernmental fiscal relations are significantly influenced by the country's dependence on oil revenues. Revenues collected by the Federal Government are pooled into the Federation Account and subsequently distributed among the federal, state, and local governments according to constitutionally prescribed formulas.

A distinctive feature of Nigeria’s fiscal framework is the derivation principle, which allocates a specified proportion of revenues generated from natural resources directly to producing states. Currently, oil-producing states receive 13 percent of revenues derived from petroleum production within their jurisdictions. The remaining revenues are distributed using criteria that include equality of states, population, landmass and terrain, social development factors, and fiscal considerations.

While the system seeks to balance equity and regional resource ownership, it has faced persistent challenges. Heavy dependence on oil revenues exposes all levels of government to fluctuations in global commodity prices, resulting in unpredictable revenue flows and fiscal instability. Furthermore, disputes over revenue allocation and resource control have periodically generated political tensions among different regions.

Nigeria's experience underscores the importance of transparent and objective allocation mechanisms, as well as the need to diversify revenue sources. For Kenya, the key lesson is that excessive dependence on a narrow revenue base can undermine fiscal stability and long-term planning. Strengthening county own-source revenue mobilization and broadening the national tax base can help reduce vulnerability to economic shocks and revenue volatility.

6.3 Uganda: Intergovernmental Fiscal Transfers and Performance-Based Financing

Uganda's intergovernmental fiscal framework comprises unconditional grants, conditional grants, and equalization transfers designed to support service delivery and reduce regional disparities. In recent years, the country has implemented reforms aimed at strengthening local government performance through performance-based fiscal transfer mechanisms.

Under these reforms, certain grants are linked to the achievement of specified planning, financial management, governance, and service delivery benchmarks. Local governments that demonstrate compliance with performance standards and effective utilization of public resources may receive additional funding or enhanced access to development grants. The system seeks to improve accountability, strengthen public financial management, and encourage local governments to focus on results.

The performance-based approach has contributed to improvements in planning, budgeting, project implementation, and financial reporting across several local governments. By linking funding to measurable performance indicators, Uganda has created incentives for greater efficiency and effectiveness in public service delivery.

For Kenya, Uganda's experience highlights the potential benefits of integrating performance considerations into intergovernmental transfers. While equitable resource allocation remains important, incorporating performance indicators into selected grants can encourage counties to improve planning, project execution, financial management, and service delivery outcomes. Such an approach can help ensure that public resources generate measurable benefits for citizens.

6.4 Lessons for Kenya

The experiences of South Africa, Nigeria, and Uganda provide important insights for strengthening Kenya's intergovernmental fiscal framework.

First, a combination of equitable transfers and conditional grants can effectively balance fiscal equity with national development priorities. South Africa's experience demonstrates that formula-based allocations provide predictability and fairness, while conditional grants enable governments to address strategic priorities and minimum service standards. For Kenya, this underscores the importance of maintaining a stable equitable share while enhancing the effectiveness of conditional grant mechanisms.

Second, transparent and objective allocation formulas are essential for minimizing political influence and enhancing public confidence in revenue-sharing systems. Allocation criteria should be clear, evidence-based, and consistently applied. Transparency promotes predictability, reduces disputes, and strengthens trust among different levels of government.

Third, performance-based financing can complement traditional transfer mechanisms by encouraging efficiency and accountability. Uganda's experience illustrates how linking selected grants to measurable outcomes can incentivize better planning, stronger financial management, and improved service delivery. Kenya could consider expanding the use of performance indicators in specific grant programmes while preserving the equity objectives of unconditional transfers.

Fourth, robust monitoring, evaluation, and reporting systems are critical for ensuring that transferred resources achieve intended outcomes. Effective oversight enhances accountability, promotes prudent resource utilization, and supports evidence-based decision-making. Strengthening expenditure tracking, public reporting, and institutional capacity at both national and county levels would improve the effectiveness of Kenya's fiscal decentralization framework.

Fifth, revenue diversification and fiscal resilience are essential for long-term sustainability. Nigeria's experience demonstrates the risks associated with dependence on a single revenue source. Although Kenya's fiscal structure differs significantly, fluctuations in national revenue collection and delays in disbursements can similarly affect county operations. Expanding county own-source revenues, improving fiscal forecasting, and establishing mechanisms to manage revenue shortfalls would enhance financial stability.

Finally, successful intergovernmental fiscal systems require a careful balance between equity, efficiency, accountability, and autonomy. Strong legal frameworks, transparent institutions, effective oversight mechanisms, and adequate administrative capacity are indispensable for ensuring that fiscal decentralization translates into improved service delivery and inclusive development.

