PARLIAMENTARY SERVICE COMMISSION

FOURTH BASIS OF
REVENUE SHARING AMONG COUNTIES

PARLIAMENTARY BUDGET OFFICE

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GLOSSARY

BETA	Bottom-Up Economic Transformation Agenda
BIR	Bureau of Internal Revenue
BOC	Bureau of Customs
BROP	Budget Review and Outlook Paper
BTr	Bureau of the Treasury
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CHT	Canada Health Transfer
COK	Constitution of Kenya
CRA	Commission on Revenue Allocation
CST	Canada Social Transfer
DENR	Department of Environment and Natural Resources
DOF	Department of Finance
DORA	Division of Revenue Act
DUG	District Unconditional Grants
FDS	Fiscal Decentralization Strategy
FFC	Financial and Fiscal Commission
FGPG	Federal Government-Provincial Government
FY	Financial Year
GCP	Gross County Product
GDP	Gross Domestic Product
ICT	Information and Communications Technology
IGFTR	Inter-governmental Fiscal Transfer Reform
KIHBS	Kenya Integrated Household Budget Survey
KPHC	Kenya Population and Housing Census
Kshs	Kenya Shillings
LGFC	Local Government Finance Commission
LGUs	Local Government Units
LMB	Lands Management Bureau
NTA	National Tax allotment
NSO	National Statistics Office
OPEC+	Organization of the Petroleum Exporting Countries
OSR	Own Source Revenue
PES	Provincial Equitable Share
PHP	Philippine Peso
RMAFC	Revenue Mobilization Allocation and Fiscal Commission
SARS	South African Revenue Service
SSA	Sub-Saharan Africa
UCG	Unconditional Grants
DDEG	Discretionary Development Equalisation Grant
UGs	Unconditional Grants
UK	United Kingdom

FOREWORD

Equitable sharing of national revenue is fundamental to Kenya's commitment to fostering sustainable development, reducing regional disparities, and promoting inclusive growth. Anchored in the Constitution of Kenya, the principles guiding this process are designed to ensure that every Kenyan benefits from the country's economic progress, irrespective of his or her geographical location or socio-economic status.

This document comprehensively explores Kenya's revenue-sharing framework, tracing its evolution from the 1st to the current proposed 4th Basis. Each chapter delves into the principles, parameters, and practical implications, offering an in-depth analysis of the strides and challenges encountered in implementing equitable revenue distribution.

Chapter One lays the foundation by articulating the constitutional principles underpinning equitable revenue sharing, as stipulated in *Article 203 of the Constitution.* It highlights the vision of a nation where resources are allocated fairly to support diverse regional needs and priorities.

In Chapter Two, the document critically examines the previous revenue-sharing bases, identifying their strengths and weaknesses. This review provides valuable lessons for refining future frameworks by ensuring they align better with Kenya's constitutional mandate and developmental goals.

Chapter Three extends the discourse by presenting international perspectives. Through comparative analyses with countries such as Uganda, Ethiopia, Nigeria, and Germany, this chapter underscores the importance of learning from global experiences to enhance Kenya's revenue-sharing framework.

Chapter Four evaluates the proposed Fourth Basis for revenue sharing, detailing its parameters and guiding principles. The chapter underscores the role of the Parliamentary Budget Office in ensuring informed decision-making and its impact on equitable service delivery, economic growth, and fiscal sustainability. Further, it provides some scenarios for revenue sharing among county governments based on the fourth basis. Finally, Chapter Five outlines emerging issues.

The PBO's also analyses and guides Parliament in evaluating the impact of the proposed revenue-sharing formula on the economy and the fiscal policies of national and county governments. By providing insights into the sustainability of the proposed basis, the office helps advise on whether the eventual revenue-sharing orientation is fiscally sound and conducive to balanced regional development across the country.

EXECUTIVE SUMMARY

Context. Kenya's revenue-sharing framework is compared with countries like Nigeria, Brazil, Ethiopia, Uganda, South Africa, Philippines, Canada, and Australia, which have decentralized systems of governance and revenue-sharing models. Kenya has encountered a myriad of observed challenges relating to the implementation of previous revenue sharing bases. These include outdated data, inability to measure poverty gap changes, challenges in accounting for unique county features, insufficient funding, and poor parameter measurement (e.g., infrastructure needs). The observed challenges and the constitutional mandate of the Senate to determine the basis for allocating national revenue to counties every five years, with Commission on Revenue Allocation (CRA) making recommendations triggered the need to come up with a fourth basis for revenue sharing among county governments for FY2025/26-FY 2029/30. This course aims at addressing service delivery challenges, economic disparities and fulfilling Article 203 of the Constitution that emphasizes principles of equitable and inclusive development. The previous three revenue sharing bases encompassed various parameters where 1st and 2nd Bases focused on population, equal share, poverty index, land area, and fiscal responsibility, with the 2nd base adding the development factor while the 3rd Base removed fiscal effort and development factor but introduced health, agriculture, urban services, and rural access indices.

Macroeconomic developments. Global growth is expected to remain steady, with emerging markets showing resilience. Kenya's economy is projected to grow at 5.4% between 2024 and 2029 driven by agriculture and services, inflation is anticipated to remain within the government target range of 5± 2.5 %, with slight declines in interest rates. Revenue performance is projected to increase due to better ordinary revenue performance with expenditure decline to 21.8% of GDP by FY 2028/29. Risks include geopolitical tensions, climate change, fiscal consolidation measures, limited fiscal space and sticky real wages which could impact the projected growth prospects. Counties heavily rely on the equitable share for financing, with its contribution growing from 76.4% in FY 2019/20 to 93.0% in FY 2023/24, highlighting their dependence on national transfers for key services.

Fourth basis framework. The Fourth basis revenue-sharing framework for Kenyan county governments aims to facilitate service delivery and address economic disparities. The framework introduces five critical parameters with specific weights i.e. Equal Share (22%), Population (42%), Geographical Size (9%), Poverty (14%), and Income Distance (13%). A stabilisation factor is also integrated in the framework to protect counties from abrupt financial reductions.

Emerging issues. Emerging issues in resource sharing include unresolved constitutional disputes, ongoing disagreements about revenue sharing, inconsistent reviews of revenue formulas, the use of different parameters, and the introduction of new factors like the income distance index and stabilization measures, which raise data credibility and lack of scientific basis.

Policy recommendations. To enhance the effectiveness and equity of the revenue-sharing framework, several key policy recommendations should be pursued. Firstly, strengthening data collection and monitoring is critical. There is need to invest in updating and improving data systems to ensure that parameters such as poverty levels, infrastructure needs, and economic disparities are accurately captured and kept up to date. Reliable and current data is essential for enhancing the fairness and reliability of the revenue-sharing formula, ensuring that it reflects the actual needs of counties. Secondly, the refinement of the Fourth Basis should also be prioritized. It is essential to review and validate new parameters, such as the income distance and stabilization factor, to ensure they are grounded in sound scientific methodologies and supported by reliable data. Furthermore, regular reviews of the revenue-sharing formula should be integrated into the framework, ensuring that it remains fair, transparent, and adaptable to evolving economic conditions and the diverse needs of counties. Thirdly, foster greater and enhanced county autonomy by encouraging counties to diversify their revenue streams. This could be achieved by developing more efficient local tax systems and improving the management of local resources, allowing counties to become less dependent on national transfers and more capable of sustaining their own development agendas. Finally, it is crucial to resolve constitutional disputes swiftly. The unresolved issues regarding revenue-sharing should be addressed to provide a clear and stable legal framework for long-term county financing.

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I. MACROECONOMIC OUTLOOK IN VIEW OF THE FOURTH BASIS FOR REVENUE SHARING

1. **The Fourth Basis for Revenue Sharing among County Governments will be effective from FY 2025/26 to FY 2029/30.** This section provides an outlook of key macroeconomic indicators over that period.

A. Economic Growth Prospects

2. **Global economic growth is expected to remain steady yet underwhelming over the period under consideration.** According to the World Economic Outlook Report[1], global growth will oscillate at around 3.1 and 3.3 percent between 2024 and 2029 while based on the Global Economic Prospects Report[2], between 2024 and 2026, the average global growth rate will be around 2.6 percent. These growth prospects are predicated on stable commodity prices, higher purchasing power due to rising wages, slow inflation rate, and contraction in monetary policy stance.

3. **The growth prospects are not even across regions and nations.** Growth in advanced economies is expected to stabilize at 1.8 percent in 2025 and 2026 due to stronger private consumption attributed to rising real wages and higher investment amid favorable financing conditions due to monetary policy easing. On the downside, a slower-than-anticipated rate of disinflation may continue to drag growth potential.

4. **Emerging markets and developing economies are expected to remain resilient, with growth decreasing slightly from 4.4 percent in 2023 to 4.3 percent in 2024 and stabilizing at 4.3 percent through 2026.** The slowdown is attributed to slowing productivity in most developing countries, the extension of oil production cuts by OPEC+ countries, and regional conflicts in Eastern Europe, the Middle East, and Sub-Saharan Africa.

5. The possible escalation of regional conflicts, slower than expected reduction in interest rates in advanced economies such as the UK and Eurozone, and policy uncertainties attributed to changes in government in some major economies may pose a significant risk to global growth.

6. **The Sub-Saharan Africa region is expected to accelerate economic performance from 3.4 percent in 2023 to 3.7 percent in 2024 and 4.1 percent through 2026.** This favorable growth projection is expected to be driven by non-resource-rich economies, which are forecasted to maintain a growth rate above the regional average. However, resource-rich economies will see a slight slump in growth due to the continued weak growth in demand from China and the extension of oil production cuts by the OPEC+ countries. A significant risk to economic growth is

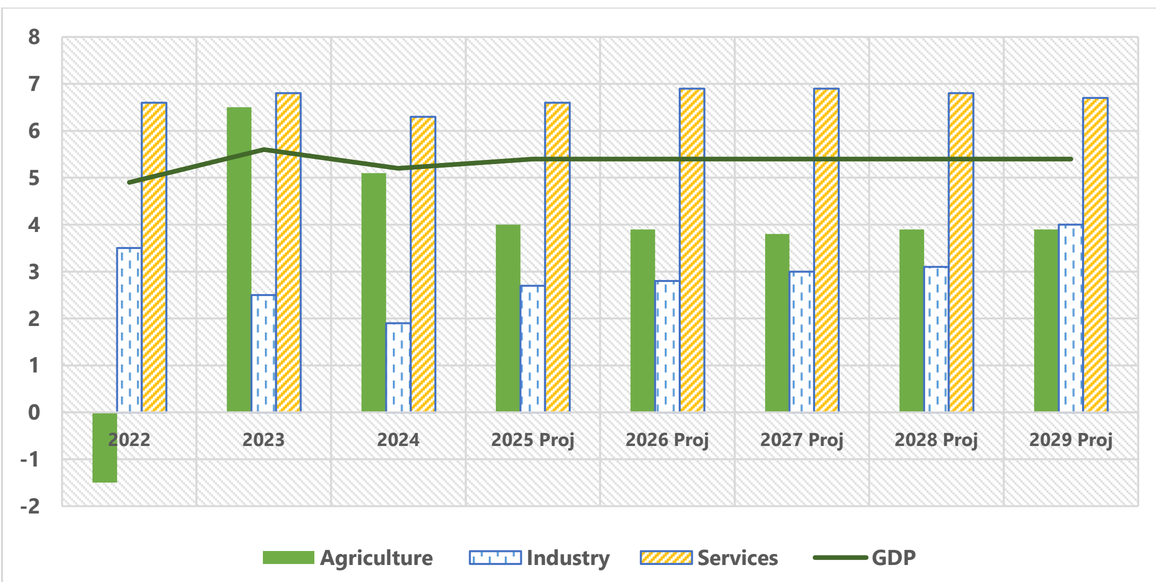
[1]International Monetary Fund | October 2024
[2]The World Bank | June 2024

the tightening of fiscal policies aimed at containing high government debt levels with higher taxes and lower government spending.

7. **Kenya's economy is projected to grow on average at 5.4 percent between 2024 and 2029 compared to 5.6 percent in 2023.**[3] This growth will primarily be driven by the recovery in the agriculture sector and the continued resilience of the service sector. Growth in the agriculture sector is premised on the continued implementation of the BETA priority value chains and provision of quality inputs, which will attract more investments and enhance the sector's productivity.

8. **Growth in the services sector is anchored on ICT reforms, boosting growth in financial services, healthcare, and public administration.** The industrial sector is also expected to expand, albeit marginally, primarily in manufacturing due to reduced production costs and easing exchange rate pressures. Further, efficient implementation of the government's affordable housing program may spur growth in the construction sector.

Figure 1: Economic growth performance and projections



Source: National Treasury, 2024

9. **The projected growth prospects face significant global and domestic-based downside risks.** These include sustained escalation of geopolitical tensions, which may disrupt global supply chains; fiscal consolidation measures that may harm economic growth; limited fiscal space due to escalating public debt expenditures; climate change-related shocks such as adverse weather conditions; and sticky real wages over the medium term. The recent downgrade of Kenya by

[3] Budget Review and Outlook Paper 2024| National Treasury

international rating agencies[4] is likely to increase the borrowing costs, thus reducing public consumption and investment. This may further be compounded by the slower-than-expected reduction in interest rates in advanced economies.

B. Inflation and Interest Rates

10. **Global inflation is projected to decline from the annual average of 6.8 percent in 2023 to 5.9 percent in 2024 and stabilize at 4.5 percent from 2025.** Advanced economies are expected to witness faster inflation reductions driven by calmer labor markets and the effects of tight monetary policies. Inflation in emerging markets and developing economies is expected to drop at a slower pace due to higher food and fertilizer prices and currency depreciation from delays in interest rate cuts by some advanced economies such as the UK and Eurozone.[5]

11. **Inflation in SSA is expected to remain elevated over the medium term.** This is mainly attributed to the pass-through effect of supply chain disruptions caused by regional conflicts in Eastern Europe and the Middle East, the adverse effects of climate change, dependency on agricultural imports, and currency depreciation across most countries. A significant risk to inflation in SSA countries is the adverse effects of climate change, which may disrupt agricultural production, impacting the cost of basic food commodities.

12. **Locally, the annual inflation is projected to remain within the government target range of 5± 2.5 percent over the medium term, driven mainly by the decline in food and fuel inflation.** The inflation target is expected to be sustained through the implementation of a prudent monetary policy to anchor expectations. Further, decline in food prices owing to favorable weather conditions, gradual decline in oil prices due to a reduction in global crude oil prices, and government interventions to lower the cost of production through investment in BETA value chains. The downside risk to the inflation outlook is the adverse effects of climate change that may disrupt agricultural production.

13. **The Central Bank of Kenya aims to maintain stable interest rates over the medium term while easing the monetary policy stance.** To achieve this and maintain overall inflation, the CBK has pursued a tight monetary policy stance since May 2022, gradually increasing the CBR from 7 percent in April 2022 to 13 percent in February 2024. This policy was expected to anchor inflationary expectations, drive inflation downwards to the mid-point range of 5 percent, and address residual pressures on the exchange rate.

14. **Consequently, interest rates have remained elevated, with the 91-day treasury bill averaging 16.2 percent, lending rates averaging 16.3 percent, and deposit rates averaging 10.8 percent.** The CBK has started easing off its monetary policy stance, with a slight reduction in

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[4]**S&P** lowered its rating of Kenya to **B-**from **B** on August 23, 2024 and **Fitch** downgraded Kenya to **B-** from **B** on August 2, 2024, citing heighted public finance risks and increasing cost of servicing public debt.
[5]https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024

the CBR to 12.5 percent in August 2024. Going forward, interest rates are expected to decline slightly, with risks tilted on the downside, mostly due to continued domestic borrowing by the government and risks associated with the recent downgrading of the Kenyan risk profile by international credit rating agencies.

C. Revenue and Expenditure Outlook

15. **The Budget Review and Outlook Paper[6] projects that during the implementation of the fourth basis, total revenues will increase from 16.78 percent of GDP in FY 2023/24 to 18.84 percent by 2028/29. The increase is expected to be driven by better performance in ordinary revenue, which** is poised to grow from 14.5 percent of GDP in FY 2023/24 to about 16.5 percent of GDP by 2028/29.

16. **It is, however, notable that over the last decade, total and ordinary revenue as a share of GDP has been on a downward trend.** This downward trend reveals consistent structural and economic challenges in growing revenue relative to economic output. Should this trend manifest itself during the implementation of the fourth basis, it will affect the timely availability of resources to the devolved units, thereby negatively impacting service delivery.

