REPUBLIC OF KENYA

EQUALIZATION FUND. Bridging Equality

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REPUBLIC OF KENYA

EQUALISATION FUND ADVISORY BOARD

ANNUAL STATUS REPORT

THE IMPLEMENTATION OF THE EQUALISATION FUND

FY 2025/2026

July, 2026

Vision

Improve access to basic services for the marginalized areas.

Mission

To provide advisory on prioritization and disbursement of the Equalisation Fund, oversight of project implementation, and foster collaboration between the National Government, County Governments and communities.

Core Values

Inclusivity

The Equalisation Fund is committed to fostering a culture of inclusivity as required by the Constitution of Kenya 2010, ensuring that all marginalized communities, regardless of their ethnic or any other distinction, are given equal opportunities to access services and resources.

Transparency and Accountability

We are committed to upholding the highest standards of transparency in all our operations, ensuring that information is openly shared with our stakeholders.

Professionalism

We approach our work with a deep sense of responsibility and dedication to excellence. By adhering to high ethical standards and delivering quality service, we ensure that all interactions, both internal and external, reflect the competence and commitment expected from a public institution with a mandate such as ours.

Teamwork

Our success depends on the combined efforts of a dedicated team working in unison toward the common goal of strengthening our ability to serve marginalized communities.

Collaboration

Our Mandate entails working hand-in-hand with various stakeholders—National Government, County Governments, and the communities we serve. Through collective effort and shared resources, we develop solutions that effectively address the diverse needs of marginalized communities in line with our legal mandate.

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ABBREVIATIONS AND ACRONYMS

CDF	Constituency Development Fund
CG	County Government
COB	Controller of Budget
COG	Council of Governors
CoK 2010	Constitution of Kenya 2010
CRA	Commission on Revenue Allocation
CTC	County Technical Committee
DORA	Division of Revenue Act
EF	Equalisation Fund
EFAB	Equalisation Fund Advisory Board
FCDC	Frontier Counties Development Council
FMP	First Marginalization Policy
GoK	Government of Kenya
IBEC	Intergovernmental Budget and Economic Council
IFMIS	Integrated Financial Management Information System
MDAs	Ministries, Departments and Agencies
NA	National Assembly
PFM	Public Finance Management
PFMA	Public Finance Management Act
sCTC	Sub-County Technical Committee
SDA	State Department and Agency
SDBE	State Department for Basic Education
SDE	State Department of Energy
SDI	State Department for Irrigation
SDMS	State Department for Medical Services
SDR	State Department for Roads
SDTVET	State Department for Technical, Vocational Education and Training
SDWS	State Department for Water and Sanitation

FOREWORD

Article 204 of the Constitution of Kenya, 2010 envisions a Republic in which every citizen, wherever they live, enjoys access to quality basic services — water, roads, health facilities and electricity. The Equalisation Fund is the constitutional instrument through which the nation gives practical effect to that vision, directing resources to the areas that history and circumstance have left furthest behind. It is my privilege, as Chairman of the Equalisation Fund Advisory Board, to present this Annual Status Report for the Financial Year 2025/26, which sets out, on an inception-to-date basis, the progress the Fund has made in bridging the gap in service delivery in marginalised areas.

The year under review has been one of consolidation and steady delivery. Under the First Marginalization Policy, the 360 projects approved through the Equalisation Fund Appropriation Act, 2018 - valued at Ksh. 11.8 billion across the fourteen marginalised counties - advanced firmly towards completion, with 266 projects (73.89 per cent) reported fully complete and a further 8.61 per cent at advanced stages of completion by the close of the year. Under the Second Marginalization Policy, a cumulative 1,624 projects valued at approximately Ksh. 9.94 billion had been approved for implementation across the 1,424 marginalised areas in 34 counties, and reports received during the year confirm that 1,072 projects (65.93 per cent) had been completed by 30th June 2026, up from about 21 per cent at the end of the first quarter. Together, these interventions are improving the lives of an estimated fifteen million Kenyans through expanded access to clean water, health care, electricity and roads.

Several milestones marked the year. The Fund deepened its monitoring and verification of projects, sustained its engagement with the beneficiary counties, and strengthened county capacity through sensitisation and training. Most significantly, Parliament enacted the Equalisation Fund Appropriation Act, 2026, appropriating Ksh. 16.8 billion for implementation in the Financial Year 2026/27 — a firm signal of the nation's continuing commitment to equitable development.