CHAPTER SEVEN: EMERGING POLICY DEBATES IN REVENUE SHARING

7.1 Overview of Policy Debates

More than a decade after the introduction of devolution, Kenya's revenue-sharing framework has become one of the most significant pillars of the country's governance and public finance system. The establishment of county governments transformed the allocation of public resources and created new opportunities for localized service delivery, citizen participation, and regional development. Since 2013, substantial progress has been made in institutionalizing both vertical and horizontal revenue sharing, strengthening intergovernmental fiscal relations, and expanding the resources available to county governments.

Despite these achievements, important policy questions continue to shape discussions on the future of fiscal decentralization. Debates persist regarding the adequacy of county financing, the interpretation of constitutional provisions governing revenue allocation, the treatment of public debt, the role of conditional grants, and the long-term sustainability of Kenya's devolved fiscal framework. These debates are not merely technical or legal in nature; they reflect broader questions about equity, national development, fiscal sustainability, accountability, and the appropriate balance of power between the National Government and County Governments.

As Kenya's devolution system continues to mature, these issues have become increasingly prominent in discussions involving the National Treasury, the Commission on Revenue Allocation (CRA), Parliament, county governments, development partners, civil society organizations, and the public. Some of the major policy debates include: -

7.1.1 Should Counties Receive a Larger Share of National Revenue?

One of the most persistent debates in Kenya's intergovernmental fiscal system concerns the proportion of nationally raised revenue allocated to county governments. Since the commencement of devolution in FY 2013/14, county allocations have increased significantly, rising from approximately KSh. 190 billion to more than KSh. 415 billion by FY 2025/26. However, many county leaders and devolution advocates argue that this growth has not kept pace with the increasing responsibilities assigned to county governments.

Proponents of higher county allocations contend that counties are responsible for delivering many of the public services that directly affect citizens, including healthcare, agriculture, county roads, water services, early childhood education, and local economic development. They argue that effective service delivery requires a larger share of national resources and that counties should progressively receive a greater proportion of nationally raised revenue as devolution deepens.

Supporters of increased allocations also point to the constitutional objectives of devolution, particularly the promotion of equitable development, reduction of regional disparities, and bringing services closer to citizens. From this perspective, allocating additional resources to counties would strengthen local development and improve responsiveness to citizen needs.

Opponents of substantially increasing county allocations emphasize the fiscal pressures facing the National Government. They argue that national responsibilities such as public debt servicing, national security, foreign affairs, higher education, and major infrastructure investments continue to require significant resources. Increasing county allocations without corresponding growth in national revenue may therefore create fiscal imbalances and undermine national development priorities.

The debate ultimately centers on the appropriate balance between fiscal decentralization and national fiscal sustainability. As expenditure needs continue to grow at both levels of government, determining the optimal vertical division of revenue remains one of the most contested issues in Kenya's public finance system.

7.1.2 Interpreting Article 203: Competing Perspectives

Article 203 of the Constitution outlines the principles and criteria that must guide the equitable sharing of nationally raised revenue between the National Government and County Governments. These criteria include national interest, public debt obligations, the needs of the National Government, the need to ensure counties can perform their functions, economic disparities within and among counties, affirmative action for disadvantaged areas, fiscal capacity and efficiency, developmental needs, and the desirability of stable and predictable allocations. While the Constitution provides these guiding principles, it does not prescribe the relative weight to be assigned to each factor, leaving room for differing interpretations among stakeholders.

One school of thought emphasizes the constitutional objectives of devolution, particularly equity, service delivery, and the reduction of regional disparities. Proponents argue that because counties are responsible for delivering essential services such as health, agriculture, county roads, and water services, Article 203 should be interpreted in a manner that prioritizes adequate financing of devolved functions. They contend that the criteria relating to economic disparities, affirmative action, developmental needs, and the ability of counties to perform their functions justify a progressively larger share of nationally raised revenue being allocated to county governments.

Conversely, another perspective emphasizes the need to balance county financing with the National Government's constitutional responsibilities and fiscal obligations. Advocates of this position point to Article 203's requirement to consider national interest, public debt obligations, and the needs of the National Government when determining the vertical share. They argue that increasing county allocations without regard to fiscal sustainability could undermine the government's ability to finance national security, debt servicing, major infrastructure projects, and other national priorities. From this perspective, Article 203 requires a balanced approach that safeguards both effective devolution and macroeconomic stability.