17. **Total expenditure and net lending are projected to decline from 22.3 percent of the GDP in FY 2023/24 to 21.8 percent by 2028/29.** The decline will be driven by a decline in recurrent expenditure from 16.6 percent of GDP in FY 2023/24 to 15.1 percent by 2028/29, including a reduction in wages and salaries and interest payments on public debt. Development expenditure is expected to increase from 3.4 percent of GDP to 4.9 percent over the same period.

[6] National Treasury, 2024

Table 1: Fiscal Framework Performance and Outlook

Details	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29
	Actual	Actual	Sup 1	BROP 2024	BROP 2024	BROP 2024	BROP 2024
	Kshs. Billions						
Total Revenue	**2,355.00**	**2,702.60**	**3,060.00**	**3,516.60**	**3,968.10**	**4,470.40**	**5,090.90**
Ordinary Revenue	2,041.10	2,288.90	2,631.40	**3,294.20**	3,424.70	3,876.40	4,441.70
Expenditure and Net Lending	**3,221.10**	**3,605.10**	**3,880.80**	**4,329.30**	**4,782.00**	**5,309.10**	**5,911.30**
Recurrent Expenditure	2,311.60	2,678.40	2,826.30	**3,076.90**	3,382.90	3,761.30	4,084.10
Interest Payments	*687.30*	*840.70*	*1,009.90*	**1,081.20**	*1,195.70*	*1,324.20*	*1,402.90*
Wages and Salaries	*539.60*	*575.30*	*602.70*	**650.90**	*683.50*	*717.60*	*742.80*
Development Expenditure and Net Lending	493.70	546.30	591.50	**804.70**	944.40	1,080.80	1,346.20
County Transfers	415.80	380.40	451.00	**442.70**	449.70	462.00	476.00
Equitable Share	*399.60*	*354.60*	*410.80*	**405.10**	*417.00*	*429.40*	*443.40*
Conditional Allocation	*16.20*	*25.80*	*40.20*	**37.70**	*32.70*	*32.70*	*32.70*
Nominal GDP	**4,299.20**	**16,106.00**	**18,053.70**	**19,971.60**	**22,051.50**	**24,399.50**	**27,021.50**
	% of GDP						
Total Revenue	16.47	16.78	16.95	17.61	17.99	18.32	18.84
Ordinary Revenue	14.27	14.21	14.58	16.49	15.53	15.89	16.44
Expenditure and Net Lending	22.53	22.38	21.50	21.68	21.69	21.76	21.88
Recurrent Expenditure	16.17	16.63	15.65	15.41	15.34	15.42	15.11
Interest Payments	4.81	5.22	5.59	5.41	5.42	5.43	5.19
Wages and Salaries	3.77	3.57	3.34	3.26	3.10	2.94	2.75
Development Expenditure and Net Lending	3.45	3.39	3.28	4.03	4.28	4.43	4.98
County Transfers	2.91	2.36	2.50	2.22	2.04	1.89	1.76
Equitable Share	2.79	2.20	2.28	2.03	1.89	1.76	1.64
Conditional Allocation	0.11	0.16	0.22	0.19	0.15	0.13	0.12

II. CHAPTER ONE: INTRODUCTION

18. **The Constitution of Kenya stipulates that every five years, the Senate shall, by resolution, determine the basis for allocating the share of national revenue that is annually allocated to county governments[7].** To support the Senate in fulfilling this role, *Article 216 (1)* of the Constitution mandates the Commission on Revenue Allocation (CRA) to provide recommendations concerning the equitable sharing of revenue raised by the national government, both between national and county governments and among the county governments.

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

20. **In accordance with Article 216 (1)(b),** which requires the CRA to provide recommendations on the equitable sharing of revenue raised by the national government among the county governments, the Commission submitted its recommendations for the fourth basis of revenue sharing to Parliament in January 2025, as mandated by Article 216 (5).

A. Principles of Sharing: Article 203 of the Constitution

21. **Article 203 of the Kenyan Constitution establishes principles for the equitable sharing of national revenue, aiming to foster balanced growth and inclusive development across the country.** This article reflects a commitment to distributing resources in a way that supports Kenya's overall development progress and addresses the specific needs and challenges faced by different counties.

22. **Article 203 aims at advancing the common good, particularly for marginalized groups and regions.** The provision recognizes that certain areas have historically been disadvantaged and require additional support to access basic services and infrastructure. By directing extra funds to Kenyans, the Constitution seeks to bridge existing gaps, providing everyone with a fair economic and social advancement opportunity.

23. **Balanced regional development is another priority within Article 203.** The article is designed to reduce inequalities across Kenya by ensuring that all economically advanced or underdeveloped counties can provide their residents with essential services and infrastructure. This approach aims to create a more united and equitable Kenya, ensuring that development reaches even the most remote and underserved areas.

[7] Article 217 (1) of the COK, 2010

24. **A key objective of Article 203 is to strengthen the financial capacity of county governments, empowering them to meet their constitutional obligations.** The revenue-sharing model takes into account each county's specific needs and responsibilities, enabling them to deliver services and respond to local requirements effectively.

25. **Fiscal responsibility and prudent resource management are also central to Article 203.** Counties are expected to utilize funds transparently, ensuring that spending positively impacts residents' lives. This principle fosters public trust in county governments by promoting sound financial practices, which create a solid foundation for sustainable development.

26. **Additionally, Article 203 recognizes the need to protect counties from economic shocks.** It sets aside resources for unexpected events like natural disasters, health crises, or economic downturns, allowing counties to maintain resilience during challenging times. This helps ensure the continuity of essential services even during crises.

27. **Environmental sustainability is another important aspect envisaged in Article 203, urging counties to manage resources in a way that conserves natural assets and supports future generations.** This provision encourages development that respects the environment and fosters sustainable growth opportunities.

28. **Article 203 of the Kenyan Constitution takes a holistic approach to revenue sharing, aiming to create a Kenya where resources are distributed equitably, responsibly, and with a long-term vision.** It embodies a commitment to national unity and sustainable growth, ensuring that every county has adequate resources to cater for its citizenry.

29. **Intergovernmental transfers are essential for county governments in Kenya, allowing them to meet local needs and provide key services to Kenyans.** Counties rely heavily on these transfers, particularly the Equitable Share of revenue from the national government, which forms their primary funding source. This funding empowers counties to provide essential services like healthcare, education, and infrastructure, helping to close regional disparities, foster balanced national development, and further reinforce Kenya's devolution framework. It also upholds the nation's dedication to sustainable and equitable growth.

B. County Financing

30. **The total funds accessible to county governments comprise the Equitable Share, grants, and Own Source Revenue (OSR).** In the FY 2023/24, Counties primarily relied on the equitable share, which accounted for approximately 72% of their total financing. During this period, grants contributed approximately 7% to county financing, OSR made up 12%, and cash balances from the previous year accounted for 9%. This distribution, which has more or less persisted over the last five years, highlights the significant reliance of county governments on the equitable share of

their financial resources, with a relatively smaller proportion coming from grants and locally generated revenue.

Table 2: Revenue Sources for Counties FY 2019/20 to 2023/24

Details	Equitable Share	OSR	Additional Allocation	Total
2019/2020	316.5	35.77	61.99	414.26
2020/2021	316.5	34.4	53.36	404.26
2021/2022	340.4	35.91	12.01	388.32
2022/2023	370	37.81	16.17	423.98
2023/2024	385.42	58.95	35.97	480.34
% Share of Total				
2019/2020	76.4%	8.6%	15.0%	
2020/2021	76.4%	8.3%	12.9%	
2021/2022	82.2%	8.7%	2.9%	
2022/2023	89.3%	9.1%	3.9%	
2023/2024	93.0%	14.2%	8.7%	

Source: Controller of Budget, 2024

31. **Total funding available to counties has increased over the five years from KShs. 414.26 billion in FY 2019/2020 to KShs. 480.34 billion in FY 2023/2024.** This growth was primarily driven by the growth in equitable share as OSR collection remained relatively unchanged between FY 2019/20 and 2022/23. Consequently, the share of equitable share in county financing increased from 76.4% in FY 2019/2020 to 93.0% in FY 2023/2024.

III. CHAPTER TWO: REVIEW OF PREVIOUS REVENUE SHARING BASIS

STRENGTHS AND WEAKNESSES OF PARAMETERS USED IN COUNTY REVENUE SHARING

A. Introduction

32. **This section looks into the review of the 1st, 2nd, and 3rd revenue-sharing bases respectively.** It aims to analyze the principles used in each basis, the parameters together with their strengths and weaknesses, and the impact of using some of these parameters in revenue sharing.

33. **The introduction of the national and county governments is anchored in Article 6 of the Constitution with the counties being outlined in the First Schedule of the Constitution.** The two levels of government are distinct and interdependent and shall conduct their mutual relations on the basis of consultation and cooperation. Further, *Article 186* of the Constitution provides for the functions and powers of the national and county governments as set out in the Fourth Schedule to the Constitution. It is in furtherance of the provisions of *Article 186* that the equitable sharing of revenue is necessitated.

B. Revenue Sharing: Funding Devolution

34. **The equitable sharing of national revenue between the national and county governments is provided for in Article 202 of the Constitution.** Over the years, county governments have received an equitable share from the national government through the Division of Revenue Act and shared it among the 47 counties through the County Allocation of Revenue Act.

35. **In determining the basis of revenue sharing, the CRA is guided by Article 203(1) of the Constitution which provides for the criteria to be taken into account in determining the equitable share for the county governments.** The criteria provided include among others the fiscal capacity and efficiency of counties, national interest, the need for economic optimization of each county, development and other needs of counties, and the desirability of stable and predictable allocation of revenue.

36. In line with *Article 216(1) b)* of the Constitution and *Section 190 (1) (b)* of the Public Finance Management Act Cap 412A, the CRA, has prepared three bases for sharing revenue among the county governments since the inception of devolution.

C. Allocation Basis Trends

37. The first basis for sharing revenue among counties was approved by the 10th Parliament in November 2012 and used to share revenue for Financial Years 2012/13; 2013/14; 2014/15, 2015/16, and 2016/17. The Second basis was approved by the 11th Parliament in June 2016 and has been used to share revenue among counties in the FYs 2017/18, 2018/19, and FY 2019/20.

The third basis was approved in September 2020 and was expected to be used in the FY 2020/21, 2021/22, 2022/23, 2023/24 and FY 2024/25.

38. **The first and second revenue sharing bases were similar with the variation being the addition of the development factor in the second basis and slight variations in the weights allocated to the rest of the parameters.** The first basis had 5 parameters: Population, Basic Equal Share, Poverty Index, Land Area, and Fiscal Responsibility. The second basis had all 5 parameters with the addition of the Development Factor.

39. **The third basis included 4 additional parameters: Health Index, Agriculture Index, Urban Service Index, and Rural Access Index.** However, it dropped the fiscal effort and development factor parameters included in the first and second bases. Table 3 shows the parameters used in the 1st, 2nd, and 3rd revenue-sharing bases and their weights.

Table 3: Parameters Used in Revenue-Sharing Bases

S/No	Parameters	1st	2nd	3rd
1	Population	45	45	18
2	Basic Equal Share	25	26	20
3	Poverty Index	20	18	14
4	Land Area	8	8	8
5	Fiscal Responsibility	2	2	-
6	Development Factor	-	1	-
7	Health Index	-	-	17
8	Agriculture Index	-	-	10
9	Urban Service Index	-	-	5
10	Rural Access Index	-	-	8
	Total	**100**	**100**	**100**

Source: Parliament of Kenya

40. Table 4 further shows the equitable share of revenue for the counties using the three revenue-sharing bases.

Table 4: Equitable Share of Revenue for County Governments

Revenue Sharing Basis Used	Financial Year	Equitable Share Amount (Kshs Billions)
1st Basis	2012/13	90
	2013/14	190
	2014/15	226.6
	2015/16	259.7
	2016/17	280.2
2nd Basis	2017/18	302
	2018/19	314
	2019/20	316.5
3rd Basis	2020/21	316.5
	2021/22	370
	2022/23	370
	2023/24	385.4
	Total	**3,331**

Source: County allocation of Revenue Acts

41. In selecting the parameters in the first revenue-sharing basis, the CRA sought to achieve two objectives:

a) **Service delivery Objective:** To achieve this objective, the Commission used population, basic equal share, land area, and fiscal responsibility parameters.

b) **Redistribution objective:** The poverty gap parameter was used to achieve the redistribution objective.

42. In the second revenue sharing basis, the Commission expected to achieve the following objectives:

a) **Provision of adequate funding to enable county governments to undertake their assigned functions;** The Commission attempted to achieve this through the population, basic share, and land parameters,

b) **To correct economic disparities and minimize the development gap;** which was to be achieved through the poverty, and development factor parameters,

c) **To stimulate economic optimization and incentivize counties to optimize their capacity to raise revenues;** this was to be achieved through the fiscal effort parameter.

43. **In the third revenue-sharing basis the Commission used a sectoral approach which was guided by the county functions under the fourth schedule of the constitution.** This approach was aimed at ensuring that the financing of County Governments is aligned with service delivery and that county functions received adequate funding to promote balanced development.

44. **The third basis was premised on the achievement of two main objectives namely:**
    a) Enhance service delivery through the Health, Agriculture, Population, Basic Share, and Urban Index parameters; and
    b) Promote balanced development through the Land Area, Rural Access, and Poverty Index parameters.

45. **The use of the third basis for revenue-sharing parameters occasioned substantial losses to some counties which went against the principle of holding harmless hence having the potential to affect service delivery in the counties with substantial losses.** This led to the introduction of a baseline allocation to each county to ensure that equitable share allocations to each county for FY 2021/22 to 2024/25 were higher than or at least equivalent to each county allocation for FY 2019/20.

46. **The Third Basis for revenue sharing has a baseline allocation to each county equivalent to 50 percent of a county's actual allocation for the financial year 2019/20 of Kshs. 316.5 billion.** Based on this, Kshs 158.25 billion is shared using the county allocation index of the 2nd basis while any other amount beyond that is shared using the 3rd basis for revenue sharing.

D. Review of the Criteria of Allocation

47. **The parameters used in the revenue-sharing bases over the years have had their strengths and weaknesses.** The shortcomings of these parameters led to some of them being dropped or improved into more refined and simple-to-use parameters. A good revenue-sharing basis should be simple to use, have clear measuring mechanisms of the parameters, and be easy to implement through several financial years. The 10 parameters used so far are discussed in detail below.

a. Population

48. **Population is a parameter that can allow for predictability of its potential growth or decline.** It has features such as age distribution, gender, distribution of persons with disability, mortality rates, and urban and rural population distribution. These aspects make it a parameter that can be used across all counties to determine the resource needs of the different devolved governments. Additionally, the parameter can be used by counties in allocating budgets to different sectors based on their population characteristics. The parameter is also simple to determine as it only requires census data to obtain the population of counties.

49. **However, the population parameter poses the possibility of inaccuracy from the use of outdated data.** A population census in Kenya is conducted every 10 years and a lot can change within the period even when accounting for growth potential and adverse scenarios. The data currently available for use is from the 2019 census which is 5 years ago as at 2024. Additionally,

the population metric would favour counties with high populations while adversely affecting those with lower populations while holding all other factors constant.

50. **The population parameter may result in inefficiencies if the daytime population of a county differs largely from its nighttime population due to its nature as an urban county or city.** For example, Nairobi city county has high pressure to provide amenities such as water, street lighting, waste management, parking facilities, trade licensing, and firefighting facilities among others due to its large daytime population. However, at night when a census is typically conducted, a good number of these people retire to homes in neighbouring counties such as Machakos, Kajiado, Kiambu, or any other.

51. **The population parameter was allocated 45 percent in the first two bases and dropped to 18 percent in the third basis.** This was occasioned by the increased parameters in the third basis and the indirect use of the population parameter in other parameters in the basis.

b. Basic Equal Share

52. **The basic equal share aims to ensure minimum resource availability for all counties for functions that are considered cross-cutting such as administrative costs and the running costs of each government**. The parameter was allocated 25%, 26%, and 20% weight in the first, second, and third basis respectively. The inclusion of this parameter is meant to ensure that counties meet the fixed costs of setting up and running the governments.

53. **While the basic share parameter is meant for relatively commonly occurring functions in counties, these governments may have fundamental variations even on core functions.** These may arise from the number of sub-counties, divisions, and combinations of ministries, staffing levels, and the general size of the county.

54. **Some of the administrative costs in counties include estimated personnel costs of members of the executive and assembly together with the key county systems such as the financial management system and support staff.** The personnel cost of members of the assembly varies depending on the number of wards in a county. However, larger counties which may require more funds for administrative structures have fewer wards compared to more urbanized counties.

c. Poverty Index

55. **The poverty index is used to promote the welfare of people by allocating revenue based on the poverty level in a county.** The parameter seeks to address the economic disparities in counties and the country in general. The total county allocation for poverty is measured against the poverty index in a county.