I would be remiss not to acknowledge the challenges that persist, chief among them the accumulation of arrears and the fragmentation of resources under the present marginalisation framework. I do not, however, regard these as bottlenecks, but as opportunities to strengthen the design and financing of the Fund — through a single, predictable marginalisation policy, timely financing anchored on the Division of Revenue Act, and closer collaboration between the two levels of government. I thank the National Treasury, the Commission on Revenue Allocation, the Controller of Budget, the county governments and all our partners for their steadfast support, and

I commend this report to all our stakeholders.

AMB. (ENG.) MAHBOUB M. MAALIM, CBS, OGW
Board Chairperson

PREFACE

This Annual Status Report for the Financial Year 2025/26 consolidates the four quarterly reports of the year into a single, full-year account of the implementation of the Equalisation Fund. Prepared pursuant to Regulation 27 of the Public Finance Management (Equalisation Fund Administration) Regulations, 2021, it presents the inception-to-date position of the Fund as at 30th June 2026, covering the projects approved for financing, the status of disbursements, the progress of implementation, and the achievements, challenges and recommendations arising over the course of the year.

The preparation of this report was made possible by the implementing entities - the national government Ministries, Departments and Agencies under the First Marginalization Policy, and the 34 beneficiary county governments under the Second Marginalization Policy - whose submission of status reports and completion certificates has enabled a full and accurate account of performance. I record my particular appreciation to all thirty-four (34) beneficiary counties, every one of which submitted its quarterly implementation status reports during the year - an exceptional and unprecedented level of compliance that reflects a growing culture of accountability and transparency in the administration of the Fund. This full participation has strengthened the credibility of this report and provides a firm foundation for even more effective implementation in the years ahead. On the strength of these submissions, the report confirms that, by 30th June 2026, a total of 266 of the 360 projects under the First Policy (73.89 per cent) and 1,072 projects under the Second Policy (65.93 per cent) had been reported complete.

To our stakeholders, I invite you to study this report in full. Where we have set out challenges, we do so not as a catalogue of shortcomings but as an honest basis for strengthened engagement and joint problem-solving. It is through sustained collaboration — with the National Treasury, the Commission on Revenue Allocation, the Controller of Budget, the county governments and the communities we serve — that the Equalisation Fund will realise its constitutional purpose. We remain committed to that partnership as we implement the recommendations contained in this report.



GUYO BORU, MBS
C.E.O / Fund Administrator

EXECUTIVE SUMMARY

This Annual Status Report presents the implementation of the Equalisation Fund for the Financial Year 2025/26, covering the period 1st July 2025 to 30th June 2026 on an inception-to-date basis. It consolidates the position progressively reported in the first, second, third and fourth quarters of the year into a single year-end statement of the performance of the Fund.

The report is prepared in compliance with the Public Finance Management (Equalisation Fund Administration) Regulations, 2021, and in particular Regulation 27, under which the Board submits reports to the Cabinet Secretary for the National Treasury, with copies to the Commission on Revenue Allocation and the Controller of Budget. It draws together the status reports of the national government Ministries, Departments and Agencies (MDAs) and the beneficiary county governments implementing projects under the First and Second Marginalization Policies respectively.

Under the First Marginalization Policy, 360 projects valued at Ksh. 11.8 billion were approved through the Equalisation Fund Appropriation Act, 2018 for implementation across the fourteen marginalised counties. By the close of the year, 266 of these projects (73.89 per cent) had been reported fully complete by the implementing MDAs, with a further 8.61 per cent at advanced stages of completion, benefiting an estimated 9 million residents through improved access to water, health facilities, electricity and roads.

Under the Second Marginalization Policy, which identified 1,424 marginalised areas distributed across 374 wards, 107 constituencies and 34 counties, a cumulative 1,624 projects valued at approximately Ksh. 9.94 billion had been approved for implementation as at 30th June 2026. Implementation progressed steadily through the year, with the proportion of projects reported complete rising from about 21 per cent (328 projects) at the end of the first quarter to 65.93 per cent (1,072 projects) by year-end, while the share of projects at less than 50 per cent implementation fell from 73.21 per cent to 28.11 per cent over the same period - benefiting an estimated 6 million residents in the marginalised areas.