These differing interpretations have become a recurring feature of the annual Division of Revenue process. County governments and devolution advocates often push for a larger share of nationally raised revenue, while the National Treasury and other national institutions emphasize fiscal constraints and competing national priorities. Consequently, debates surrounding Article 203 are not merely legal in nature but also reflect broader policy questions regarding the appropriate balance between decentralization, fiscal sustainability, equity, and national development. As Kenya's devolution system continues to mature, the interpretation and application of Article 203 are likely to remain central to discussions on vertical revenue sharing.

7.1.3 Debt Servicing and Revenue Sharing

The growing burden of public debt has introduced a new dimension to Kenya's revenue-sharing debates. As debt-servicing obligations consume an increasing share of national revenue, questions have emerged regarding how debt should be treated within the revenue-allocation framework.

County governments have frequently argued that debt servicing should not disproportionately reduce the resources available for equitable sharing. Many county leaders contend that counties should not bear the consequences of borrowing decisions that are largely made at the national level. From this perspective, debt obligations should be treated separately from discussions on the allocation of resources to counties.

On the other hand, supporters of the current framework maintain that public debt constitutes a national obligation that must be honored before resources can be allocated to competing priorities. They argue that failure to meet debt obligations would undermine investor confidence, increase borrowing costs, and threaten overall economic stability.

The debate reflects a broader tension between fiscal decentralization and fiscal sustainability. As Kenya continues to manage significant debt obligations, policymakers will increasingly need to balance the financing needs of county governments with national commitments and macroeconomic realities.

7.1.4 Adequacy of Financing for Devolved Functions

Another important policy question concerns whether counties receive sufficient resources to perform their constitutional functions effectively. Since devolution began, county governments have assumed responsibility for major sectors including health services, agriculture, county transport, trade development, water services, and urban management.

County governments frequently argue that current allocations do not fully reflect the actual cost of delivering these services. Population growth, urbanization, inflation, technological demands, and rising citizen expectations have significantly increased expenditure requirements across many sectors.

The health sector provides a particularly notable example. Counties are responsible for managing hospitals, healthcare personnel, medical supplies, and public health programmes.

Yet many counties continue to experience resource constraints, leading to recurring concerns regarding staffing, infrastructure maintenance, and service delivery quality.

Determining the true cost of devolved functions remains a significant challenge. While several studies have attempted to estimate expenditure needs, there is no universally accepted methodology for assessing whether counties are adequately funded. As a result, debates regarding funding adequacy continue to feature prominently in discussions on vertical revenue sharing.

7.1.5 The Future of Conditional Grants

Conditional grants have become an important component of county financing since the introduction of devolution. These grants support specific national priorities and often focus on sectors such as health, infrastructure, water services, urban development, and climate resilience.

Supporters of conditional grants argue that they help maintain national service standards, strengthen accountability, and ensure that critical policy objectives are implemented consistently across counties. They also provide a mechanism for directing resources toward priority programmes that may otherwise receive insufficient funding.

However, critics argue that excessive reliance on conditional grants can undermine county autonomy and weaken local decision-making. Because such grants are tied to specific conditions and reporting requirements, counties often have limited flexibility to respond to unique local needs and priorities.

Some stakeholders have proposed integrating selected conditional grants into the equitable share, thereby providing counties with greater discretion over resource allocation. Others maintain that conditional grants remain necessary to safeguard national priorities and promote accountability.

The future role of conditional grants will likely depend on the ability of policymakers to strike an appropriate balance between county autonomy and national policy objectives.

7.2 Emerging Issues in Fiscal Decentralization

Beyond the traditional debates surrounding revenue sharing, several emerging issues are increasingly shaping the future of fiscal decentralization in Kenya.

One of these issues is the growing emphasis on Own Source Revenue (OSR). As counties seek greater fiscal autonomy, attention has shifted toward strengthening local revenue mobilization through improved valuation systems, digitized revenue collection, enhanced enforcement mechanisms, and expansion of local revenue bases. The sustainability of devolution will depend partly on reducing excessive dependence on national transfers and strengthening county self-financing capacity.

Another emerging issue concerns performance-based financing. Policymakers are increasingly exploring mechanisms that link portions of intergovernmental transfers to measurable outcomes in service delivery, financial management, and revenue effort. Such approaches seek to reward efficiency and encourage better utilization of public resources.

Climate change is also becoming an important fiscal consideration. Counties are increasingly required to finance climate adaptation, disaster preparedness, environmental conservation, and resilience-building initiatives. These responsibilities raise new questions regarding the adequacy and structure of intergovernmental transfers.