56. **Poverty levels are based on three different poverty indices;** the poverty headcount index, the poverty severity index, and the poverty gap index. The poverty headcount index measures the proportion of people living below the poverty line in the county. The poverty severity index

measures the intensity of poverty of the poor in a county. The poverty gap index measures the average extent to which individuals fall below the poverty line.

57. **The parameter used the poverty gap index also known as the depth of poverty in the First and Second Basis for Revenue Sharing.** It ensured the poorest of the poor got the highest allocations of revenue. This promoted redistribution by allocating revenue to eliminate poverty in all counties in the country.

58. **The poverty gap index was however faced with challenges in determining the changes in the poverty gap in different counties.** The changes in the poverty gap are due to changes in the households' incomes over time. These changes resulted in significant shifts in revenue allocations among counties. Changes in the poverty gap in households did not necessarily indicate a higher number of people living above the poverty line. This made the poverty gap index to be deemed unstable following the significant differences in revenue allocations.

59. **The poverty parameter ensures the redistribution of resources to improve the standards of living for those below the poverty line across the country to eliminate poverty.** However, the proxy used for the First and Second Basis of revenue sharing needed to be reviewed since it led to significant shifts in revenue allocation among counties which went against the principle under *Article 203 (j)* of the Constitution on stable and predictable allocation of revenue.

60. **In the third basis for revenue sharing, the parameter was allocated 14 percent, reducing from 20 and 28 percent in the first and second basis respectively and used the poverty headcount index as opposed to the poverty gap index used in the first two bases for revenue sharing.** The change was necessitated by the shortcomings of using the poverty gap index. The poverty headcount allocated revenues among Counties based on the 2015/2016 Kenya Integrated Household Budget Survey (KIHBS). The parameter ensured there are more resources for counties with a larger number of poor people.

d. Land Area

61. **Land area received an allocation of 8% on the first, second, and third basis.** This basis favours large counties by land area while holding other factors constant. This parameter ensures that counties with large land areas receive resources favourably to deliver services to all areas and people of the county. It is observed by the CRA that large counties have increased costs in service delivery up to a certain point after which the cost difference is negligible. The CRA capped the benefit to a single county at 7% beyond which the benefit is not given.

62. **This parameter may lead to high allocation to a large county but with a very low population.** On the other hand, where a county is small but very densely populated, it may receive the short end of the stick and risk compromised service delivery to the people. This brings forth the aspect of population density and its influence on allocation.

63. **Given the parameter doesn't account for the unique features of a county such as its topography, water bodies surface area, forested area, and other elements, it may not augur well with the counties of small surface area but complex land features.** For example, a small county by surface area but with hilly topography may have complexities in providing health services, county transport services, trade development, and county public works, among others that aren't accounted for in the land area parameter. The opposite is also true.

e. Fiscal Effort/Fiscal Responsibility

64. **This parameter was included in the first basis to encourage the fiscal effort of county governments in the mobilization of revenues with an allocation of 2%.** The parameter was measured by the actual revenue increment per capita and the efforts put in place to attain the collection of these revenues.

65. **However, this parameter attracted criticism in that it rewarded counties for doing what was expected of them.** The method was thought to be unfair especially where targets set aren't realistic or are overly low as compared to the county's potential based on its fundamental characteristics. Additionally, the parameter was unstable in that it shifted allocations too frequently if counties' collected revenue changed. Finally, the parameter was thought to lead to high taxation and levies in all counties with an aim to increase their revenues and get a high allocation based on this parameter in the next financial year.

66. **In addition, the fiscal prudence index was used to incentivize the prudent use of public resources.** The metrics used included the setting up of audit committees, the external auditor's opinion of a county's expenditures, the use of funds for development, and the County Budget Economic Forum. This parameter was dropped on the third revenue-sharing basis.

f. Development Factor

67. **The development factor was included in the second basis for revenue sharing at 1% to promote county governments' objectives in service delivery and redistribution.** The development factor parameter sought to address the disparities in county infrastructure. The measures used to develop the parameter include access to water, electricity, and roads in the counties.

68. **The development factor used the infrastructure index based on the proportion of households without access to water and electricity, and a county's share of unpaved roads.** The unpaved road network was specified to those under classes D, E, F, G, H, J, K, M, N, and P. This parameter was meant to minimize the development gap among counties and address infrastructural disparities in the country.

69. **The development factor index received a 1% weight which translates to low revenue allocation to the parameter.** The measure of development needs in the development factor also

faced a challenge where there was no direct measure for the infrastructural needs namely access to clean water and electricity in different households, and the number of unpaved roads in different counties. A direct measure of the respective expenditure for each infrastructural need would ensure allocations are more accurate to cater to the needs of different households and counties. The parameter also did not accommodate maintenance expenditure on already existing infrastructure.

g. Health Index

70. **The health index was introduced in the third revenue-sharing basis.** The parameter got a weight of 17 percent and was based on the number of in-patient and out-patient hospital visits as well as health infrastructure gaps measured by facility shortages relative to established requirements. The number of in-patient and out-patient hospital visits used in the parameter indirectly uses population which is a parameter in revenue sharing. Further, the availability of hospital infrastructure doesn't reflect the quality of health services. The parameter focuses on treatment and cure instead of promotive and preventive health services that will focus on wellness and healthy living.

h. Agriculture Index

71. **The Agriculture Index was assigned a weight of 10 percent and was introduced in the 3rd revenue-sharing basis.** The basis uses the county's proportion of rural population as a measure of sharing revenues. The parameter indirectly uses population which is a parameter in revenue sharing. The basis should aim at agricultural production from different counties for example volume of cash crops, food crops, horticulture, milk and meat production, and fisheries.

i. Rural Access Index

72. **The third revenue-sharing basis introduced the rural access index at a weight of 8 percent to focus on the road infrastructure in counties, which is vital for delivering services effectively and efficiently.** The Counties that need additional revenue to build and improve their infrastructure can receive resources through this parameter. Most big counties have poor road network coverage because of their sparse population and low economic activity; good road networks are typically concentrated in areas with high population and economic activity, such as agriculture and commercial activities. The rural access index measures the proportion of the rural population that can access an all-weather road within two kilometers.

j. Urban Service Index

73. The revenue sharing basis for the urban service index got a weight of 5 percent which was meant to ensure urban functions such as solid waste management, refuse collection, street lighting, streets and parks, stormwater drainage, water and sanitation are adequately funded.

IV. CHAPTER THREE: INTERNATIONAL PERSPECTIVE

74. The importance of international comparison is to allow the country to glean and learn from other countries' experiences and consequently make decisions informed by evidence, lessons, and sound practices when formulating policies.

75. This section covers both the countries that have similarities and differences with Kenya regarding governance structures and revenue allocation principles. Countries with devolved functions and similar revenue allocation principles offer an opportunity for direct comparison. In contrast, countries with different structures provide a broader perspective and a global outlook in revenue sharing. The countries covered in this Chapter include; Uganda, Ethiopia, Nigeria, Brazil, Germany, Philippines, India, New Zealand, Australia and Canada.

A. Revenue Allocation In Nigeria

76. There are three levels of government namely the national, the states or sub-national and the local governments under the Nigerian Federation. Nigeria has a federal system of government organization that promotes the devolution of governmental powers and functions between three levels of government - Federal, State and Local governments.

77. Under the Nigerian Federal arrangement, the local government's function is based on laws made by the state (the sub-national) legislatures. Section 162(3) of the Constitution of Nigeria makes provision for funding of local government by both the federal and state governments and provides for a local government and state's joint account to be managed by the state and through which the state shall transfer funds to each of the local governments of the state. The revenue collection and the legal jurisdiction of the various taxes are as per Table 5.

Table 5: Nigeria's Federal, State and Local Tax Collection

Tax	Legal Jurisdiction Collection		Collection account
Import duties	Federal	Federal	Federation Account
Excise duties	Federal	Federal	Federation Account
Export duties	Federal	Federal	Federation Account
Mining rents & Royalties	Federal	Federal	Federation Account
Petroleum Tax Profit	Federal	Federal	Federation Account
Capital Gains Tax	Federal	State	State
Personal Income Tax	Federal	State	State
Personal Income Tax: armed forces external affairs, officers. Non-residents, residents of the FCT and Nigeria Police Force	Federal	Federal	Federal

Tax	Legal Jurisdiction Collection		Collection account
Value Added Tax (Sales tax before 1994)	Federal	Federal/ State	Federal/state
Company tax	Federal	Federal	Federation Account
Stamp duties	Federal	State	State
Gift tax	Federal	State	State
Property tax and ratings	State	State/ Local	State/ Local
Licenses and fees	Local	Local	Local
Motor Park dues	Local	Local	Local
Motor Vehicle	State	Local	Local
Capital transfer tax (CTT)	Federal	State	State
Pools betting and other betting taxes	State	State	State
Entertainment tax	State	State	State
Land registration and survey fees	State	State	State
Market and Trading license and fees	State	Local	Local

Source: National Bureau of Statistics / Office of the Accountant General of the Federation (Nigeria)

78. The Revenue Mobilization Allocation and Fiscal Commission (RMAFC) is a constitutionally established Commission mandated to review the Revenue Allocation formula from time to time. Other institutions involved in revenue management in Nigeria's federal system are the Central Bank of Nigeria, the Federation Accounts Allocations Committee, and the State Joint Local Government Account.

79. Revenue Mobilization Allocation and Fiscal Commission (RMAFC) law stipulates that the Revenue formula be reviewed every five (5) years, but since 1992, no Nigerian government has been able to review the three (3) decade formula despite the increase in the number of States from 30 to 36, local Government Council from 589 to 774, and population from 88 million to 200 million.

80. Section 162(2) of the Constitution of Nigeria states, "the President, upon receipt of advice from the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC), shall table before the National Assembly a proposal for Revenue allocation from the Federation Account. In determining the formula, the National Assembly takes into account the allocation principles, especially those of population, land mass, terrain as well as population density, provided that the principle of derivation shall be constantly reflected in any approved formula as being not less than 13% of the Revenue accruing to the Federation account from Natural resources".

81. The derivation principle, based on Section 162 (2) of Nigeria's 1999 Constitution, is a benefit-sharing system that returns a percentage of a state's natural resource revenue to the state. The remaining revenue is put into the Federation Account and shared with other states.

82. Currently, the vertical allocation formula from the federal account is 52.68% for the Federal Government, 26.72% for the state government, and 20.6% for the Local Government, while the allocation from the VAT pool is 15% for the Federal Government, 50% for the state government, and 35% for the Local Government. Table 6 shows this vertical allocation from 1981 to date.

Table 6: Vertical Allocation of the Federation Account (1981-To Date)

ITEMS	Initial 1981 Act 1/ (%)	Revised 1981 Act (%)	1990(%)	January 1992 (%)	June 1992 to April 2002(%)	May 2002 (1st Executive Order) (%) *	July 2002 (2nd Executive Order) (%) *	March 2004 (Modified from FMF) - date (%)
Federal Government	55	55	50	50	48.5	56	54.68	52.68
State Government	26.5	30.5	30	25	24	24	24.72	26.72
Local Government	10	10	15	20	20	20	20.6	20.6
Special Funds	8.5	4.5	5	5	7.5			
-A) Derivation (Oil-Producing States) *	2	2	1	1	1	0	0	0
-B) Dev. Of Mineral Producing Areas	3	1.5	1.5	1.5	3	0	0	0
-C) Initial development of FCT Abuja	2.5	0	1	1	1	0	0	0
-D) General Ecological problems	1	1	1	1	2	0	0	0
-E) Stabilization	0	0	0.5	0.5	0.5	0	0	0
-F) Savings	0	0	0	0	0	0	0	0
-G) other Special Projects	0	0	0	0	0	0	0	0
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: National Bureau of Statistics / Office of the Accountant General of the Federation

83. The Horizontal Allocation Formula applies to States and Local Governments only. It provides the basis for sharing of the bulk of revenue already allocated to the 36 States and 774 Local Governments. In the process of determining the horizontal revenue allocation formula, several factors are put into consideration at any given time. They include; Equality of states (40%), Population (30%), Landmass and terrain (10%), internal revenue efforts (10%) and social development Factors; education, health and water (10%). Table 7 reflects how these factors have played out in the horizontal formula from 1970 to date

Table 7: Horizontal Revenue Allocation Formula for Nigeria (1970-To Date)

Principles	1970-80 (%)	Initial 1981 Act (%)	Revised 1981 Act (%)	1990 to 1995 (%)	Proposals of NRMAFC (%)	Proposals of NCC-Committee Revenue Allocation (%)	Current Formula (%)
Equality of States (Minimum responsibility of Government)	50	50	40	40	40	30	40
Population	50	40	40	30	30	40	30
Population Density	0	0	0	0	0	10	0
Internal Revenue Generation Effort	0	0	5	10	20	10	10
Land mass Terrain	0	10	0	10	0	10	10
Social Development Factor	0	0	15	10	10	0	10
Education							4
Health							3
Rural Road/ Inland Water Way							
Water							3
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: National Bureau of Statistics / Office of the Accountant General of the Federation

B. Revenue Allocation In Brazil

84. The Federal Republic of Brazil consists of the Union, 26 States, the Federal District, and over 5,500 Municipalities. Brazil's population, as estimated by the Brazilian Institute of Geography and Statistics, is at 169.59 million inhabitants (2000 Census). The Country is divided into five territorial macro-regions: North, Northeast, Southeast, South, and Central-West according to similar human, economic, physical, and social characteristics.

85. Brazilian local governments provide essential public goods and services such as education, infrastructure, and healthcare. The funding for these services mainly comes from intergovernmental transfers from states and the federal government, enhanced by local tax revenues.

86. Under the Brazilian federal constitution, municipalities have significant autonomy in collecting revenues. With city council approval, they have the authority to implement and set rates for three tax instruments and various public fees. In Brazil, the Federal Constitution provides the main directions for taxation, which establishes the general principles of taxation, the limitations on the power to tax, tax competence across levels of government, and tax revenue sharing provisions. Thus, the Constitution establishes the National Tax System, which stipulates that the Union, the States, the Federal District, and the Municipalities may collect taxes.

87. The Brazilian Constitution establishes a system of "unconditional" transfers between the Union, the States, and the Municipalities, which can be either direct or through the creation of special funds (indirect) to support the administrative-political and financial autonomy of government levels. Table 8 illustrates this.

Table 8: The Intergovernmental Transfers in Brazil

Direct transfers	Indirect transfers:
• States and municipalities are entitled to keep the total collection of income tax they withhold at source on income payments they make or on payments made by their foundations they constitute and maintain; • Municipalities are entitled to 50% of the collection of tax on rural land property (ITR) levied on real estate within their territory; • Municipalities are entitled to 50% of the collection of tax on motor vehicles (IPVA) registered in their territories;	• **Export Compensation Fund (FPEx):** composed of 10% of the total IPI collection. It is distributed proportionally to the number of industrialized products exports. Individual State participation is limited to 20% of the total receipts of the fund. • **Federal District and States Participation Fund (FPE):** composed of 21.5% of the total IPI and IR collection. It is distributed in direct proportion to State population and size, and in inverse proportion to per capita income.

Direct transfers	Indirect transfers:
• Municipalities are entitled to 25% of the collection of tax on the circulation of goods and transportation and communication services (ICMS) (3/4, at least, proportionally to the value-added through operations carried out in their territories and up to 1/4 as provided in the State Law); • States and Municipalities of origin receive by transfer respectively 30% and 70% of the collection of I OF – Gold (as a financial asset).	• **Municipalities Participation Fund (FPM):** composed of 22.5% of the total IPI and IR collection. It is distributed proportionally to the population of each unit. 10% of the fund is set aside for the Municipalities of the capital cities. • **Regional Funds:** composed of 3% of the total IPI and IR collection. This revenue is directed to development programs in the North (FNO), Center West (FCO) and Northeast (FNE) regions.

Source: IMF, World Bank Publications

C. Revenue Allocation In Canada

88. Canada is a federal nation composed of heterogeneous provinces. Canada consists of 10 provinces, 2 territories, and nearly 5,000 local governments, including cities, towns, villages and townships, counties, and special service districts.

89. The Canada Revenue Authority (CRA) is responsible for revenue collection in Canada while the Department of Finance Canada is responsible for the Canadian economy, including preparing the annual federal budget and advising the government on economic and fiscal matters. Other institutions for Revenue Allocation are as Table 9.