Since inception, the total constitutional entitlement to the Fund amounts to Ksh. 79.86 billion, of which Ksh. 22.42 billion (28.1 per cent) has been paid into the Fund. Cumulative disbursements stood at Ksh. 10.98 billion to MDAs under the First Policy, representing approximately 93 per cent of the appropriated amount, and Ksh. 6.92 billion to the beneficiary county governments under the Second Policy, equivalent to about 69 per cent of the amount appropriated under the Equalisation Fund Appropriation Act, 2023. Over the course of the year, the overall absorption rate under the Second Policy rose steadily, from 29 per cent in the first quarter to 38 per cent in the second, 48 per cent in the third and 69 per cent by year-end.

Notwithstanding this progress, the resources of the Fund remain constrained by the accumulation of arrears, which stood at Ksh. 57.67 billion as at 30th June 2026. While the National Treasury has previously committed to Parliament to clear these arrears, the shortfall has continued to limit cash flow and delay the execution of projects.

The most significant challenges during the year were the fragmentation of resources arising from the use of the sub-location as the planning unit under the Second Policy, which has spread funding thinly across a large number of small projects; the slow pace of implementation occasioned by delayed financing and lengthy legislative processes; and the uncertainty arising

from the divergent methodologies of the First and Second Policies. Weak intergovernmental coordination and the absence of provision for county administrative costs further constrained delivery.

In response, the Fund strengthened coordination with the National Treasury to expedite the settlement of arrears; enhanced county capacity through technical support and through the monitoring and verification of 317 projects across 11 counties; and sensitised the technical committees of twelve lagging counties while training counties on the Integrated Financial Management Information System (IFMIS). The Fund also continued to advocate for a streamlined and unified marginalisation framework.

A major milestone was the enactment of the Equalisation Fund Appropriation Act, 2026, which appropriated Ksh. 16.8 billion, of which Ksh. 16.296 billion is for development, for implementation in the Financial Year 2026/27. Looking ahead, the Fund will prioritise the completion of the remaining First-Policy projects, accelerate implementation under the Second Policy, roll out the 2026 appropriation in collaboration with the beneficiary counties, advocate on anchoring future financing on the Division of Revenue Act, and continue to engage the Commission on Revenue Allocation on the adoption of a single marginalisation policy.

1.0 INTRODUCTION

1.1 Preamble

The Equalisation Fund is established under Article 204(1) of the Constitution of Kenya, 2010, which requires that 0.5 per cent of all revenue collected by the national government each year, based on the most recent audited accounts of revenue received and approved by the National Assembly, be paid into the Fund. As provided under Article 204(2), the Fund is intended to provide basic services — including water, roads, health facilities and electricity — to marginalised areas, with the objective of raising the standard of those services to the level generally enjoyed by the rest of the nation, in so far as this is possible.

This Annual Report presents the cumulative status of the Equalisation Fund for the Financial Year 2025/26. It consolidates, into a single year-end statement, the position progressively reported in the first, second, third and fourth quarters of the financial year, and reflects the inception-to-date performance of the Fund as at 30th June 2026.

1.2 Marginalization Policies

Article 216(4) of the Constitution of Kenya, 2010 mandates the Commission on Revenue Allocation (CRA)[1] to determine, publish and periodically review a policy setting out the criteria for identifying marginalised areas for the purposes of Article 204(2). The policy provides the framework for identifying beneficiary areas and guiding the equitable allocation of resources from the Equalisation Fund, whose objective is to finance the provision of basic services—including water, roads, health facilities and electricity—in marginalised areas so as to progressively bring the quality of those services closer to the level generally enjoyed by the rest of the country.

Since the promulgation of the Constitution, the Commission has developed two successive marginalization policies. The **First Marginalization Policy**, published in February 2013, established the initial criteria for identifying marginalised areas and guided the allocation of Equalisation Fund resources attributable to Financial Years **2014/15, 2015/16 and 2016/17**. Following a review of the methodology and recognising that deprivation exists within counties as well as between counties, the Commission published the **Second Marginalization Policy** in 2018, introducing a more targeted framework for identifying marginalised areas at the sub-location level. The Second Policy was intended to guide the allocation of resources attributable to FYs **2017/18 to 2020/21**. Subsequently, CRA issued an Addendum to facilitate the allocation of previously unappropriated Equalisation Fund resources relating to FYs **2011/12, 2012/13 and 2013/14**, while retaining the county-based sharing framework established under the First Policy for those earlier allocations.