Technological transformation presents both opportunities and challenges. Advances in digital governance, electronic revenue collection, integrated financial management systems, and data analytics offer significant potential for improving efficiency, transparency, and accountability. However, disparities in technological capacity among counties may create new inequalities if not properly addressed.

Finally, growing public expectations regarding service delivery, transparency, and accountability continue to place pressure on both levels of government. Citizens increasingly expect public resources to translate into visible development outcomes, making efficient revenue allocation and utilization more important than ever.

Taken together, these emerging issues suggest that Kenya's revenue-sharing system will continue to evolve. Future reforms will need to balance equity, fiscal sustainability, accountability, local autonomy, and national cohesion while adapting to changing economic, social, and technological realities. This evolving policy environment provides the basis for the recommendations presented in the next chapter.

CHAPTER EIGHT: RECOMMENDATIONS AND CONCLUSION

8.1 Recommendations

Kenya’s revenue-sharing system has made significant progress since the introduction of devolution in 2013. However, persistent challenges related to fiscal autonomy, equity, accountability, and efficiency require continuous reforms to strengthen the intergovernmental fiscal framework. The following recommendations are proposed to enhance the effectiveness and sustainability of revenue sharing in Kenya.

i. Align County Allocations with Devolved Functions

As devolution continues to mature, county governments are expected to deliver an expanding range of services in sectors such as health, agriculture, water, urban development, and local infrastructure. Future revenue-sharing arrangements should therefore be guided by periodic assessments of the actual cost of devolved functions to ensure that resource allocations correspond with expenditure responsibilities. While maintaining national fiscal sustainability, the vertical division of revenue should progressively reflect the realities of service delivery at the county level.

ii. Strengthen Own Source Revenue and Fiscal Autonomy

A sustainable system of fiscal decentralization requires counties to complement intergovernmental transfers with locally generated revenue. County governments should continue modernizing revenue administration through digitization, automation, regular updating of valuation rolls, improved enforcement mechanisms, and expansion of taxpayer databases. Strengthening own source revenue will enhance fiscal autonomy, improve budget flexibility, and reduce excessive dependence on transfers from the National Government.

iii. Improve Predictability and Timeliness of Intergovernmental Transfers

Timely disbursement of funds remains essential for effective service delivery and sound financial management. The National Treasury should strengthen mechanisms for implementing approved cash disbursement schedules and ensure full compliance with Article 219 of the Constitution. Predictable transfers will improve county planning, reduce the accumulation of pending bills, minimize project disruptions, and strengthen confidence in the intergovernmental fiscal system.

iv. Enhance Efficiency Through Performance-Oriented Financing

As Kenya's fiscal decentralization framework evolves, greater attention should be placed on linking selected transfers to measurable outcomes. Carefully designed performance-based financing mechanisms can encourage improvements in planning, financial management, service delivery, and revenue effort while preserving the constitutional principle of equitable allocation. Such approaches should reward efficiency and innovation without disadvantaging less-developed counties.

v. Strengthen Transparency, Accountability, and Public Participation

Transparency and citizen engagement are fundamental to effective public finance management. Both levels of government should continue publishing timely information on allocations, disbursements, expenditures, and project implementation. Public participation in budgeting, planning, and oversight should also be strengthened to enhance accountability and ensure that public resources are directed toward citizens' priorities.

vi. Reform the Equalization Fund and Strengthen Coordination of Special Transfers

The Equalization Fund should be reviewed to improve efficiency, accelerate project implementation, and eliminate administrative bottlenecks that have historically limited its impact. Similarly, conditional grants and donor-funded programmes should be better coordinated with county development plans and national priorities. Improved coordination will reduce duplication, enhance accountability, and ensure that external resources complement rather than distort county planning and budgeting processes.

vii. Promote Evidence-Based Revenue Sharing

Future revisions of both vertical and horizontal revenue-sharing arrangements should be anchored on credible, timely, and verifiable data. Investments in statistical systems, expenditure needs assessments, poverty measurement, and county-level socio-economic databases will improve the legitimacy and accuracy of allocation decisions. Evidence-based approaches are more likely to enhance public confidence and reduce politically driven disputes over resource allocation.

viii. Safeguard the Independence of Revenue-Sharing Institutions

The effectiveness of Kenya's revenue-sharing framework depends on the credibility and independence of key institutions. Bodies such as the Commission on Revenue Allocation, the Controller of Budget, and the Office of the Auditor-General should be adequately resourced and protected from political interference. Strong institutions are essential for objective recommendations, effective oversight, and the long-term sustainability of fiscal decentralization.