Table 9: Institutions Responsible for Revenue Allocation in Canada

Institution	Role
Canada Revenue Agency (CRA)	The CRA is responsible for revenue collection in Canada. The CRA is overseen by the Minister of National Revenue, who is accountable to Parliament for the CRA's activities. The Commissioner of Revenue oversees the day-to-day operations of the CRA.
Department of Finance Canada	The Department of Finance Canada is responsible for the Canadian economy, including preparing the annual federal budget and advising the government on economic and fiscal matters.
Treasury Board of Canada Secretariat (TBS)	The TBS assists the Treasury Board, a Cabinet Committee, in fulfilling its responsibilities. It includes the Office of the Comptroller General of Canada, which provides direction and assistance on financial management and internal audit.

Institution	Role
Local governments	Local governments or municipalities also collect taxes, the major one being property tax.

Source: Department of Finance (Canada)

90. The Government of Canada provides significant financial support to provincial and territorial governments on an ongoing basis to assist them in providing programs and services. There are four main transfer programs: the Canada Health Transfer, the Canada Social Transfer, Equalization, and Territorial Formula Financing.

91. The Canada Health Transfer (CHT) and Canada Social Transfer (CST) are federal transfers to provinces and territories that support specific policy areas such as health care, post-secondary education, social assistance and social services, early childhood development, and child care. CHT and CST these payments have their legislative basis in the Federal-Provincial Fiscal Arrangements Act.

92. The Equalization and Territorial Formula Financing programs provide unconditional transfers to the provinces and territories. Equalization enables less prosperous provincial governments to provide their residents with public services comparable to those in other provinces at reasonably comparable levels of taxation. Territorial Formula Financing provides territorial governments with funding to support public services in recognition of the higher cost of providing programs and services in the north.

93. On taxation, federal and provincial governments can levy taxes in largely the same major areas: personal income, corporate income, and sales. The notable exceptions are the taxation of international trade, which is entirely federal, and the collection of royalties and related revenues from natural resources, which is exclusive to the provinces. For common tax areas, the federal government has access to the entire national tax base; a provincial government, in contrast, is limited to the base within its geographic jurisdiction, and some of its base might move elsewhere if it raises tax rates relative to those of other provinces.

94. Equalization directly addresses this imbalance by bringing the revenues of provincial governments with weaker fiscal capacity closer to those with more substantial capacity. Equalization payments are intended to allow those governments with weaker capacity to provide public services at levels similar to those in other provinces and thus support the proper functioning of Canadian federalism.

95. Equalization calculations are made based on a per capita basis to allow comparisons among provinces with different populations. The population thus forms an implicit assessment of need across provinces as it is assumed that the capacity to generate a comparable level of per capita revenues translates into a comparable ability to provide services.

96. **The allocation of Equalization payments is based on a measure of fiscal capacity, which represents the revenues a province could raise if it were to tax at the national average rate.** Equalization supports provinces with lower-than-average fiscal capacity. Provincial spending decisions and overall fiscal results do not affect Equalization.

97. **The current formula is primarily based on recommendations from the 2006 Expert Panel on Equalization and Territorial Formula Financing report.** Fiscal capacity is determined across five broad revenue categories: personal income taxes, business taxes, consumption taxes, property taxes, and natural resource revenue.

98. **A province's fiscal capacity is not based on its actual tax revenues but on those it could raise with national average tax rates.** For natural resources, consistent with the 2006 Expert Panel's recommendation, fiscal capacity is assessed based on the partial inclusion of actual revenue collected by the province. However, a province's Equalization payment cannot raise its fiscal capacity above that of a non-receiving province when all resource revenues are taken into account.

99. **Equalization payments are calculated per capita and then adjusted for provincial population.** To enhance the stability and predictability of Equalization payments, fiscal capacity is estimated based on a weighted three-year moving average, lagged by two years. For example, payments in 2024-25 reflect data for fiscal years 2022-23 (50 percent weight), 2021-22 (25 percent weight), and 2020-21(25 percent weight).

100. **The overall Equalization envelope is adjusted to keep the total program payout growing in line with the economy.** The growth track is based on a three-year moving average of national nominal gross domestic product (GDP) growth. The Equalization formula is set out in the Federal-Provincial Fiscal Arrangements Act, and regulations are made under the Act.

101. **The total equalization of federal support to provinces in 2024-25 was $25.3 billion. The program is renewed every five years.** The last three renewal cycles for equalization have offered no substantive methodological changes and only minor technical amendments.

D. Revenue Allocation In Australia

102. **Australia's revenue sharing goes as far back as constitutional provisions, as this was developed from the federal structure as per the Constitution of Australia.** The Constitution provides a relative separation of financial powers and burdens between the Commonwealth and the States, which forms the foundation of the developed financial relations over time. These arrangements result from attempts to ensure that while revenue is collected centrally, public services are provided at lower levels.

103. **Under the Australian government, the Commonwealth, State, and local governments share responsibilities and depend on various funding streams to support their operations.** The Australian Constitution and legislative frameworks, which represent the division of powers among the levels of government, influence these sources. The revenue collection by the government, the revenue sources, and the collection methods are as provided for in Table 10.

Table 10: Australia Government Revenue Sources

Level of Government	Revenue Sources	Methods of Collection
Commonwealth (Federal)	• Income Taxes: Personal and corporate taxes • Goods and Services Tax (GST) • Customs and Excise Duties • Superannuation Taxes • Fringe Benefits Tax • Non-Tax Revenue: Dividends, fees, royalties	• Administered by the Australian Taxation Office (ATO) • Customs duties managed by the Australian Border Force • Digital platforms like my Tax streamline tax reporting
State and Territory	• Payroll Tax • Stamp Duties (property, insurance, etc.) • Land Tax • Gambling and Betting Taxes • Motor Vehicle Taxes • Royalties: Natural resources • Commonwealth Grants: GST revenue, specific-purpose payments (SPPs), and general-purpose grants	• State revenue offices handle tax collection • Royalties managed through agreements with mining/resource companies • Commonwealth grants allocated based on fiscal needs
Local Government	• Property Rates • Fees and Charges: Waste collection, water supply, community services • Grants: From State and Commonwealth governments	• Property rates are assessed based on property value • Fees collected for specific services • Grants provided for infrastructure, disaster recovery, and community projects

Source: Parliamentary Education Office, Local Government

104. **Under Australia's federal system of government, financial duties and authorities are divided between the Commonwealth (federal government) and the States and Territories, which serve as the framework for revenue sharing.** Regardless of any State's or Territory's ability to generate revenue, the fundamental idea of revenue sharing is to guarantee that they have the financial means to deliver public services at a comparable level. The main elements in revenue

sharing include the constitutional framework, horizontal fiscal equalization, and vertical fiscal imbalance, which are determined by the formula used for revenue sharing.

105. In Australia, revenue sharing is a continuous process that is usually evaluated once a year. Long-term agreements are reviewed and modified regularly, usually every five years. Tables 11 and 12 show the basis of revenue sharing and the formula used.

Table 11: Elements in Revenue Sharing Basis in Australia

Basis of Revenue Sharing	Details
Constitutional Framework	• The Commonwealth controls customs and excise duties, which makes it the primary revenue collector (Section 90) • The Commonwealth can provide financial assistance to States (Section 96)
Horizontal Fiscal Equalization (HFE)	• Ensures equalization of financial resources between States and territories. • States and territories receive revenue based on their expenditure needs and fiscal capacity to provide similar services, population size, and income.
Vertical Fiscal Imbalance (VFI)	• The Commonwealth collects most of tax revenue, but States are responsible for significant public service delivery, requiring Commonwealth grants to balance the system.

Source: Econstor-Fiscal Equalization in Australia

Table 12: Formula for Revenue Sharing in Australia

Technique/Formula	**Details**
Goods and Services Tax (GST) Distribution Formula (horizontal fiscal equalization)	• Allocates GST revenue from the Commonwealth to States based on population size, fiscal capacity, expenditure needs, and economic performance. Therefore, a larger population receives more GST; wealthier states receive less GST, states with low economic performance receive more GST, and states with higher service costs receive more GST.
Commonwealth Grants Commission methodology	• Standardized Revenue: Theoretical revenue from States' tax bases is adjusted for differences in each state's capacity. • Standardized Expenditure: Cost of providing service adjusted for demographic factors • Relativity Factor: Measures how each State's fiscal capacity compares to the national average

Source: Econstor-Fiscal Equalization in Australia

E. Revenue Allocation in Ethiopia

106. **The Constitution of The Federal Democratic Republic of Ethiopia establishes a federal and democratic structure.** The Republic of Ethiopia has a Federal Government and State Governments. Ethiopia is divided into 9 National regional states and 2 Chartered cities. The regional states are headed by a president elected by the state council, while a chairman heads the chartered cities.

107. **Ethiopia's primary sources of revenue are exports, services, and taxes.** The country exports coffee as its main export and its primary service earnings are from the state-run Ethiopian Airlines. The Ethiopian federal system follows the conventional model of separate provisions for the division of revenue sources between the federal government and regional governments. The state governments collect their tax while the federal government collects its tax as in Table 13.

Table 13: Source of Revenue for Federal and State Governments in Ethiopia

Taxes imposed by the State Governments	Taxes imposed by the Federal Government
a) Taxation of employment income from employees of the state government. b) Agricultural tax from farmers. c) Tax on individual traders, houses, and other property owned by private persons or regional government. d) Employment and sales tax from public enterprises owned by the state government; e) Forest products, royalties, and land lease fees from small mining undertakings.	a) Employment from the employees of the federal government and its public enterprises and international organizations, b) Federal stamp duties, c) Monopoly tax, d) Value-added tax, e) National lottery, f) Fees from licenses issued and services provided by organs of the federal government g) Import and export taxes and dues

Source: Constitution of the Federal Democratic Republic of Ethiopia

108. The State governments receive additional revenue from the Federal Government through Federal subsidies/Fiscal transfers. The revenue-sharing basis is indicated in Table 14.

Table 14: Elements in Revenue Sharing Basis for Ethiopia

Basis of Revenue Sharing	Details
Constitutional Framework	- The House of Federation (HoF) controls customs and excise duties, which makes it the primary revenue collector. - The Federal government can provide financial assistance to States. According to Section 47.
Horizontal Fiscal Equalization (HFE)	- Ensures equalization of financial resources between States and territories. - States and territories receive revenue based on their level of development and revenue-raising capacity to provide similar services, population size, and income.
Vertical Fiscal Imbalance (VFI)	- The Federal government collects most of the tax revenue, but States are responsible for significant public service delivery, requiring (HoF) grants to balance the system.

Source: Constitution of the Federal Democratic Republic of Ethiopia

109. **Political factors significantly influenced the allocation of fiscal transfers in Ethiopia during the 1990s.** The improvement in the subsidy-sharing formula over time highlights extra-formulaic political factors that shape allocation. The House of Federation (HoF) was mandated to determine the formula by which revenue is to be allocated to the various provinces/states.

110. **The Regional Share of Federal Subsidies formula is used for three financial years in Ethiopia**, **but in some situations, its implementation period may be extended or reduced.** Variables/Weights used between 1995 and 2007 include population size, level of development, revenue-raising effort, preceding year capital, territorial size, and poverty index, as shown in Table 15.

Table 15: Variables and weights used in the distribution of revenue in Ethiopia

Variables	Weight in %					Average
	1995	1997	1998	2000	2007	
Level of development	25	33.3	15	20	25	23.7
Revenue raising ability	20	33.3	15	15	10	18.7
Population size	30	33.3	60	55	64	48.7
Land size	10	0	10	0	0	4
Poverty index	0	0	0	0	0	2
Previous year's capital budget	15	0	0	0	0	3

Source: Ethiopia Statistical Services

111. **Some variables were removed from the formula after 2007 since the subsidy allocation formulas needed to include straightforward metrics like population, territorial size, and poverty levels, for which data could be obtained from government statistical reports.** In 2009-2012, the revenue-sharing basis entailed assessing expenditure needs, e.g., education, health, estimation of revenue capacity, and the gap between expenditure needs and revenue capacity.

112. **In FY 2021/22, regional governments were allocated 53.8% of the national budget.** Of the total budget in the financial year 2024/2025, 236.7 billion birrs was allocated for regional state subsidies. The current Federal Government-Provincial Government (FGPG) Formula was implemented in 2017 and has been used ever since. Below are the Key Components of the FGPG Formula:

a. **Revenue Sharing**: The formula establishes how federal revenues are shared with the regions. This typically includes revenues from taxes and natural resources,
b. **Criteria for Allocation**:
   - **Population Size**: A significant portion of the allocation is based on the population of each region, ensuring that larger populations receive adequate funding.
   - **Economic Disparities**: The formula considers regional economic conditions, directing more resources to less developed areas.
   - **Geographic Factors**: Geographic considerations, such as rural vs. urban populations and infrastructure needs, are also factored into the allocation.

c. **Percentage Breakdown**: While the exact percentages can vary, a general breakdown used in previous frameworks (like the one formulated in 2017) may resemble:
   - **70%** based on population size.
   - **20%** based on economic development and poverty levels.
   - **10%** based on geographic considerations and specific developmental needs.

113. **Some of the implementation challenges include equity vs. efficiency: Balancing equitable distribution with the efficient use of resources has been challenging, while political dynamics, including regional political considerations,** have influenced how resources are allocated and utilized.

114. **In FY 2023/2024, the state of Oromia was allocated 72 billion, with its population being the highest at 27 million. Hariri received an allocation of 1.6 billion, with the lowest population of 183 thousand. The data used in calculating the amount to be allocated to each province is referenced from the country's 2007 census**.

F. Revenue Allocation in Uganda

115. **Decentralization in Uganda began in the early 1990s, preceding the highly centralized system of governance, where the central government held most of the power and resources.** The centralization of power and resources was characterized by inefficiencies and an unresponsive focus on the needs of local populations. The process of decentralization was institutionalized through legal and Constitutional reforms.

116. **In 1992, the Republic of Uganda adopted the decentralization policy.** The policy sought to increase local participation in governance and to devolve powers from the central government to local authorities. The 1995 the Constitution of Uganda reinforced decentralization as a principle, making it a constitutional mandate for the central government to transfer responsibilities to local governments (Article 176). The devolvement of functions, powers, and responsibilities to local governments was further operationalized by enacting the Local Governments Act Cap 243 of 1997.

117. **The local government system in Uganda is based on a district as a unit under which lower local governments and administrative units can be created.** Section 3 of the Local Governments Act Cap 243 provides that; local governments in a district rural area shall be the district council and the sub-county councils, while local governments in a city shall be the city council and city division councils, and local governments in a municipality are the municipal council and the municipal division councils. The local government in a town is a town council.

a. Sources of revenues for local governments and vertical share of revenue

118. **Decentralization in Uganda involved the transfer of fiscal responsibilities (fiscal decentralization) to the local governments.** This means the local governments were given financial autonomy such that, they had powers to generate their own source revenues, were entitled to receive a share of revenue from the central government, budget, and implement their budgets independently.

119. **The main sources of revenue to local governments in Uganda are the Grants from the Central Government and revenue collected locally.** Local governments' power to collect revenue is granted in the Constitution under Article 191 and expounded in the Local Governments Act Cap 243 in Section 80. Section 80 of the Local Governments Act Cap 243 gives the power to levy, charge, and collect fees and taxes, including rates, rents, royalties, stamp duties, personal graduated tax, and registration and licensing fees.

120. **Despite the power to raise its own source revenue, grants from the central government constitute the highest revenue source (over 87%) for the local governments.** Local governments are entitled to three types of intergovernmental fiscal transfers as provided for under Article 193 of the Constitution. These include;

    a) **Unconditional grant** -which is the minimum grant that can enable local governments to run decentralized services.
    b) **Conditional grant** - which consists of monies given to local governments to finance programmes agreed upon between the two levels of government. It is provided that; the funds shall be expended only for the purposes and under the conditions agreed upon between central and local governments.
    c) **The equalization grant** - Funds designated to support or offer special provisions for the most underdeveloped districts, determined by how far a local government unit falls behind the national average standard for a particular service.

121. **The law tasks the President to present to Parliament proposals of the monies to be withdrawn from the Consolidated Fund as unconditional grants (UCG), conditional grants, and equalization grants to local governments -Article 193(1) every financial year.** The proposals are informed by advisory from the Local Government Finance Commission (LGFC). This Commission is mandated to advise the President on all matters concerning the distribution of revenue between the Government and local governments and the allocation to each local government pursuant to Article 194 of the Constitution.

122. **The formula for determining unconditional grants to local governments in any given financial year is provided for in the Seventh Schedule of the Constitution.** It is provided that unconditional grants to local governments in a given fiscal year are equal to the amount paid to local governments in the preceding fiscal year for the same items adjusted for general price

changes plus or minus the budgeted cost of running added or subtracted services (Seventh Schedule of the Constitution). The formula as established in the constitution is as in Table 16.