The First Marginalization Policy adopted the **county** as the unit of analysis. The Commission employed a triangulation of three complementary approaches, namely a nationwide perception survey on marginalisation, an assessment of historical injustice[2]s and a County Development

[1] The Commission on Revenue Allocation is an independent commission established under Article 215 of the Constitution of Kenya, 2010, mandated, among other functions, to recommend the basis for the equitable sharing of nationally raised revenue and to determine and periodically review the policy for identifying marginalised areas.

[2] In the context of the marginalisation policies, the term refers to the past exclusion of particular areas, communities or groups from the mainstream economic, political and social life of the nation, on grounds of the kind contemplated under Article 27(4) of the Constitution.

Index (CDI)[3] measuring relative levels of development across counties. Applying these approaches, the Commission identified fourteen (14) counties as marginalised, namely Garissa, Isiolo, Kilifi, Kwale, Lamu, Mandera, Marsabit, Narok, Samburu, Taita Taveta, Tana River, Turkana, Wajir and West Pokot.

The Second Marginalization Policy departed from the county-based approach by adopting the sub-location as the planning unit, thereby enabling the Equalisation Fund to target deprived communities irrespective of the county in which they are located. The Policy employed a deprivation index based on five socio-economic indicators directly linked to access to basic services, namely access to safe drinking water, use of improved sanitation, access to electricity, net primary school attendance and net secondary school attendance. Using this methodology, the Commission assessed all 7,131 sub-locations in the country and identified 1,424 sub-locations as marginalised. These sub-locations are distributed across 374 wards, 107 constituencies and 34 counties, namely Baringo, Bomet, Bungoma, Busia, Elgeyo Marakwet, Garissa, Homa Bay, Isiolo, Kajiado, Kericho, Kilifi, Kisumu, Kitui, Kwale, Laikipia, Lamu, Machakos, Mandera, Marsabit, Meru, Migori, Murang'a, Nakuru, Nandi, Narok, Samburu, Siaya, Taita Taveta, Tana River, Tharaka-Nithi, Trans Nzoia, Turkana, Wajir and West Pokot, representing a combined population of approximately 5.6 million people.

Collectively, the two policies have guided the identification of beneficiary areas and the allocation of Equalisation Fund resources since the operationalisation of the Fund. While the First Policy focused on addressing disparities between counties, the Second Policy refined the targeting framework by addressing pockets of deprivation within counties, thereby strengthening the constitutional objective of ensuring more equitable access to basic services.

1.3 Objectives of the Report

Central to the Public Finance Management (Equalization Fund Administration) Regulations, 2021 is a strong emphasis on reporting, as set out in Regulations 22(g) and 27. Regulation 27 requires the Board to submit quarterly reports to the Cabinet Secretary responsible for the National Treasury, with copies to the Commission on Revenue Allocation and the Controller of Budget. Regulation 22(g) mandates the Secretariat to prepare and submit updates to the Board and the Cabinet Secretary in order to ensure transparency and accountability, while Regulation 8(h) requires the Board to review consolidated reports and make recommendations for performance improvement.

In this regard, this Annual Report for the Financial Year 2025/26 — being a cumulative consolidation of the first, second, third and fourth quarterly reports — draws together the status reports submitted by beneficiary counties and national government MDAs. It provides a comprehensive overview of the projects approved and funded under the First and Second Marginalization Policies and addresses both the technical and the financial dimensions of Equalisation Fund projects as reported by the implementing entities. It further reports on approved projects, the status of disbursements, implementation progress, achievements, the challenges encountered and the associated recommendations, as well as any restrictions imposed on implementing entities in the utilisation of the Fund. Beyond fulfilling a statutory obligation, the report serves as a critical accountability and learning instrument — promoting transparency,

[3] The County Development Index is a composite measure of well-being constructed from indicators of health, education, infrastructure and poverty, used under the First Policy to rank counties from the least to the most developed.

guiding resource allocation and supporting evidence-based decision-making. Ultimately, it reflects a shared commitment to improving the quality of basic services in marginalised areas, in line with the Constitution's vision of inclusive and equitable development.

1.3.1 General Objective

The general objective of this report is to provide a comprehensive assessment of the implementation and performance of the Equalisation Fund for the Financial Year 2025/26, that is, for the period 1st July 2025 to 30th June 2026 and on an inception-to-date basis. The report covers both the First and Second Marginalization Policies, with a view to promoting transparency, accountability and evidence-based decision-making.