8.2 Conclusion

The adoption of devolution under the Constitution of Kenya, 2010 fundamentally reshaped the country's governance and public finance architecture by establishing a system of shared responsibilities and shared resources between the National Government and County Governments. At the heart of this transformation lies the revenue-sharing framework, which provides the financial foundation upon which devolution operates.

Since the commencement of devolution in 2013, Kenya has developed a comprehensive intergovernmental fiscal system comprising vertical revenue sharing, horizontal revenue sharing, conditional grants, the Equalization Fund, and county own source revenue. Together, these mechanisms have enabled county governments to expand service delivery, strengthen local governance, and contribute to socio-economic development across the country. Over the same period, allocations to both levels of government have grown substantially, reflecting the increasing role of public finance in supporting development and responding to citizens' needs.

The experience of the past decade demonstrates both the achievements and the challenges associated with fiscal decentralization. Significant progress has been made in promoting equity, strengthening transparency and accountability, and enhancing citizen participation in public finance management. However, several challenges continue to influence the evolution of Kenya’s intergovernmental fiscal relations. These include political contestation over resource allocation, delays in the disbursement of funds, heavy dependence on intergovernmental transfers, institutional and technical capacity constraints, and ongoing debates regarding the adequacy of county financing. Collectively, these challenges highlight the need for continuous reforms to ensure that the objectives of devolution are fully realized.

As highlighted throughout this book, revenue sharing is not merely a technical exercise of allocating financial resources. It is a mechanism for promoting equity, addressing regional disparities, strengthening national cohesion, and enabling governments at all levels to fulfil their constitutional mandates. The debates surrounding county allocations, the interpretation of Article 203, debt servicing, conditional grants, and fiscal autonomy underscore the complexity of balancing competing objectives within a devolved system.

Looking ahead, the sustainability of Kenya's revenue-sharing framework will depend on strengthening domestic revenue mobilization, enhancing fiscal discipline, improving the predictability of intergovernmental transfers, and ensuring that resources are aligned with devolved functions. Equally important will be the continued strengthening of institutions, evidence-based decision-making, and effective accountability mechanisms.

Ultimately, the success of devolution will be measured not by the size of allocations alone, but by the extent to which public resources translate into improved service delivery, reduced inequalities, expanded economic opportunities, and better living standards for all Kenyans. If managed effectively, Kenya's revenue-sharing framework will continue to serve as a cornerstone of inclusive development, responsive governance, and national transformation.

APPENDICES

Appendix 1: Vertical Revenue Sharing (KSh. Billion)

Year	National Government	County Governments
2013/14	729	190
2014/15	805	227
2015/16	893	260
2016/17	1,026	280
2017/18	1,063	302
2018/19	1,186	314
2019/20	1,257	317
2020/21	1,246	317
2021/22	1,548	370
2022/23	1,671	370
2023/24	2,186	385
2024/25	2,033	387
2025/26	2,225	415
Total	**17,866**	**4,134**

Appendix 2: Composition of the National Government's Share of Revenue (KSh. Billion)

Year	National Government Share (Excl. Equalization Fund)	Equalization Fund	Total National Government Share
2013/14	726.0	3.04	729.00
2014/15	802.5	2.65	805.14
2015/16	888.8	3.88	892.73
2016/17	1,021.6	4.68	1,026.30
2017/18	1,058.4	4.68	1,063.10
2018/19	1,181.1	4.68	1,185.80
2019/20	1,251.7	5.19	1,256.90
2020/21	1,238.7	6.79	1,245.50
2021/22	1,541.1	6.79	1,547.90
2022/23	1,664.0	7.1	1,671.10
2023/24	2,177.2	8.4	2,185.58
2024/25	2,024.2	8.4	2,032.58
2025/26	2,215.1	9.6	2,224.70
Total	**17,790.5**	**75.8**	**17,866.3**2

Appendix 3: Equitable Share Allocation (KSh. Billion)

Appendix 3.1 Equitable Share Allocation Under the First Formula (KSh. Billion)