Table 16: The formula for determining unconditional grants to local governments

The formula	Explanation of Variable
$Y_1 = Y\# + bY\# + X_1$ $Y_1 = (1+b)Y\# + X_1$	Y_1: The minimum unconditional grant for the current fiscal year.
	$Y\#$: The minimum unconditional grant in the preceding fiscal year.
	b: The percentage change, if any, in the general price levels in the preceding fiscal year;
	X_1: The net change in the budgeted cost of running added and subtracted services in the current year.

Source: Seventh Schedule of Constitution of the Republic of Uganda

123. As captured in the formula, the current fiscal year refers to the unconditional grant given to local governments in FY 1995/96. The main parameters that inform the unconditional grants are wage and nonwage components. The inclusion of the two requires regular adjustments as indicated in the formula. Hence, the wage component is adjusted for increases, while the nonwage component is adjusted for inflation.

124. The wage components of the unconditional grants are meant for the salaries of local government staff, which do not include teachers, health workers, and extension workers. The non-wage allocation is for funding recurrent costs of decentralized services.

125. A key observation is that the Constitution fully entrenched the vertical share of unconditional grants, just like in Kenya. The Constitution does not specify the share of unconditional and equalization grants from the central government to the local government. However, the Constitution specifies that conditional grants are to be agreed upon between the two levels of government, and equalization grants are for meeting specific developmental needs.

126. Additionally, it is notable that Article 193(6)(7) of the Constitution requires that all allocations to local governments be included in the estimates of revenue and expenditure and subsequently in the Appropriation Act in any given financial year. This means that at the budgeting level of the central government, funding to and among counties should be known before the appropriation bill is assented to.

127. There have not been specific guidelines on transferring resources (conditional and equalization grants) from the central government to the local governments, nor a practical formula for distributing them among the local governments. The biggest challenge has been determining how much the sector ministries should channel to local governments and how to distribute unconditional grants among the local governments equitably. Due to a lack of specific guidelines on the sharing of funds to local governments from the central governments (especially for conditional and equalization grants) and among the local governments, there have been several fiscal decentralization evolutions for a decade since 2002.

b. The Mix of Vertical and Horizontal Share of Grants to Local Governments

128. **Uganda is implementing an Inter-governmental Fiscal Transfer Reform (IGFTR) Programme, which was rolled out in 2021.** The IGFTR of 2021 was a result of lessons drawn from the Inter-Governmental Fiscal Transfers Reform Program (2017), which was largely created to address the shortcomings of the Fiscal Decentralization Strategy (FDS) of 2002.

129. **The World Bank's research revealed the need to improve horizontal equity in allocating resources between local governments.** It observed that the allocation procedure was a complex mixture of historical practices, need-based formulas, and ad hoc considerations. The World Bank recommended that horizontal transfers to individual districts be replaced by a simple, formula-based system based on transparent criteria.[8]

130. **The IGFTR program is designed to** improve the adequacy, equity, and increase discretion in the financing of local service delivery, Improve Central Government performance in the oversight, management, and delivery of local government services, improve local government performance in the management of local service delivery, and improve the effectiveness and efficiency of service delivery by frontline providers. It is based on this program upon which funding to local governments in Uganda is currently determined.

131. **In line with the 2021 Inter-governmental Fiscal Transfer Reform Programme, allocations to local government are based on a certain formula comprising different weighted parameters.** All forms of allocations, including the District Unconditional Grants (DUG), Urban Unconditional Grants (Urban UGs), Urban Discretionary Development Equalisation Grant (Urban DDEG), District Discretionary Development Equalization Grant, and the Non-Wage Recurrent allocations to local governments based on the formula.

132. **The formula employs the following parameters weighted as shown in Table 17.** The population variable has the largest weight, meaning that a big revenue share is based on the number of people inhabiting a particular local government. The formula also has a fixed rate, similar to the equal share in Kenya, which is a parameter for ensuring at least a minimum allocation for development to local governments. Similarly, the formula incorporates poverty measures at

[8] World Bank. 2013. Service Delivery with More Districts in Uganda: Fiscal Challenges and Opportunities for Reforms. Washington, DC.

fifteen (15) percent as an equalization variable for ensuring the underdeveloped areas achieve national development standards.

Table 17: Revenue Sharing Parameters

SN	Parameter	Weight	Rationale
1.	Urban Population	62%	Provide for demand/scale of delivering services.
2.	Constant (Fixed Allocation for higher/LLGs)	20%	To ensure that a local government has the minimum allocations for constructing meaningful infrastructure (Development).
3.	Poverty Head Count	15%	It is taken as an Equalizing variable that ensures to allocate greater resources to local governments that lag behind as per Article 193 (4) of the Constitution.
4.	Conflict (scaled by rural population)	3%	A parameter to ensure more resources are allocated to local governments severely affected by conflicts.

Source: https://budget.finance.go.ug/

G. Revenue Allocation in The Philippines

133. **The Philippines's devolution journey is marked by significant political and administrative reforms aimed at decentralizing power from the national government to local government units.** During Spanish rule between 1565 and 1898, local governance was limited, and authority was in the hands of colonial officials. Local leaders often had little power and were primarily responsible for tax collection and local order.

134. **During the colonial period, the Americans introduced a more structured local government system, establishing municipalities and provinces with elected officials.** The 1901 Municipal Code allowed for local autonomy, but authority remained largely with the central government. After gaining independence in 1946, the Philippines continued to have a centralized government. Local governments had limited power and were often subject to national directives.

135. **The new Constitution of 1987 brought about local autonomy.** Article X of the 1987 Constitution of the Republic of the Philippines provided for the creation of Local Government Units (LGUs), granting those greater powers and responsibilities. Sections 1 and 2 of Article X provide that the territorial and political subdivisions of the Republic of the Philippines are the provinces, cities, municipalities, and barangays and that the territorial and political subdivisions shall enjoy local autonomy.

136. **The Local Government Units (LGUs) were further strengthened by enacting the Local Government Code of 1991, which gave the LGUs increased powers, responsibilities, and financial resources.** Section 2 of the Local Government Code of 1991 states that territorial and political subdivisions of the State shall enjoy genuine and meaningful local autonomy to enable

them to attain their fullest development as self-reliant communities and make them more effective partners in attaining national goals.

137. The state, headed by a President, is tasked with providing for a more responsive and accountable local government structure instituted through a system of decentralization, whereby local government units are entitled to more powers, authority, responsibilities, and resources. The decentralization process is expected to flow from the national government to the local government units.

a. The Legal Provisions for the Creation of a Local Government Unit in the Philippines

138. **Section 7 of the Local Government Code of 1991 gives the verifiable indicators that should inform the creation, conversion, sub-division, or merging of a local government unit.** The indicators, as highlighted in law, include;

i. **Income**: A local government unit's income must be sufficient, based on acceptable standards, to provide all essential government facilities and services and special functions commensurate with the size of its population, as expected of the local government unit concerned.

ii. **Population:** The local government unit shall be determined by the total number of inhabitants within the territorial jurisdiction of that particular government. This means there is a given threshold for the number of people to inform the creation of a province, city, municipality, and barangay.

iii. **Land Area**: There is a required land range in which a local government can be created. The law provides that an LGU must be properly identified by metes and bounds with technical descriptions and be sufficient to provide such basic services and facilities to meet the requirements of its populace.

139. **The validation of the three indicators is done by the Department of Finance (DOF), the National Statistics Office (NSO), and the Lands Management Bureau (LMB) of the Department of Environment and Natural Resources (DENR).** This means there is verifiable and credible data that is relied on in creating, merging, or dividing a local government unit.

140. **The Government Structure of the Republic of the Philippines has a National Government and eighteen (18) regional Local Government Units.** According to the Philippine Statistics Authority, the Local Government Units as of 30 September 2024 were 82 Provinces, 149 Cities, 1,493 municipalities, and 42,011 barangays. Under Philippine laws, a province is governed by a Provincial Governor, Mayors for cities and municipalities, and a Chairman for barangays.

b. Sources of Local Government Revenue

141. **Under the 1987 Philippine Constitution, local government units should have a just share of national taxes as determined by law, which should be automatically released to them (*Article X, Section 6*).** Further, other than the national allocation, the local government can create its own source of revenues by levying taxes, fees, and charges subject to such guidelines and limitations as may be determined by Congress. This means each local government has two main revenue sources: internal or locally generated and external (the National Allotment).

Table 18: Sources of Local Government Revenue

Local or Internal Sources		External Sources
Tax revenue	**Non-tax revenues**	• National tax allotment • Other National Taxes • Inter-Local Transfers • Extraordinary Receipts/ Grants/ Donations/ Aids.
• Real Property Tax • Tax on Business • Other Taxes	• Regulatory Fees • Service/ User Charges • Receipts from Economic Enterprises • Other Receipts (General Income)	

NB: *On this, we focus on the sharing of the National taxes between the two levels of government, the sharing of the National tax allotment among the Local government units, and then the sharing of revenue between the provinces, which mirror the role of the Kenyan County governments.*

c. The allotment of National taxes between the two levels of Government

142. **Section 284 of the Local Government Code of 1991 provides for the division of revenue (National taxes) between the National and local governments.** Specifically, the law provides that Local government units shall receive forty percent (40%) of the national taxes based on the collection of the third fiscal year preceding the current fiscal year. This implies local government units are entitled to forty percent (40%) of the tax revenues collected in the third financial year preceding the current financial year.

143. **However, the law in section 284 of the Local Government Code 1991,** allows the President, through the recommendation of the Secretary of Finance, Secretary of Interior and Local Government, Secretary of Budget and Management, and in consultation with the presiding officers of both Houses of Congress, to adjust the allocation to the Local governments. It is also specified that under no circumstance shall the allocation to local government units be less than thirty percent (30%) of the collection of national taxes of the third fiscal year preceding the current fiscal year.

144. **The National Tax allotment (NTA) to the Local Government Units is based on actual revenue collections of the specific fiscal years as reported in certifications issued by the Bureau of Internal Revenue (BIR), Bureau of Customs (BOC), and Bureau of the Treasury (BTr).** In preparation of the Local Budget Memorandum (LBM), which is the document that gives indicative National Tax Allotment (NTA) Shares of Local Government Units (LGUs) and guidelines on the Preparation of Annual Budgets of LGUs, the recent population census per Local Government Unit and Land Area factors are taken into consideration. For instance, for the computation of the FY

2024 NTA shares as in Table 19 to LGUs, the following factors were taken into consideration: The 2020 Census of Population by Province, City, Municipality, and Barangay and the 2001 Master List of Land Area certified by the Land Management Bureau (LMB).

Table 19: Allocation of the IRA/NTA to LGUs over the years

FY	Basis year	Amount (PHP. billion)
2020	Actual national internal revenue taxes collected in FY 2017	648.92
2021	Actual national internal revenue taxes collected in FY 2018	695.49
2022	Actual collections of national taxes in FY 2019	959.04
2023	Actual collections of national taxes in FY 2020	820.27
2024	Actual collections of national taxes in FY 2021	871.38

Source: Department of Budget and Management -Local Budget Memorandums.

d. Allocation of IRA/NTA among Local Government Units

145. **Once the revenue (national taxes) is divided between the two levels of government, the subsequent process is to share the local governments' proceeds among the four Local Government Units, i.e., the provinces, Cities, Municipalities, and Barangays.** Section 285 of the Local Government Code 1991 provides that the share of local government units of the allotted revenue in a given financial year shall be as follows;

i. **Provinces** - Twenty-three percent **(23%).** **the sharing of the 40% or the**
ii. **Cities** - Twenty-three percent **(23%).** **30% of the national taxes.**
iii. **Municipalities** - Thirty-four percent **(34%).**
iv. **Barangays** - Twenty percent **(20%).**

146. **This basis is applied to the amount set aside in the yearly Local Budget Memorandum (LBM) as the share of the National taxes to the Local Government Units.** A review of the sharing of the national allotted taxes for FY 2023 and FY 2024, as in Table 20, to the local government units indicates that the set criteria were applied as provided in Section 285 of the Local Government Code of 1991.

Table 20: Total Share by the Level of LGU in the FYs 2023 & 2024 NTA

Level of LGU	2023			2024		
	No. of LGUs	Total NTA Shares (in Php.Bns.)	% Share	No. of LGUs	Total NTA Shares (in Php.Bns)	% Share
Provinces	82	188.66	23%	83	200.42	23%
Cities	146	188.66	23%	149	201.50	23%
Municipalities	1488	278.89	34%	1,485	295.18	34%

Level of LGU	2023			2024		
	No. of LGUs	Total NTA Shares (in Php.Bns.)	% Share	No. of LGUs	Total NTA Shares (in Php.Bns)	% Share
Barangays	41,935	164.05	20%	41,905	174.28	20%
Total	**43,651**	**820.27**	**100%**	**43,622**	**871.38**	**100%**

Source: Department of Budget and Management-Local Budget Memorandums

e. Revenue allocation to each Province

147. **Section 285 of the Local Government Code of 1991 highlights the parameters to determine each province's allocation.** It is provided that the share of each **province,** city, and municipality shall be determined based on the following formula;

i. **Population** -Fifty percent **(50%);**
ii. **Land Area**-Twenty-five percent **(25%);** and
iii. **Equal sharing**-Twenty-five percent **(25%)**

148. **The revenue allocated to each province is mainly based on population size, which accounts for up to fifty percent (50%) of the allocation.** The remaining 50% is shared on an equal measure of 25% between land area and the equal share. For the FY 2024, it can be concluded that for PHP 200.42 billion allocated for provinces, PHP.100.21 billion was shared among the provinces based on the number of people (headcount), while PHP 50.1 billion was shared based on land size, and the remainder of PHP 50.1 was shared equally.

149. **Notably, these parameters, as applied in sharing revenues among provinces, are entrenched on the criteria of creating a province or generally for a LCU as provided for in Section 7 of the Local Government Code of 1991.** The three factors for consideration in creating a local government unit are directly linked to the parameters of sharing revenue among the individual LGUs. The interrelation of the three is in the following manner, as in Table 21.

Table 21: Parameters as Applied in Sharing Revenues Among Provinces in the Philippines

SN	Factor	Parameters of sharing	Interlinkage
1	Population	Population -50%	While population is the total number of people in a given territorial jurisdiction of the local government unit, at least an allocation is provided to ensure service delivery to each person.
2	Income	Equal sharing -25%	The income aspect is related to equal sharing in that an allocation must be commensurate with providing essential facilities and services to the population.
3	Land Area	Land Area-25%	Land area explains the stretches to which basic services and facilities are needed in a given LCU.

150. **The fundamental observation from the interconnection of the factors of creating an LCU and the parameters of revenue sharing among each LCU is the principle of 'funds following functions.'** This is attributable to the fact that the three factors as applied in the creation of LCU are on the assumption that once the three factors are certified to be adequate, then it can provide services. This implies that the allocation from the National taxes is shared in a similar analogy to ensure continuity of the intended purposes of creating the LCU. Population takes the lion's share to achieve local autonomy, which would help build a self-reliant community.

151. **The simulation of data obtained from the 2023 Philippine Statistical Year Book indicates that the provinces with high populations (censuses) and the actual allocation for 2023 had the largest numbers compared to those with low populations.** A similar assessment of land area against the allocations revealed that provinces with slightly large territorial boundaries had high apportionments. A combination of the two parameters on the amount allocated depicted similar results.