1.3.2 Specific Objectives

The specific objectives of the report are:

i. to present a summary of the projects and programmes approved for financing by the end of the Financial Year 2025/26 under both the First and Second Marginalization Policies;

ii. to analyse the status of disbursements of funds to the various projects and the overall implementation progress achieved during the Financial Year 2025/26;

iii. to report on the status of disbursements from the Fund to the respective county governments and national government implementing agencies during the Financial Year 2025/26, highlighting the financial flows under both policies;

iv. to outline any restrictions imposed on county governments or implementing entities involved in the execution of projects during the Financial Year 2025/26; and

v. to report on the achievements and challenges encountered during the Financial Year 2025/26 and the recommendations advanced to address those challenges.

2.0 INSTITUTIONAL FRAMEWORK

2.1 Preamble

The Equalisation Fund was first operationalised through the Guidelines on the Administration of the Equalisation Fund, published vide Gazette Notice No. 1711 of 2015[4]. These guidelines provided for direct implementation by national government Ministries, Departments and Agencies (MDAs). The Council of Governors (COG), however, challenged the constitutionality of the guidelines through High Court Petition No. 272 of 2016. In its decision of 2019, the High Court granted the prayers of the COG, declared the 2015 Guidelines unconstitutional, and directed the National Treasury to review the administration framework and develop a new legal instrument to operationalise the Fund. Consequently, the Public Finance Management (Equalisation Fund Administration) Regulations, 2021 were developed to guide the utilisation of the Fund as conditional grants[5] to county governments.

2.2 Organizational Structure

The PFM (Equalisation Fund Administration) Regulations, 2021 establish a multi-tiered institutional framework for the oversight of the implementation of the Fund at both the national and the county levels. This framework is intended to ensure the effective management and implementation of the Fund from the national level down to the community level.

2.3 National Level Oversight

At the national level, two key bodies provide strategic direction and administrative support for the Equalisation Fund:

2.3.1 The Equalisation Fund Advisory Board

The Equalisation Fund Advisory Board (EFAB), established under Regulation 4(1), provides strategic leadership and crucial oversight. The Board comprises an independent Chairperson appointed by the Cabinet Secretary for the National Treasury; the Principal Secretaries for the National Treasury and for the State Department for Devolution (or their designated representatives); and representatives of pastoralist communities, the National Assembly, the Council of Governors and various stakeholder groups drawn from the beneficiary areas. The Chief Executive Officer (CEO) serves as the Secretary to the Board. As set out in Regulation 8, the mandate of the Board includes advising the Cabinet Secretary on the allocation of the Fund, appraising and prioritising projects, closely monitoring implementation, reviewing quarterly reports and recommending performance improvements to ensure that the Fund achieves its intended objective.

2.3.2 Secretariat

The Secretariat is the operational backbone of the Equalisation Fund, providing essential technical and administrative support. The CEO, appointed under Regulation 21(1), leads the Secretariat established under Regulation 22. The responsibilities of the Secretariat include consolidating county work plans, maintaining a central database of all projects, monitoring implementation progress, preparing comprehensive quarterly reports for the consideration of the

[4] A Gazette Notice is an official notice published in the Kenya Gazette, the Government's official journal; Gazette Notice No. 1711 of 2015 issued the first Guidelines for the administration of the Equalisation Fund, which were subsequently declared unconstitutional.
[5] A conditional grant is a transfer of funds from the national government to county governments that may be applied only to a specified purpose and subject to defined conditions, as distinct from the counties' unconditional equitable share of revenue.

Board, and proposing corrective measures to enhance overall performance and efficiency, among others.

2.4 County and Sub-County Coordination

The successful realisation of the objectives of the Equalisation Fund requires robust coordination mechanisms at the county and sub-county levels in order to enhance efficiency and accountability in the utilisation of the Fund.

The Regulations decentralise project identification through County Technical Committees (CTCs), Sub-County Technical Committees (sCTCs) and Project Identification and Implementation Committees (PIICs) at the ward level, thereby strengthening efficiency and accountability in the utilisation of the Fund.

2.4.1 County Technical Committee (CTC)

Constituted under Regulation 14, the CTC is mandated to ensure that all proposed projects are consistent with local development priorities and comply with the established eligibility criteria. The Committee is chaired by the County Commissioner and includes, among its membership, the County Executive Committee Member for Finance of the beneficiary county. Additional members comprise CDF managers, representatives of the County Assembly and the relevant sector heads. This composition promotes intergovernmental collaboration and enhances transparency and accountability in the identification, selection and oversight of projects.