No.	County	2013/14	2014/15	2015/16	2016/17		Total
1	Lamu	1.5	1.8	2.1	2.2		**7.6**
2	Isiolo	2.2	2.7	3.1	3.3		**11.3**
3	Tharaka Nithi	2.3	2.7	3.1	3.4		**11.6**
4	Elgevo Marakwet	2.4	2.9	3.3	3.5		**12.0**
5	Taita Taveta	2.4	2.9	3.3	3.6		**12.2**
6	Laikipia	2.5	3.0	3.4	3.7		**12.7**
7	Kirinyanga	2.6	3.1	3.5	3.8		**13.0**
8	Samburu	2.6	3.1	3.6	3.8		**13.1**
9	Embu	2.8	3.3	3.8	4.1		**14.1**
10	Vihiga	2.8	3.4	3.9	4.2		**14.3**
11	Tana River	2.9	3.5	4.0	4.3		**14.7**
12	Nyamira	3.0	3.6	4.2	4.5		**15.3**
13	Nyandarua	3.2	3.8	4.3	4.6		**15.9**
14	West Pokot	3.2	3.8	4.3	4.7		**15.9**
15	Kajiado	3.2	3.8	4.4	4.8		**16.3**
16	Baringo	3.2	3.9	4.4	4.8		**16.4**
17	Nyeri	3.3	3.9	4.4	4.8		**16.4**
18	Kericho	3.3	3.9	4.5	4.9		**16.6**
19	Bomet	3.4	4.1	4.7	5.1		**17.4**
20	Nandi	3.5	4.1	4.8	5.1		**17.5**
21	Siaya	3.7	4.4	5.0	5.4		**18.4**
22	Trans Nzoia	3.7	4.4	5.1	5.5		**18.8**
23	Kwale	3.7	4.5	5.1	5.5		**18.9**
24	Marsabit	3.8	4.5	5.2	5.6		**19.1**
25	Uasin Gishu	3.8	4.5	5.2	5.6		**19.1**
26	Mombasa	3.8	4.5	5.2	5.6		**19.1**
27	Busia	3.4	4.7	5.4	5.9		**19.5**
28	Narok	3.9	4.6	5.3	5.7		**19.5**
29	Muranga	3.9	4.7	5.4	5.8		**19.7**
30	Homa Bay	4.1	4.9	5.6	6.1		**20.8**
31	Kisumu	4.2	5.0	5.7	6.1		**20.9**
32	Garissa	4.2	5.0	5.8	6.2		**21.3**
33	Migori	4.3	5.1	5.8	6.3		**21.5**
34	Makueni	4.4	5.2	6.0	6.4		**22.0**
35	Meru	4.7	5.7	6.5	7.0		**23.9**
36	Machakos	5.0	5.9	6.8	7.3		**24.9**
37	Kisii	5.2	6.2	7.1	7.7		**26.1**
38	Wajir	5.3	6.3	7.2	7.8		**26.6**

No.	County	2013/14	2014/15	2015/16	2016/17		Total
39	Kitui	5.3	6.3	7.3	7.8		**26.8**
40	Kilifi	5.4	6.5	7.4	8.0		**27.4**
41	Kiambu	5.5	6.5	7.5	8.1		**27.5**
42	Bungoma	6.2	6.7	7.7	8.3		**28.8**
43	Nakuru	5.9	7.1	8.1	8.8		**29.9**
44	Kakamega	6.5	7.8	8.9	9.6		**32.8**
45	Mandera	6.6	7.8	9.0	9.7		**33.0**
46	Turkana	7.7	9.1	10.5	11.3		**38.6**
47	Nairobi	9.5	11.3	13.0	14.0		**47.9**
	Grand Total	**190.0**	**226.7**	**259.8**	**280.3**		**956.7**

Appendix 3.2 Equitable Share Allocation Under the Second Formula (KSh. Billion)