H. Revenue Allocation in South Africa

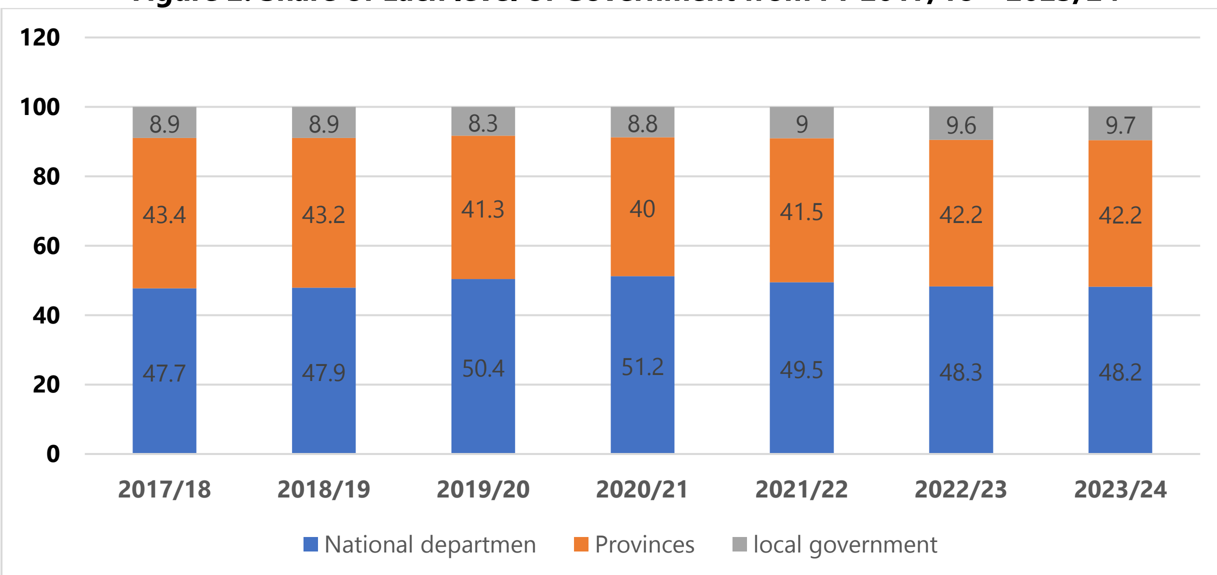
i. Introduction

152. **Division of Revenue in South Africa is codified in the Constitution and other enabling legislation to ensure equitable resource distribution and sustainable development.** The country operates on a multilevel fiscal system and intergovernmental transfer systems concerning the provision of public services and responsibilities amongst the various levels of government, including the National Government, sub-national (provincial) entities, and local governments.

153. **Similar to the CRA of Kenya, South Africa has a constitutionally mandated Commission (Financial and Fiscal Commission, FFC)** which acts as a consultative body that makes recommendations and offers advice to Parliament, provincial legislatures, organized local government, and other organs of State on the equitable division of revenue among the three spheres of government and any other financial and fiscal matters. The Division of Revenue Act (DORA) provides the basis for allocations to individual provinces and local governments to enable them to undertake fiscal duties, assign government functions, and deliver public services[9]. Moreover, South Africa collects significant revenue through the national collecting agency (South African Revenue Service, SARS). Figure 2 highlights the share of each level of government as per 2024 sharing of the nationally raised revenues.

[9] https://www.mdpi.com/2227-7099/12/1/20

Figure 2: Share of Each level of Government from FY 2017/18 – 2023/24



ii. Division of Revenue among the provinces

154. **Provincial Equitable Share (PES),** a formula-based allocation system, divides nationally raised revenue equitably and objectively among the provinces to meet provincial government and its departments' expenditure needs. Table 22 highlights the parameters and weights used to share equitable share among the nine provinces of South Africa.

Table 22: Parameters and Weights for Equitable Share in South Africa

S/No	Parameters	Weight % (2021)	Weight %	Remarks
1	Educations	48	40	Based on the size of the school-age population (ages 5-17) and the number of learners (Grade R to 12) enrolled in public ordinary schools.
2	Health	27	18	Based on each province's risk profile and the health system caseload (i.e. a combination of each province's share of the average number of visits to primary healthcare clinics and average patient-day equivalents from public hospitals).
3	Social security	16	17	Based on the target population for social security grants - the elderly, disabled, and children - weighted

S/No	Parameters	Weight % (2021)	Weight %	Remarks
				using a poverty index derived from the 1995 income and expenditure survey.
4	Basic share	0	9	Each province's share of the national population is derived from the 2020 Mid-year Population Estimates produced by Statistics South Africa.
5	Backlogs	0	3	Based on the distribution of capital needs as captured in the school register of needs, the audit of hospital facilities, and the share of the rural population in each province.
6	Poverty	3	-	introduces a redistributive element to the formula and is based on income data to estimate the size of the poor population (i.e., the lowest 40 percent of household incomes) in each province.
7	Economic output	1	8	is based on regional Gross Domestic Product (GDP-R) data as measured by Statistics South Africa; serves as a proxy for provincial tax capacity and expenditure assignments. For the 2021 MTEF, 2018 GDP-R data is used.
8	Institutional	5	5	which is divided equally between the provinces. This component provides funding for some costs associated with running a provincial government and providing services that are not directly related to the size of a province's population.
Total		**100**	**100**	

Table 23: Summary of International Comparative Analysis

PARAMETER	KENYA	NIGERIA	BRAZIL	CANADA
Governance	A unitary state with a decentralized system	Federal	Federal	Federal
Levels of government	The National government 47 County government	National/Federal government. (36 states, 774 local governments)	• The Union, • 26 states • the Federal District • Over 5,500 Municipalities	• 10 provinces • 2 territories • 5,000 local governments
Vertical Formula (%)	Not less than 15% of all the revenue collected by the National government {Article 203(2)}	Federal 52.68% States 26.72% Local governments (20.60%)	• Direct transfers • Indirect transfers	• The Canada Health Transfer and Canada Social Transfer • Equalization and Territorial Formula Financing programs provide unconditional transfers to the provinces and territories
Horizontal formula	Population - 18% Basic equal share - 20% Poverty Index - 14% Land area - 8% Health Index - 17% Agriculture Index - 10% Urban Service Index - 5%	• Equality of states (40%), • Population (30%), Landmass and terrain (10%), • Internal revenue efforts (10%) • Asocial development Factors; education, health and water (10%	• Direct transfers • Indirect transfers	• The Canada Health Transfer and Canada Social Transfer • Equalization and Territorial Formula Financing programs provide unconditional transfers to the provinces and territories

PARAMETER	KENYA	NIGERIA	BRAZIL	CANADA
Renewal period (Including the last time the formula was last changed)	5 years	5 Years (Last changed in 1992)	5 years	5 Years (The last three renewal cycles for equalization have offered no substantive methodological changes and only minor technical amendments

PARAMETER	ETHIOPIA	AUSTRALIA	INDIA	UGANDA	PHILIPPINES
Governance	Federal Government	Federal system	• A union state with a federal system of governance where power and revenue is shared between the Central government, the States and the Local governments.		
Levels of government	• National government • 11 state governments.	• Federal Government • 6 State and 2 territory Government • Local government	• The Central government • The States (28) • The local governments	• Central governments • Local governments	
Vertical Formula (Include percentages)	• The federal government is allocated 72%of total budget • Regional/state government is allocated 28%	• Commonwealth/Federal government - 80% • States and Territories -20%	The 15th Finance Commission recommended 41% of the total tax proceed		• Local Governments-40% • National governments-60%

PARAMETER	ETHIOPIA	AUSTRALIA	INDIA	UGANDA	PHILIPPINES
Horizontal formula (include percentages)	• population size70% • economic development and poverty levels 20% • geographic considerations and specific developmental needs.10%	• Population and needs -67% • Fiscal capacity (revenue and economic conditions)- 30% • Infrastructure costs -3%	• Income distance – 45% • Population – 15% • Area – 15% • Forest Ecology – 10% • Demographic performance – 12.5% • Tax Effort – 2.5%	• Urban population-62% • Fixed Allocation (minimum-20% • Poverty head count-15% • Rural population-30%	• Population-50% • Land area-25% • Equal Sharing -25%
Renewal period (Including the last time the formula was last changed)	3 years	• Annually • Lastly changed in 2019	The Finance Commission (FC) is constituted after every 5 years to give recommendations		

V. CHAPTER FOUR: REVIEW OF THE PROPOSED 4TH BASIS FRAMEWORK AND SIMULATIONS OF POSSIBLE ADJUSTMENTS

A. Introduction

155. **The Fourth Basis revenue sharing framework for county governments in Kenya aims to achieve two main goals:** to share revenue equitably to facilitate service delivery and to share revenue equitably for counties to address economic disparities to promote development. This strategy is based on the values stated in the Kenyan Constitution, particularly in Schedule Four and Article 203, which specify the functions and duties of county governments.

156. **The Fourth Basis for revenue sharing introduces five critical parameters; each assigned a specific weight to achieve a fair and balanced allocation of resources among counties.** These parameters, along with their respective weights, are:
    a. **Equal Share (22%):** Ensures all counties receive a foundational allocation to support Equal service delivery and administrative functions.
    b. **Population (42%):** This directly reflects the service demand in each county, with larger populations receiving higher allocations to meet their proportional needs.
    c. **Geographical Size (9%):** Accounts for the additional costs of administering services in counties with expansive land areas, often requiring more infrastructure and service delivery resources.
    d. **Poverty (14%)**: This program targets economic inequalities by allocating funds to counties with higher poverty levels, enabling them to address developmental challenges and uplift living standards.
    e. **Income Distance (13%):** Measures the gap in economic performance between counties, ensuring that less economically developed counties receive additional support to narrow disparities and foster equitable growth.

157. **The Fourth Basis for revenue sharing integrates a Stabilisation Factor within its framework to protect counties from abrupt financial reductions that could disrupt their operations.** This mechanism is designed to ensure that no county receives less funding than allocated in the financial year 2024/25. By providing a financial safety net, the Stabilisation Factor guarantees continuity in county operations, allowing essential services and development initiatives to proceed without disruption, regardless of changes introduced by the new revenue-sharing formula.

158. **The Stabilisation Factor functions as a buffer, smoothing the transition from the previous revenue allocation framework to the Fourth Basis.** It recognizes the potential challenges counties might face due to shifts in allocation arising from new parameters or parameter weights. Maintaining a baseline level of funding helps counties avoid sudden budgetary shortfalls that could undermine critical programs in areas like healthcare, education, infrastructure development, and administrative governance.

159. **This mechanism is calculated using the combined output of five parameters:** Equal Share, Population, Geographical Size, Poverty, and Income Distance. The integration of these parameters ensures that the Stabilisation Factor not only promotes equity but also considers each county's unique needs and characteristics.

160. **In determining allocations to County Governments for the FY 2025/26,** the recommended equitable share by CRA is **KSh. 417.425 billion**. This amount reflects an upward adjustment from the previous financial year 2024/25 allocation of KSh. 387.43 billion, aligning with the increasing resource demand to support devolved functions and ensure efficient service delivery across the 47 counties.

B. Equal Share

161. **The fundamental principle of equal share allocation is to ensure that every county in Kenya receives a minimum level of funding necessary to support essential government functions.** This approach guarantees a foundational level of resources, irrespective of variations in population size or land area among counties. Such a baseline allocation serves several critical purposes essential to local governance and public service delivery.

162. **The Equal Share supports the establishment and operational costs associated with administrative structures within each county.** This encompasses funding for government offices, staffing, and other administrative needs that enable counties to function as units of devolved governance. These costs are largely fixed and do not vary significantly with population size, making it essential that all counties receive adequate resources to meet these fundamental requirements regardless of their demographic or geographic differences.

163. **Under the proposed 4th basis for revenue allocation, the Equal Share has been enhanced to 22%.** This proposed Equal Share index has been increased from 20% which was in the third basis. In addition, this parameter had weights of 25% and 26% in the First and Second basis respectively.

164. **Given a total proposed county allocation of KSh. 417.425 billion,** this share translates to **KSh. 91.83 billion** directed specifically towards Equal needs across Kenya’s forty-seven counties. Consequently, each county would receive approximately **KSh 1.953 billion** as a foundational allocation to support critical government functions, regardless of population or geographic differences.

C. Population

165. **The proposed Fourth Basis for revenue sharing in Kenya allocates a 42% weight to the population parameter,** reflecting the importance of population size as a key determinant of county funding needs. This allocation has, however, not had a steady pattern with weights of 45%, 45%, and 18% on the first, second, and third basis, respectively.

166. **The proportion assigned to the population parameter is derived from data from the 2019 Kenya Population and Housing Census (KPHC).** The index for each county is calculated by dividing the county's population by the total national population.

167. **Under this framework, out of the total proposed allocation of KSh. 417.425 billion earmarked for counties, approximately KSh 175.32 billion is explicitly designated to address population-based demands across Kenya's forty-seven counties.** The correlation between population size and allocation levels is based on the principle that more populated counties must manage more significant service delivery requirements.

168. **In the proposed Fourth Basis revenue allocation framework, counties with larger populations, like Nairobi, Kiambu, Nakuru, Kakamega, and Bungoma, will receive proportionately higher funding levels.** This approach is grounded in recognizing that high-population counties face elevated demands on their public services, necessitating more substantial financial resources to effectively meet their residents' needs. The higher allocations respond to the breadth of services required in these populous regions, including healthcare, education, and infrastructure, all essential for sustaining social and economic well-being.

169. **Conversely, counties with smaller populations, including Lamu, Isiolo, Samburu, Tana River, and Taita Taveta, will receive proportionately lower allocations due to their reduced demand for public services.** This lower funding allocation reflects the model's principle of aligning resources with population-based service requirements. However, it is essential to consider that while these counties may have fewer residents, they also face distinctive and complex challenges that impact the effective delivery of services. Moreover, sparsely populated counties frequently contend with limited infrastructure, such as roads, electricity, and water supply systems critical for Equal service provision. Constructing and maintaining these infrastructures in low-density areas is generally more.

D. Geographical Size of a County

170. **The Fourth Basis revenue-sharing framework recognizes that counties with larger geographic areas face unique cost challenges in delivering public services.** The framework proposes a land size parameter of 9% or around KSh to address this**. 37.57 billion** compensates counties for the additional administrative and logistical expenses required to provide a comparable standard of service across vast territories. Additionally, the maximum proportion of the size of a county has been capped at 10%.

171. **Notably, the first, second, and third bases each allocated a weight of 8% on the land index.** However, the CRA capped the benefit to a single county at 7%, beyond which the benefit is not given.

172. **Counties with extensive land and water areas often incur significant additional costs in establishing and maintaining essential infrastructure such as roads, health facilities, schools,**

and administrative offices across dispersed and sometimes remote communities. These costs are further amplified by the need to deploy mobile services, invest in robust transportation networks, and manage the higher costs of delivering electricity, water, and sanitation to distant locations. Unlike more compact counties, larger counties require a broader network of service points to ensure equitable access, especially in underserved or remote regions.

173. **Counties with larger land areas receive proportionately higher allocations due to the increased logistical and infrastructural costs of delivering services across expansive territories.** For instance, counties like Marsabit and Turkana, each accounting for over 12 percent of the land mass of Kenya, will each get over Ksh. 3.7 billion, under the land size criterion. This direct proportionality enables these counties to address the financial demands of establishing and maintaining service infrastructure across vast and often remote regions. Conversely, smaller counties such as Mombasa and Nairobi City, with minimal land shares of 0.04% and 0.13%, receive more modest allocations due to their relatively compact administrative areas, which reduce the complexity and cost of service provision.

E. Poverty Index

174. **The poverty index has been proposed as a proxy for needs related to addressing economic disparities and promoting development among the County Governments.** CRA proposes to use the poverty headcount index based on the Kenya Poverty Report 2022 by the Kenya National Bureau of Statistics (KNBS)[10]. The poverty index is calculated by dividing the total number of impoverished individuals within a specific county by the overall number of poor individuals across all 47 counties. This index reflects the proportion of poverty in each county relative to the national total. Under the Fourth Basis for revenue sharing, the weight assigned to the poverty index remains at **14%**, consistent with the allocation in the Third Basis.

175. **Poverty levels among the devolved units vary both in depth and breadth from as low as 16.5 percent in Nairobi County to a high of 82.7 percent in Turkana County** and are driven by multiple factors, including land productivity, natural resource endowment, cultural idiosyncrasies, and policy-driven marginalization. Although Nairobi City has the lowest poverty rate among counties, its large population is fifth in terms of the absolute number of individuals living in poverty after Bungoma, Nakuru, Kilifi, and Turkana counties.

176. **In 2022, the national poverty headcount rate was recorded at 39.8%, highlighting that nearly 20.2 million individuals in Kenya could not meet the minimum income threshold necessary to sustain basic needs.** This statistic underscores the widespread nature of poverty across the country. However, a closer examination reveals a stark disparity between urban and rural areas, reflecting structural and economic inequalities. In urban areas, the poverty rate stood

[10] https://www.knbs.or.ke/wp-content/uploads/2024/10/The-Kenya-Poverty-Report-2022.pdf

at **33.2%**, affecting approximately **5.4 million people**. While still significant, this figure is markedly lower than the poverty rate in rural areas, where **42.9%** of the population—equivalent to nearly **15 million people**—lived below the poverty line. This rural-urban divide is also apparent in household-level data. Rural areas were home to just over 3 million poor households, compared to approximately 1.3 million poor households in urban centers. These disparities highlight the concentration of poverty in rural regions, which often face challenges such as limited access to essential services, inadequate infrastructure, and lower economic opportunities.