2.4.2 Sub-County Technical Committee (sCTC)

Established under Regulation 16 and chaired by the Sub-County Commissioner, the sCTC plays a pivotal role in the decentralised management of the Fund. Its core functions include receiving and evaluating project proposals, assessing their feasibility, monitoring implementation progress and preparing quarterly progress reports. These responsibilities strengthen transparency, accountability and effective coordination at the sub-county level.

2.4.3 Project Identification and Implementation Committee (PIIC)

Community participation and rigorous financial oversight are fundamental to the success of the Equalisation Fund. At the grassroots level, the Project Identification and Implementation Committee, established under Regulation 18 and chaired by the Assistant County Commissioner (ACC), is pivotal in fostering community-level participation. Its diverse membership includes village administrators; representatives of women, youth, minorities and persons with disabilities (PWDs); CDF committee members; and representatives of local non-governmental and faith-based organisations. The Committee identifies and prioritises projects that are responsive to local needs, develops proposals and oversees local implementation. This direct involvement embeds the principles of accountability, inclusivity and effectiveness in the delivery of services tailored to the unique challenges of marginalised areas.

2.5 Financial Coordination and Oversight

Under Regulation 20, the County Executive Committee Member (CECM) for Finance is responsible for consolidating county-level work plans and submitting them to the Board. The CECM is also responsible for preparing detailed quarterly and annual financial reports and for ensuring adherence to all procurement and financial regulations.

In line with the constitutional provisions and all relevant laws, the Controller of Budget[6] plays an indispensable oversight role. Under Articles 204(9) and 228 of the Constitution, the Controller of Budget authorises all withdrawals from the Equalisation Fund, thereby introducing a critical layer of financial accountability and control. This independent authorisation acts as a safeguard, ensuring that funds are disbursed responsibly and in accordance with the approved plans, and thereby bolstering transparency and accountability.

Pursuant to Article 226(3), the Equalisation Fund is audited by the Office of the Auditor-General, as are the accounts of all governments and State organs. Article 226(2) further provides that the accounting officer of a national public entity is accountable to the National Assembly for its financial management, and the accounting officer of a county public entity is accountable to the county assembly for its financial management.

This multi-layered financial oversight, coupled with the integrated framework spanning the national to the community levels, significantly strengthens transparency, efficiency and the equitable delivery of essential services to the marginalised areas of Kenya.

[6] The Controller of Budget is an independent office established under Article 228 of the Constitution, responsible for overseeing the implementation of the budgets of the national and county governments by authorising withdrawals from public funds.

3.0 PROJECTS AND PROGRAMS APPROVED FOR FINANCING

3.1 Preamble

The approval of projects and programmes under the Equalisation Fund is guided by the successive Marginalization Policies developed by the Commission on Revenue Allocation (CRA) pursuant to Article 216(4) of the Constitution of Kenya, 2010. The First and Second Marginalization Policies provide the framework for identifying beneficiary areas and allocating Equalisation Fund resources through the respective Equalisation Fund Appropriation Acts enacted by Parliament.

This chapter presents the cumulative position of projects approved under the two policy frameworks for the Financial Year ended 30 June 2026. By the end of the reporting period, a cumulative total of **360 projects** had been approved under the First Marginalization Policy through the Equalisation Fund Appropriation Act, 2018[7], while **1,624 projects** had been approved under the Second Marginalization Policy pursuant to the Equalisation Fund Appropriation Act, 2023.

3.2 First Marginalization Policy Projects

The First Marginalization Policy, published in February 2013, established the criteria for identifying marginalised areas and guiding the allocation of resources to the initial fourteen (14) counties identified as marginalised. Pursuant to this policy, the Equalisation Fund Appropriation Act, 2018 provided for a total appropriation of **Ksh. 12.4 billion**, against which 360 projects valued at Ksh. **11.8 billion** were approved for implementation across the fourteen beneficiary counties.