No.	County	2017/18	2018/19	2019/20	2020/21	Total
1	Lamu	2.5	3.5	2.6	2.6	**11.2**
2	Isiolo	3.8	3.9	4.2	4.2	**16.2**
3	Tharaka Nithi	3.7	3.6	3.9	3.9	**15.2**
4	Elgevo Marakwet	3.6	3.8	3.9	3.9	**15.1**
5	Taita Taveta	3.9	4.1	4.2	4.2	**16.4**
6	Laikipia	4.5	4.1	4.2	4.2	**17.0**
7	Kirinyanga	4.4	4.1	4.2	4.2	**17.0**
8	Samburu	3.8	4.4	4.6	4.6	**17.5**
9	Embu	4.1	4.5	4.3	4.3	**17.2**
10	Vihiga	4.4	4.5	4.7	4.7	**18.2**
11	Tana River	5.3	5.6	5.9	5.9	**22.6**
12	Nyamira	4.6	4.8	4.8	4.8	**19.0**
13	Nyandarua	4.8	4.9	4.9	4.9	**19.4**
14	West Pokot	4.7	4.9	5.0	5.0	**19.7**
15	Kajiado	5.8	6.0	6.4	6.4	**24.6**
16	Baringo	5.0	5.1	5.1	5.1	**20.3**
17	Nyeri	5.0	5.0	5.4	5.4	**20.8**
18	Kericho	5.2	5.7	5.4	5.4	**21.7**
19	Bomet	5.3	5.9	5.5	5.5	**22.2**
20	Nandi	5.1	5.4	5.3	5.3	**21.2**
21	Siaya	5.5	6.0	5.8	5.8	**23.1**
22	Trans Nzoia	5.6	5.6	5.8	5.8	**22.8**
23	Kwale	7.2	7.5	7.8	7.8	**30.4**
24	Marsabit	6.6	7.0	6.8	6.8	**27.1**
25	Uasin Gishu	5.7	5.9	6.3	6.3	**24.3**
26	Mombasa	8.2	8.2	7.1	7.1	**30.5**
27	Busia	5.8	6.0	6.0	6.0	**23.8**
28	Narok	6.5	6.4	8.0	8.0	**29.0**
29	Muranga	6.2	6.2	6.3	6.3	**25.0**
30	Homa Bay	6.5	6.7	6.7	6.7	**26.7**
31	Kisumu	6.6	6.9	6.8	6.8	**27.1**
32	Garissa	6.7	6.9	7.0	7.0	**27.7**
33	Migori	6.5	6.7	6.8	6.8	**26.7**
34	Makueni	6.8	7.1	7.4	7.4	**28.8**
35	Meru	7.7	8.0	8.0	8.0	**31.8**
36	Machakos	7.4	8.3	7.8	7.8	**31.2**
37	Kisii	7.4	7.7	7.8	7.8	**30.7**
38	Wajir	8.1	8.5	8.5	8.5	**33.7**

No.	County	2017/18	2018/19	2019/20	2020/21	Total
39	Kitui	8.7	8.7	8.8	8.8	**35.0**
40	Kilifi	10.0	10.8	10.4	10.4	**41.7**
41	Kiambu	9.7	9.4	9.4	9.4	**37.9**
42	Bungoma	8.8	8.9	8.9	8.9	**35.5**
43	Nakuru	9.3	9.5	10.5	10.5	**39.7**
44	Kakamega	9.9	10.3	10.4	10.4	**41.1**
45	Mandera	9.7	10.1	10.2	10.2	**40.3**
46	Turkana	10.1	10.8	10.5	10.5	**41.9**
47	Nairobi	15.4	15.8	15.9	15.9	**63.0**
	Grand Total	**302.0**	**314.0**	**316.5**	**316.5**	**1,249.0**

Appendix 3.3 Equitable Share Allocation Under the Third Formula (KSh. Billion)

No.	County	2021/22	2022/23	2023/24	2024/25	Total
1	Lamu	3.1	3.1	3.2	3.3	**12.7**
2	Isiolo	4.7	4.7	4.9	4.9	**19.2**
3	Tharaka Nithi	4.2	4.2	4.4	4.4	**17.2**
4	Elgevo Marakwet	4.6	4.6	4.8	4.8	**18.8**
5	Taita Taveta	4.8	4.8	5.0	5.1	**19.8**
6	Laikipia	5.1	5.1	5.4	5.4	**21.0**
7	Kirinyanga	5.2	5.2	5.4	5.4	**21.3**
8	Samburu	5.4	5.4	5.6	5.6	**22.0**
9	Embu	5.1	5.1	5.3	5.4	**21.0**
10	Vihiga	5.1	5.1	5.3	5.3	**20.7**
11	Tana River	6.5	6.5	6.8	6.8	**26.7**
12	Nyamira	5.1	5.1	5.3	5.4	**21.0**
13	Nyandarua	5.7	5.7	5.9	5.9	**23.2**
14	West Pokot	6.3	6.3	6.6	6.6	**25.8**
15	Kajiado	8.0	8.0	8.3	8.3	**32.6**
16	Baringo	6.4	6.4	6.6	6.7	**26.1**
17	Nyeri	6.2	6.2	6.5	6.5	**25.5**
18	Kericho	6.4	6.4	6.7	6.7	**26.3**
19	Bomet	6.7	6.7	7.0	7.0	**27.4**
20	Nandi	7.0	7.0	7.3	7.3	**28.6**
21	Siaya	7.0	7.0	7.3	7.3	**28.5**
22	Trans Nzoia	7.2	7.2	7.5	7.5	**29.4**
23	Kwale	8.3	8.3	8.6	8.6	**33.7**
24	Marsabit	7.3	7.3	7.6	7.6	**29.7**
25	Uasin Gishu	8.1	8.1	8.4	8.5	**33.0**
26	Mombasa	7.6	7.6	7.9	7.9	**30.9**
27	Busia	7.2	7.2	7.5	7.5	**29.3**
28	Narok	8.8	8.8	9.2	9.2	**36.1**
29	Muranga	7.2	7.2	7.5	7.5	**29.3**
30	Homa Bay	7.8	7.8	8.1	8.2	**31.9**
31	Kisumu	8.0	8.0	8.4	8.4	**32.8**
32	Garissa	7.9	7.9	8.2	8.3	**32.4**
33	Migori	8.0	8.0	8.3	8.4	**32.7**
34	Makueni	8.1	8.1	8.5	8.5	**33.2**
35	Meru	9.5	9.5	9.9	9.9	**38.8**
36	Machakos	9.2	9.2	9.5	9.6	**37.5**
37	Kisii	8.9	8.9	9.3	9.3	**36.4**
38	Wajir	9.5	9.5	9.9	9.9	**38.7**