177. **The contrast between rural and urban poverty rates reflects the uneven distribution of resources and opportunities across the country.** While urban areas benefit from better access to employment, healthcare, and education, rural areas grapple with systemic challenges perpetuating poverty.

178. **There have been efforts to develop an all-encompassing index that brings together the aspects of poverty.** The multidimensional poverty index by the World Bank strives to construct a deprivation profile for the poor by tracking deprivations in key aspects of humanity, including health, education, and standard of living. While such an indicator that considers the number of poor people and their limited access to Equal devolved functions would be most appropriate in a resource-sharing context, there is no county-level data for the same.

F. Income Distance

179. **The per capita income distance parameter plays a pivotal role in the equitable allocation of resources among county governments by utilizing the Gross County Product (GCP) as its foundation.** The GCP provides a monetary measure of the market value of all final goods and services produced within each of Kenya's 47 counties, making it a valuable proxy for assessing individual counties' tax capacity and economic productivity.

180. **Under the Fourth Basis for revenue sharing, this parameter incorporates the three-year average GCP per capita for 2020, 2021, and 2022, with a weight of 13%, indicating an allocation of KSh. 54.27 billion with the proposed allocation of KSh. 417.42 billion, assigned to its effect on the overall allocation framework.** The calculation of the Income Distance Index involves determining the difference between a county's per capita GCP and that of Nairobi County, recognized as the county with the highest per capita GCP, and dividing this difference by the total of such differences across all counties.

181. **Based on the per capita income distance parameter, counties with lower economic output, such as Mandera, Wajir, Garissa, and Samburu, will benefit from significantly higher allocations due to their relatively lower Gross County Product (GCP) per capita.** These counties are expected to receive allocations of KSh. 1.42 billion, KSh. 1.41 billion, KSh. 1.40 billion, and KSh. 1.35 billion, respectively. These higher allocations are designed to address the economic

disparities and provide these counties with the resources needed to improve service delivery and stimulate development.

182. **In contrast, with its higher per capita GCP and greater economic capacity, Nairobi will receive a relatively smaller allocation of KSh. 584.4 million.** This allocation reflects the principle of redistributing resources from wealthier, more economically productive counties to those that face greater challenges in achieving sustainable development.

183. **The Fourth Basis ensures that economically disadvantaged counties, which may have lower GCP per capita, receive additional support through the income distance.** This targeted approach aims to reduce economic disparities between counties, enabling those with limited economic capacity to enhance their development efforts and foster a more equitable distribution of resources nationwide.

G. Scenarios for Sharing Revenue Among County Governments in 2025/26

184. **The proposal by CRA for the allocation of revenue in 2025/26 is shown in Table 24.** The parameters and their weights are as per the recommended fourth basis with the equitable share assumed to be Ksh. 417.425. A stabilization index has been added to ensure no county receives a lower allocation in 2025/26 relative to 2024/25.

185. **As a result of the constrained fiscal space, the current proposal by the National Treasury, as indicated in the published 2024 BROP, is to have an equitable share of FY Ksh. 405 billion in 2025/2026.** The simulated allocation of this amount is indicated in Table 25The parameters and their weights are similar to those proposed by CRA; however, the stabilization index has been recalibrated to ensure no county receives a lower amount in 2025/26.

186. **Table 26** Table 26**provides a simulation where both the equitable share and the parameters remain the same as what has been recommended by CRA.** However, the weights of the parameters have been varied by increasing equitable share from 22 to 25 percent, reducing the population weight from 42 to 40 percent, and reducing income distance from 13 to 12 percent. The stabilization index has been further modified to ensure no county receives a lower allocation than it received in FY 2024/25. This and other scenarios explored above show that even though the stabilization index can be recalibrated to avoid losses in the subsequent FYs, its arbitrary nature results in a wide variation in gains to specific counties based on the assumptions made.

Table 24: Allocation of an equitable share of Kshs. 417.42 billion as proposed by CRA, with the parameters and weights also confined to CRA's proposal.

	PARAMETERS									
COUNTY	Population	Equal share	Poverty	Income Distance	Geographical size	Stabilization	Overall Index	Allocation as per CRA Proposal (A)	FY 2024/25 Allocation (B)	Deviations (A-B)
Baringo	0.0059	0.0047	0.0023	0.0031	0.0017	0.97	1.72	7,185.66	6,683.87	501.79
Bomet	0.0077	0.0047	0.0031	0.0027	0.0004	0.97	1.80	7,549.60	7,015.12	534.47
Bungoma	0.0148	0.0047	0.0061	0.0030	0.0005	0.97	2.82	11,800.64	11,170.67	629.97
Busia	0.0079	0.0047	0.0035	0.0032	0.0003	0.97	1.89	7,917.91	7,514.94	402.98
Elgeyo/ Marakwet	0.0040	0.0047	0.0018	0.0023	0.0005	0.97	1.29	5,393.46	4,826.73	566.73
Embu	0.0054	0.0047	0.0011	0.0023	0.0004	0.97	1.34	5,629.13	5,369.90	259.23
Garissa	0.0074	0.0047	0.0042	0.0034	0.0069	0.97	2.58	10,820.07	8,290.45	2,529.62
Homa Bay	0.0100	0.0047	0.0024	0.0031	0.0005	0.99	2.04	8,550.95	8,170.28	380.67
Isiolo	0.0024	0.0047	0.0011	0.0032	0.0039	0.97	1.48	6,215.48	4,923.51	1,291.97
Kajiado	0.0099	0.0047	0.0031	0.0030	0.0034	0.97	2.33	9,758.73	8,345.01	1,413.72
Kakamega	0.0165	0.0047	0.0053	0.0031	0.0005	1.08	3.24	13,574.72	12,980.50	594.22
Kericho	0.0080	0.0047	0.0032	0.0027	0.0004	0.97	1.83	7,669.56	6,738.47	931.10
Kiambu	0.0213	0.0047	0.0036	0.0024	0.0004	0.97	3.14	13,144.43	12,293.70	850.73
Kilifi	0.0128	0.0047	0.0057	0.0029	0.0019	1.08	3.03	12,707.44	12,169.84	537.59
Kirinyaga	0.0054	0.0047	0.0010	0.0025	0.0002	0.98	1.36	5,690.56	5,449.27	241.28
Kisii	0.0112	0.0047	0.0031	0.0028	0.0002	1.06	2.33	9,756.77	9,305.84	450.94
Kisumu	0.0102	0.0047	0.0033	0.0025	0.0003	1	2.10	8,794.21	8,405.33	388.88
Kitui	0.0100	0.0047	0.0049	0.0031	0.0047	0.99	2.71	11,360.64	10,885.97	474.67
Kwale	0.0077	0.0047	0.0033	0.0029	0.0013	1.09	2.16	9,046.96	8,625.41	421.55
Laikipia	0.0046	0.0047	0.0014	0.0027	0.0015	0.97	1.44	6,034.68	5,387.03	647.65
Lamu	0.0013	0.0047	0.0004	0.0025	0.0010	0.97	0.95	3,964.40	3,254.43	709.97
Machakos	0.0126	0.0047	0.0040	0.0024	0.0009	0.97	2.39	10,005.34	9,597.22	408.12
Makueni	0.0087	0.0047	0.0033	0.0031	0.0013	1.01	2.13	8,904.78	8,497.31	407.47
Mandera	0.0077	0.0047	0.0047	0.0034	0.0040	1.19	2.91	12,185.85	11,690.62	495.23
Marsabit	0.0041	0.0047	0.0022	0.0030	0.0090	0.97	2.22	9,319.87	7,597.15	1,722.72

COUNTY	PARAMETERS									
	Population	Equal share	Poverty	Income Distance	Geographical size	Stabilization	Overall Index	Allocation as per CRA Proposal (A)	FY 2024/25 Allocation (B)	Deviations (A-B)
Meru	0.0136	0.0047	0.0039	0.0024	0.0011	0.97	2.50	10,465.76	9,944.34	521.42
Migori	0.0099	0.0047	0.0038	0.0031	0.0004	0.97	2.12	8,866.71	8,385.08	481.63
Mombasa	0.0107	0.0047	0.0024	0.0014	0.0000	1.03	1.98	8,276.73	7,899.67	377.06
Murang'a	0.0093	0.0047	0.0024	0.0026	0.0004	0.97	1.88	7,867.67	7,511.87	355.80
Nairobi City	0.0388	0.0047	0.0053	0.0014	0.0001	1	5.03	21,091.10	20,178.71	912.39
Nakuru	0.0191	0.0047	0.0061	0.0024	0.0012	1.02	3.40	14,256.57	13,667.00	589.58
Nandi	0.0078	0.0047	0.0026	0.0027	0.0004	1.01	1.84	7,722.93	7,346.07	376.86
Narok	0.0102	0.0047	0.0022	0.0029	0.0028	1.01	2.30	9,655.72	9,241.86	413.86
Nyamira	0.0053	0.0047	0.0018	0.0026	0.0001	0.97	1.41	5,916.63	5,359.99	556.64
Nyandarua	0.0056	0.0047	0.0016	0.0023	0.0005	1	1.48	6,193.74	5,936.52	257.22
Nyeri	0.0067	0.0047	0.0015	0.0022	0.0005	1.05	1.63	6,842.76	6,518.61	324.15
Samburu	0.0027	0.0047	0.0016	0.0032	0.0033	0.97	1.51	6,324.82	5,623.23	701.59
Siaya	0.0088	0.0047	0.0028	0.0031	0.0004	0.97	1.92	8,038.07	7,301.47	736.60
Taita/Taveta	0.0030	0.0047	0.0010	0.0027	0.0027	0.97	1.36	5,686.52	5,066.14	620.38
Tana River	0.0028	0.0047	0.0016	0.0032	0.0059	0.97	1.76	7,365.98	6,824.72	541.26
Tharaka-Nithi	0.0035	0.0047	0.0010	0.0028	0.0004	0.97	1.20	5,036.48	4,399.51	636.97
Trans Nzoia	0.0087	0.0047	0.0027	0.0028	0.0004	0.97	1.88	7,862.54	7,540.50	322.04
Turkana	0.0082	0.0047	0.0057	0.0031	0.0090	1.07	3.28	13,738.73	13,213.28	525.45
Uasin Gishu	0.0103	0.0047	0.0034	0.0025	0.0005	0.99	2.12	8,885.24	8,472.40	412.85
Vihiga	0.0052	0.0047	0.0021	0.0029	0.0001	0.97	1.46	6,096.81	5,292.92	803.89
Wajir	0.0069	0.0047	0.0037	0.0034	0.0088	0.97	2.67	11,180.35	9,902.80	1,277.55
West Pokot	0.0055	0.0047	0.0028	0.0030	0.0014	0.97	1.69	7,071.28	6,609.74	461.55
Total	**0.4200**	**0.2200**	**0.1400**	**0.1300**	**0.0864**			**417,425**	**387,425**	**30,000**

Table 25: Allocation of an equitable share of Kshs. 405 billion as outlined in the BROP, with the parameters and weights as per the CRA proposal. The stabilization index has been calibrated to ensure no county loses.

COUNTY	PARAMETERS									
	Population	Equal share	Poverty	Income Distance	Geographical size	Stabilization	Overall Index	Allocation as per CRA Proposal (A)	FY 2024/25 Allocation (B)	Deviations (A-B)
Baringo	0.0059	0.0053	0.0023	0.0031	0.0017	0.9000	1.6489	6,797.18	6,683.87	113.30
Bomet	0.0077	0.0053	0.0031	0.0027	0.0004	0.9800	1.8832	7,763.17	7,015.12	748.05
Bungoma	0.0148	0.0053	0.0061	0.0030	0.0005	0.9200	2.7303	11,255.24	11,170.67	84.57
Busia	0.0079	0.0053	0.0035	0.0032	0.0003	1.0000	2.0123	8,295.23	7,514.94	780.29
Elgeyo/ Marakwet	0.0040	0.0053	0.0018	0.0023	0.0005	0.9500	1.3215	5,447.65	4,826.73	620.92
Embu	0.0054	0.0053	0.0011	0.0023	0.0004	0.9600	1.3911	5,734.50	5,369.90	364.60
Garissa	0.0074	0.0053	0.0042	0.0034	0.0069	0.7800	2.1266	8,766.61	8,290.45	476.16
Homa Bay	0.0100	0.0053	0.0024	0.0031	0.0005	0.9500	2.0193	8,324.05	8,170.28	153.77
Isiolo	0.0024	0.0053	0.0011	0.0032	0.0039	0.8000	1.2747	5,254.59	4,923.51	331.09
Kajiado	0.0099	0.0053	0.0031	0.0030	0.0034	0.8500	2.0955	8,638.21	8,345.01	293.20
Kakamega	0.0165	0.0053	0.0053	0.0031	0.0005	1.0400	3.1866	13,136.31	12,980.50	155.81
Kericho	0.0080	0.0053	0.0032	0.0027	0.0004	0.9000	1.7560	7,238.97	6,738.47	500.51
Kiambu	0.0213	0.0053	0.0036	0.0024	0.0004	0.9500	3.1335	12,917.27	12,293.70	623.57
Kilifi	0.0128	0.0053	0.0057	0.0029	0.0019	1.0300	2.9586	12,196.12	12,169.84	26.27
Kirinyaga	0.0054	0.0053	0.0010	0.0025	0.0002	0.9500	1.3774	5,678.01	5,449.27	228.73
Kisii	0.0112	0.0053	0.0031	0.0028	0.0002	1.0100	2.2835	9,413.46	9,305.84	107.62
Kisumu	0.0102	0.0053	0.0033	0.0025	0.0003	0.9500	2.0548	8,470.70	8,405.33	65.38
Kitui	0.0100	0.0053	0.0049	0.0031	0.0047	0.9500	2.6628	10,977.05	10,885.97	91.08
Kwale	0.0077	0.0053	0.0033	0.0029	0.0013	1.0300	2.1064	8,683.11	8,625.41	57.70
Laikipia	0.0046	0.0053	0.0014	0.0027	0.0015	0.9600	1.4869	6,129.45	5,387.03	742.41
Lamu	0.0013	0.0053	0.0004	0.0025	0.0010	0.9500	0.9874	4,070.47	3,254.43	816.04
Machakos	0.0126	0.0053	0.0040	0.0024	0.0009	0.9300	2.3491	9,683.87	9,597.22	86.65
Makueni	0.0087	0.0053	0.0033	0.0031	0.0013	0.9600	2.0816	8,581.03	8,497.31	83.73
Mandera	0.0077	0.0053	0.0047	0.0034	0.0040	1.1500	2.8844	11,890.29	11,690.62	199.67
Marsabit	0.0041	0.0053	0.0022	0.0030	0.0090	0.7900	1.8622	7,676.75	7,597.15	79.60

COUNTY	PARAMETERS									
	Population	Equal share	Poverty	Income Distance	Geographical size	Stabilization	Overall Index	Allocation as per CRA Proposal (A)	FY 2024/25 Allocation (B)	Deviations (A-B)
Meru	0.0136	0.0053	0.0039	0.0024	0.0011	0.9500	2.5073	10,335.84	9,944.34	391.49
Migori	0.0099	0.0053	0.0038	0.0031	0.0004	0.9500	2.1335	8,794.82	8,385.08	409.75
Mombasa	0.0107	0.0053	0.0024	0.0014	0.0000	0.9900	1.9621	8,088.43	7,899.67	188.76
Murang'a	0.0093	0.0053	0.0024	0.0026	0.0004	0.9500	1.8999	7,832.05	7,511.87	320.19
Nairobi City	0.0388	0.0053	0.0053	0.0014	0.0001	0.9900	5.0473	20,806.38	20,178.71	627.67
Nakuru	0.0191	0.0053	0.0061	0.0024	0.0012	0.9900	3.3661	13,876.21	13,667.00	209.22
Nandi	0.0078	0.0053	0.0026	0.0027	0.0004	0.9900	1.8701	7,709.30	7,346.07	363.23
Narok	0.0102	0.0053	0.0022	0.0029	0.0028	0.9900	2.3224	9,573.48	9,241.86	331.62
Nyamira	0.0053	0.0053	0.0018	0.0026	0.0001	0.9500	1.4438	5,951.83	5,359.99	591.85
Nyandarua	0.0056	0.0053	0.0016	0.0023	0.0005	1.0000	1.5423	6,357.70	5,936.52	421.18
Nyeri	0.0067	0.0053	0.0015	0.0022	0.0005	0.9900	1.6032	6,608.94	6,518.61	90.33
Samburu	0.0027	0.0053	0.0016	0.0032	0.0033	0.9000	1.4582	6,011.25	5,623.23	388.02
Siaya	0.0088	0.0053	0.0028	0.0031	0.0004	0.9000	1.8377	7,575.41	7,301.47	273.93
Taita/Taveta	0.0030	0.0053	0.0010	0.0027	0.0027	0.9500	1.3900	5,730.07	5,066.14	663.93
Tana River	0.0028	0.0053	0.0016	0.0032	0.0059	0.9500	1.7826	7,348.57	6,824.72	523.85
Tharaka-Nithi	0.0035	0.0053	0.0010	0.0028	0.0004	0.9500	1.2381	5,103.63	4,399.51	704.12
Trans Nzoia	0.0087	0.0053	0.0027	0.0028	0.0004	0.9500	1.8987	7,827.11	7,540.50	286.61
Turkana	0.0082	0.0053	0.0057	0.0031	0.0090	1.1000	3.4416	14,187.24	13,213.28	973.95
Uasin Gishu	0.0103	0.0053	0.0034	0.0025	0.0005	0.9700	2.1400	8,821.59	8,472.40	349.19
Vihiga	0.0052	0.0053	0.0021	0.0029	0.0001	0.9200	1.4390	5,932.04	5,292.92	639.12
Wajir	0.0069	0.0053	0.0037	0.0034	0.0088	0.9000	2.5336	10,444.25	9,902.80	541.45
West Pokot	0.0055	0.0053	0.0028	0.0030	0.0014	0.9500	1.7137	7,064.57	6,609.74	454.83
Total	**0.4200**	**0.2500**	**0.1400**	**0.1300**	**0.0864**			**405,000.00**	**387,425.00**	**17,575.00**

Table 26: Allocation of an equitable share of Kshs. 417.42 billion as proposed by CRA. The parameters are the same as CRA's proposals but the weights have been changed.

COUNTY	PARAMETERS									
	Population	Equal share	Poverty	Income Distance	Geographical size	Stabilization	Overall Index	Allocation as per CRA Proposal (A)	FY 2024/25 Allocation (B)	Deviations (A-B)
Baringo	0.0056	0.0053	0.0023	0.0029	0.0017	0.9000	1.6022	7,342.65	6,683.87	658.77
Bomet	0.0074	0.0053	0.0031	0.0025	0.0004	0.9000	1.6776	7,687.97	7,015.12	672.85
Bungoma	0.0140	0.0053	0.0061	0.0028	0.0005	0.9000	2.5868	11,854.72	11,170.67	684.05
Busia	0.0075	0.0053	0.0035	0.0029	0.0003	0.9000	1.7553	8,044.30	7,514.94	529.37
Elgeyo/ Marakwet	0.0038	0.0053	0.0018	0.0021	0.0005	0.9000	1.2187	5,585.10	4,826.73	758.37
Embu	0.0051	0.0053	0.0011	0.0021	0.0004	0.9500	1.3358	6,121.45	5,369.90	751.55
Garissa	0.0071	0.0053	0.0042	0.0031	0.0069	0.7500	1.9989	9,160.35	8,290.45	869.90
Homa Bay	0.0095	0.0053	0.0024	0.0029	0.0005	0.9500	1.9515	8,943.12	8,170.28	772.84
Isiolo	0.0023	0.0053	0.0011	0.0030	0.0039	0.8000	1.2458	5,709.15	4,923.51	785.64
Kajiado	0.0094	0.0053	0.0031	0.0028	0.0034	0.8000	1.9162	8,781.37	8,345.01	436.35
Kakamega	0.0157	0.0053	0.0053	0.0028	0.0005	0.9900	2.9324	13,438.62	12,980.50	458.12
Kericho	0.0076	0.0053	0.0032	0.0024	0.0004	0.8600	1.6279	7,460.11	6,738.47	721.65
Kiambu	0.0203	0.0053	0.0036	0.0022	0.0004	0.8900	2.8290	12,964.51	12,293.70	670.81
Kilifi	0.0122	0.0053	0.0057	0.0027	0.0019	0.9900	2.7609	12,652.57	12,169.84	482.73
Kirinyaga	0.0051	0.0053	0.0010	0.0023	0.0002	0.9500	1.3346	6,116.15	5,449.27	666.88
Kisii	0.0107	0.0053	0.0031	0.0026	0.0002	0.9700	2.1205	9,717.69	9,305.84	411.86
Kisumu	0.0097	0.0053	0.0033	0.0023	0.0003	0.9500	1.9907	9,122.84	8,405.33	717.51
Kitui	0.0096	0.0053	0.0049	0.0028	0.0047	0.9000	2.4586	11,267.03	10,885.97	381.06
Kwale	0.0073	0.0053	0.0033	0.0027	0.0013	0.9500	1.8868	8,646.65	8,625.41	21.24
Laikipia	0.0044	0.0053	0.0014	0.0025	0.0015	0.9000	1.3559	6,213.63	5,387.03	826.59
Lamu	0.0012	0.0053	0.0004	0.0023	0.0010	0.9000	0.9129	4,183.75	3,254.43	929.32
Machakos	0.0120	0.0053	0.0040	0.0022	0.0009	0.9000	2.2028	10,094.92	9,597.22	497.70
Makueni	0.0083	0.0053	0.0033	0.0029	0.0013	0.9500	1.9977	9,154.89	8,497.31	657.59
Mandera	0.0073	0.0053	0.0047	0.0031	0.0040	1.0500	2.5678	11,767.58	11,690.62	76.96

COUNTY	PARAMETERS									
	Population	Equal share	Poverty	Income Distance	Geographical size	Stabilization	Overall Index	Allocation as per CRA Proposal (A)	FY 2024/25 Allocation (B)	Deviations (A-B)
Marsabit	0.0039	0.0053	0.0022	0.0028	0.0090	0.8000	1.8519	8,487.03	7,597.15	889.87
Meru	0.0130	0.0053	0.0039	0.0022	0.0011	0.9000	2.3000	10,540.27	9,944.34	595.92
Migori	0.0094	0.0053	0.0038	0.0029	0.0004	0.9000	1.9574	8,970.53	8,385.08	585.46
Mombasa	0.0102	0.0053	0.0024	0.0013	0.0000	0.9200	1.7667	8,096.51	7,899.67	196.83
Murang'a	0.0089	0.0053	0.0024	0.0024	0.0004	0.9500	1.8387	8,426.50	7,511.87	914.63
Nairobi City	0.0370	0.0053	0.0053	0.0013	0.0001	0.9200	4.5104	20,670.06	20,178.71	491.35
Nakuru	0.0182	0.0053	0.0061	0.0022	0.0012	0.9500	3.1264	14,327.51	13,667.00	660.51
Nandi	0.0074	0.0053	0.0026	0.0025	0.0004	0.9500	1.7392	7,970.56	7,346.07	624.49
Narok	0.0097	0.0053	0.0022	0.0027	0.0028	0.9500	2.1612	9,904.08	9,241.86	662.22
Nyamira	0.0051	0.0053	0.0018	0.0024	0.0001	0.9000	1.3266	6,079.56	5,359.99	719.58
Nyandarua	0.0054	0.0053	0.0016	0.0021	0.0005	0.9700	1.4526	6,656.98	5,936.52	720.46
Nyeri	0.0064	0.0053	0.0015	0.0020	0.0005	0.9500	1.4921	6,837.74	6,518.61	319.13
Samburu	0.0026	0.0053	0.0016	0.0030	0.0033	0.8500	1.3449	6,163.53	5,623.23	540.30
Siaya	0.0084	0.0053	0.0028	0.0029	0.0004	0.8500	1.6797	7,697.84	7,301.47	396.37
Taita/Taveta	0.0029	0.0053	0.0010	0.0025	0.0027	0.9000	1.2855	5,891.14	5,066.14	825.00
Tana River	0.0027	0.0053	0.0016	0.0030	0.0059	0.9000	1.6546	7,582.72	6,824.72	758.00
Tharaka-Nithi	0.0033	0.0053	0.0010	0.0026	0.0004	0.9000	1.1387	5,218.23	4,399.51	818.72
Trans Nzoia	0.0083	0.0053	0.0027	0.0026	0.0004	0.9500	1.8388	8,426.60	7,540.50	886.10
Turkana	0.0078	0.0053	0.0057	0.0029	0.0090	1.0000	3.0659	14,050.21	13,213.28	836.93
Uasin Gishu	0.0098	0.0053	0.0034	0.0023	0.0005	0.9500	2.0309	9,307.16	8,472.40	834.76
Vihiga	0.0050	0.0053	0.0021	0.0027	0.0001	0.8800	1.3348	6,117.07	5,292.92	824.14
Wajir	0.0066	0.0053	0.0037	0.0031	0.0088	0.8500	2.3427	10,736.20	9,902.80	833.40
West Pokot	0.0052	0.0053	0.0028	0.0028	0.0014	0.9000	1.5789	7,235.84	6,609.74	626.11
Total	**0.4000**	**0.2500**	**0.1400**	**0.1200**	**0.0864**			**417,425.00**	**387,425.00**	**30,000.00**

Notes. The weight of equitable share has been increased by three percentage points while population and income distance have been decreased by two and one percentage points respectively.

VI. CHAPTER FIVE: EMERGING ISSUES

187. The Chapter on emerging issues reveals the quantifiable similarities and differences in how countries share resources. It explores the legal bases of sharing revenue, factors, parameters considered, and the levels of adherence or the consistent use of the parameters. It further evaluates the parameters of the 4th basis against the last three bases applied in revenue allocation.

A. Need for Equity in Revenue Allocation

188. The revenue allocation system ought to be efficient and responsive to the needs of all states and territories, and it must be able to adjust to changes in the economy, such as shifts in irregular revenue streams. Revenue allocation is one of the most pressing concerns in vertical fiscal imbalance, in which regional governments have huge spending responsibilities but limited income-raising powers. This imbalance causes states to become dependent on the federal government, restricting their financial independence. Similarly, in Kenya, counties rely nearly completely on national government transfers since their source revenue (OSR) is insufficient to meet development and service delivery needs.

B. Observation of Constitutional and Legal Frameworks

189. Disputes over the constitutional and legal frameworks for revenue allocation have also become controversial. In Australia, for example, arguments over the interpretation of Section 96 of the Constitution occasionally emerge, particularly concerning the scope of Commonwealth jurisdiction over state finances. In Kenya, issues about revenue allocation mechanisms and the equitable share of revenue have been resolved through judicial intervention sometimes and at times after a long-standing disagreement, including mediations, even when there are institutions mandated with giving technical advice.

190. Further, in some instances, there has been a judicial review of the definition of the National Revenues, such as in the Philippines, where the Supreme Court (The 2019 Mandanas-Garcia ruling) clarified what would constitute sharable revenue.

C. Observation of Timelines for Formula Review

191. Even for countries with institutions mandated to renew the revenue generation formula, the timelines set by the Constitution or Legislation have not been met. A case for Nigeria is that since 1992, no Government has been able to review the three (3) decade formula despite the increase in the number of States from 30-36, local Government Councils from 589 to 774, and population from 88 million to 200 million. For Canada, the last three renewal cycles for equalization have offered no substantive methodological changes and only minor technical amendments. In other countries, the formula is fixed and based on parameters that are considered in the creation of a local government; hence, there are no reviews.

D. General Trends of the Bases and the Parameters Applied

192. **Since devolution, the revenue-sharing basis has used different parameters from the first basis to the now proposed fourth basis.** The first basis included five parameters as indices; in the second basis, there were subtle changes resulting in adding one more parameter. The third basis, however, increased its parameters to eight, and the now proposed basis has reduced the number to six.

193. **These changes in the criteria for choosing parameters have resulted in significant shifts in revenue allocations for counties.** For example, counties that received an allocation for health in the third revenue-sharing basis will not receive that allocation based on that parameter, as the proposed fourth basis has not included that particular parameter. This results in unpredictability and the lack of a clear trend in the revenue-sharing basis for counties.
The following are some trend analyses of the commonly applied parameters over time.

a. The Poverty Index

194. **The poverty index has been used in all four bases for revenue sharing.** The index is an equalization factor across the country. The index in the first three bases was gradually reduced from 20% to 18% and 14% in the first, second, and third bases, respectively. The proposed fourth basis has further retained the weight to 14 %. International Comparison has revealed that the factor has been applied in Uganda and South Africa.

195. **A key observation is that in Kenya, the parameter has predominantly been given a high weight (above 14%) compared to South Africa, which is weighted at 3%. Significant weight to a negative parameter such as poverty may disincentivize counties from development. A review of the trends in the weights of poverty in the last formulas narrows to playing** advantage to less developed counties and a disadvantage to developed /developing counties.

b. The Population Index

196. **The population index has constantly remained in the last three bases, taking significantly more weight.** In the first and second basis, the population parameter was weighted at 45 %, while in the third, the weight dropped to 18%, and in the fourth basis, it appears to be returning to its original weight of above 40% at 42 %. This cyclical trend is susceptible to abuse and can trigger manipulation of the population data, especially during the National Censuses.

197. **From an international perspective, most countries, including the Philippines, India, Uganda, and Ethiopia, have used population as a factor of sharing revenue between the levels of government and among the local governments (*the case of the Philippines*).** While in some countries, the data used for the population is regularly updated, in India, the data for the

population used in revenue sharing is from 1990. The mix of the parameter's application and the data's age creates the need for substantial intelligence in the use of the factor in revenue sharing.

198. **Further analysis of the factor indicates that, whereas it is seen as a balancing indicator of all community needs in counties, it has several dynamics that have not been considered over time in its application.** Populations in counties are made up of different demographics. Old people dominate some countries, while others are made up of the young generations (the Gen-Zs). These groups of people's needs are considered diverse and require a different approach. It is imperative that going to the 4th generation basis and in light of the events of the *Gen-Z* uproar in June 2024, such dynamics should be considered.

199. **Other population implications as a factor that is highly weighted on the dynamics of the people who reside in the major cities.** It is emerging that, while some individuals are perceived to be staying/living in the outskirts of the Cities, they spend most of their time in the 'city' during the day. Revenue allocation in the review of the population ignores relatively the operational nature of the population in their day-to-day life activities. Another underrated population dynamic is the implication of rural-urban migrations across counties and the question of refugees in some counties.

c. Basic Share Index

200. **The basic share index has featured in all four bases, including the proposed fourth Basis, with its weights going above a quarter of the overall allocation factor.** The weights have varied from 25% on the first basis to 26% on the second basis, 20% on the third basis, and now proposed at 22 % on the fourth basis. It is applied as an affirmative parameter to guarantee small counties the minimum and standard service delivery. Internationally, the parameter is largely employed in most countries. For instance, in the Philippines, it is referred to as the equal share factor and is weighted at 25 %, While in South Africa, it is called basic share and weighted at 9 %. In Uganda, it is known as Constant /Fixed Allocation, and it is meant to ensure that a local government has the minimum allocations for the construction of meaningful infrastructure (Development).

d. Geographical size /Land Area

201. **The physical size of the local government unit remains a key factor in sharing revenue in some countries.** Countries such as the Philippines have employed the factor at 25 %, with a unique requirement of the parameter being one of the factors considered in the creation, conversion, sub-division, or merging of a local government unit. Nigeria, Ethiopia, and Uganda are some African countries that have employed the factor in their revenue sharing.

202. **In Kenya, the parameter has remained with a weight of 8 % in the three previous bases.** The fourth Basis has increased the parameter by one additional unit to 9%. There has not been a review of boundaries in Kenya since the beginning of the era of devolution. This therefore means

that since 2013, there has been a deliberate move to allocate more resources to large counties than smaller counties.

203. **Analysis of how the factor is applied in some countries shows that there is a regular review of the size and population of a local government.** The use of the parameter is premised on the regular creation, sub-division, or merging of local governments hence ensuring a uniform application of the parameter. However, Kenya has cushioned against the effects of the factor by capping, something which has significantly not addressed the impact, especially to small counties such as Nairobi and Mombasa.

e. Income Distance Index

204. **The Income Distance index is a new parameter that has not been used before, with its indicators posing significant data credibility issues.** The parameter employs GCP as the indicator used to determine the income generation efforts of a County. The parameter has been weighted at 13 %, and GCP is obtained by averaging the county GCP for 2020, 2021 & 2022. However, there is no explanation for why Nairobi is used as the yardstick for the per capita GCP for all the other counties.

f. Other General Observations

205. **The fourth basis has incorporated a new arbitrary parameter christened a stabilization factor.** The index is given to each county as a stabilization index lacks a scientific basis. According to the CRA, the factor has been introduced to promote harmlessness in the allocation factor to counties. Using baseless factors in determining revenue allocation among counties would be detrimental. The future of revenue allocation should point to some stability and predictability but not lean on holding harmless. It would be prudent if the transition effects from one basis to another were fixed by a scientifically generated deviation parameter.