No.	County	2021/22	2022/23	2023/24	2024/25	Total
39	Kitui	10.4	10.4	10.8	10.9	**42.5**
40	Kilifi	11.6	11.6	12.1	12.2	**47.6**
41	Kiambu	11.7	11.7	12.2	12.3	**48.0**
42	Bungoma	10.7	10.7	11.1	11.2	**43.6**
43	Nakuru	13.0	13.0	13.6	13.7	**53.3**
44	Kakamega	12.4	12.4	12.9	13.0	**50.7**
45	Mandera	11.2	11.2	11.6	11.7	**45.7**
46	Turkana	12.6	12.6	13.1	13.2	**51.6**
47	Nairobi	19.2	19.2	20.1	20.2	**78.8**
	Grand Total	**370.0**	**370.0**	**385.4**	**387.4**	**1,512.8**

Appendix 3.4 Equitable Share Allocation Under the Fourth Formula (KSh. Billion)

No.	County	2025/26
1	Lamu	3.9
2	Isiolo	5.6
3	Tharaka Nithi	5.1
4	Elgevo Marakwet	5.5
5	Taita Taveta	5.8
6	Laikipia	6.1
7	Kirinyanga	6.2
8	Samburu	6.3
9	Embu	6.1
10	Vihiga	6.0
11	Tana River	7.2
12	Nyamira	6.1
13	Nyandarua	6.7
14	West Pokot	7.0
15	Kajiado	8.9
16	Baringo	7.1
17	Nyeri	6.9
18	Kericho	7.2
19	Bomet	7.4
20	Nandi	7.8
21	Siaya	7.8
22	Trans Nzoia	8.0
23	Kwale	9.1
24	Marsabit	8.1
25	Uasin Gishu	9.0
26	Mombasa	8.4
27	Busia	8.0
28	Narok	9.8
29	Muranga	8.0
30	Homa Bay	8.6
31	Kisumu	8.9
32	Garissa	8.9
33	Migori	8.9
34	Makueni	9.0
35	Meru	10.6
36	Machakos	10.2
37	Kisii	9.8
38	Wajir	10.5
39	Kitui	11.5

No.	County	2025/26
40	Kilifi	12.8
41	Kiambu	13.1
42	Bungoma	11.8
43	Nakuru	14.5
44	Kakamega	13.7
45	Mandera	12.3
46	Turkana	13.9
47	Nairobi	21.4
	Grand Total	**415.0**

Appendix 4: Composition of Counties' Total Revenues (KSh. Million)

Year	Equitable Share	Conditional Grants-National	Loans And Grants-Donors	Own Source Revenue
2013/14	190,000	3,419	16,581	26,296
2014/15	226,661	1,870	13,889	33,849
2015/16	259,775	16,598	10,671	35,022
2016/17	280,300	18,028	3,871	32,523
2017/18	302,000	23,273	16,408	32,492
2018/19	314,000	25,500	33,242	40,305
2019/20	316,500	22,895	38,705	35,773
2020/21	316,500	23,164	30,204	34,444
2021/22	370,000	7,537	32,344	35,908
2022/23	370,000	5,654	18,267	37,809
2023/24	385,425	10,117	29,072	58,949
2024/25	387,425	7,547	30,747	67,298
2025/26	415,000	9,948	56,908	-
Total	**4,133,585**	**175,551**	**330,909**	**470,665**

This book examines Kenya's revenue-sharing framework under devolution, tracing the evolution of vertical and horizontal revenue sharing, county revenues, conditional grants, and key policy debates from 2013 to 2026. It provides practical and policy-relevant insights for policymakers, county officials, researchers, students, and public finance practitioners interested in equity, accountability, and effective intergovernmental fiscal relations.

ABOUT THE AUTHOR

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