In terms of allocation, Turkana County received the highest appropriation, amounting to **Ksh. 1.05 billion** for the implementation of 14 projects, while Lamu County received the lowest appropriation of **Ksh. 722.2 million**, albeit for a comparatively high number of 38 projects. The distribution of the appropriation and the corresponding number of approved projects by county is presented in **Table 1.**

Table 1: Allocation and Projects Approved by County, EF Appropriation Act 2018

S/No.	County	Appropriated Amount (Ksh.)	No. of Projects
1	Garissa	783,500,000	9
2	Isiolo	746,900,000	17
3	Kilifi	763,500,000	58
4	Kwale	795,300,000	29
5	Lamu	722,199,600	38
6	Mandera	967,600,000	12
7	Marsabit	886,200,000	27
8	Narok	809,500,000	29
9	Samburu	865,917,863	14
10	Taita Taveta	751,200,000	38
11	Tana River	859,000,000	26
12	Turkana	1,050,200,000	14
13	Wajir	929,800,000	27
14	West Pokot	870,382,138	22
	Total	**11,801,199,601**	**360**

Source: *Equalisation Fund Advisory Board (EFAB); Equalisation Fund Appropriation Act, 2018.*

[7] An Appropriation Act is a law enacted by Parliament authorising the withdrawal of a specified sum of money from a public fund for stated purposes; expenditure from the Equalisation Fund is authorised through such Acts, as contemplated under Article 204(3)(a) of the Constitution.

3.3 Second Marginalization Policy Projects

3.3.1 Marginalized Areas

The Second Marginalization Policy, published in 2018, introduced a revised approach to the identification of marginalised areas by shifting the unit of analysis from the county to the sub-location[8]. Applying a deprivation-based methodology, the Policy identified 1,424 sub-locations as marginalised planning units. These areas are distributed across 374 wards, 107 constituencies and 34 counties, reflecting a deliberately targeted approach to addressing intra-county disparities in access to basic services, in line with Article 204(2) of the Constitution. The distribution of the marginalised areas by county is presented in **Table 2**.

Table 2: Areas categorized as marginalized in the Second Marginalization Policy by county

S/No.	County	Constituencies	Wards	Sub-locations
1	Baringo	4	15	90
2	Bomet	1	3	3
3	Bungoma	1	4	9
4	Busia	2	3	3
5	E/Marakwet	3	6	11
6	Garissa	6	27	83
7	Homa-Bay	4	10	20
8	Isiolo	2	8	25
9	Kajiado	3	13	64
10	Kericho	3	4	10
11	Kilifi	6	19	78
12	Kisumu	2	4	4
13	Kitui	4	17	63
14	Kwale	4	15	39
15	Laikipia	2	5	18
16	Lamu	2	7	10
17	Machakos	1	2	2
18	Mandera	6	31	97
19	Marsabit	4	18	68
20	Meru	3	4	5
21	Migori	4	9	27
22	Murang'a	1	1	1
23	Nakuru	1	1	1
24	Nandi	2	4	19
25	Narok	6	26	112
26	Samburu	3	15	95
27	Siaya	3	5	5
28	Taita Taveta	2	2	2
29	Tana River	3	14	65
30	Tharaka-Nithi	2	4	7
31	Trans Nzoia	1	1	1
32	Turkana	6	28	144
33	Wajir	6	30	94
34	West Pokot	4	19	149
	TOTAL	**107**	**374**	**1,424**

Source: *Second Policy and Criteria for Sharing Revenue Among Marginalized Areas (CRA, 2018).*

[8] A sub-location is the smallest unit in Kenya's administrative structure, falling below the location, ward, constituency and county; the Second Policy adopted it as the planning unit so as to target marginalisation more precisely than the county-based First Policy.

3.3.2 Approved Projects under the Second Marginalization Policy

In accordance with Regulation 20 of the Public Finance Management (Equalisation Fund Administration) Regulations, 2021, and against the appropriation of **Ksh. 10.02 billion** provided under the Equalisation Fund Appropriation Act, 2023, the Board had, as at 30th June 2026, approved a cumulative total of **1,624 projects** for implementation across the 34 beneficiary counties. The approved projects are valued at approximately **Ksh. 9.812 billion** (97.96%). The number of marginalised areas, the appropriation, and the number and value of approved projects by county are presented in **Table 3**.

Table 3: Second Policy Approved Projects and Budgets by county

S/No.	County	Marginalized Areas	Appropriated Amount (Ksh.)	Approved Projects	Projects Budget (Ksh.)
1	Baringo	90	595,027,099	144	574,569,659
2	Bomet	3	19,215,175	3	19,215,174
3	Bungoma	9	58,779,836	8	58,779,835
4	Busia	3	17,979,656	3	17,979,656
5	E/Marakwet	11	65,114,751	15	56,596,833
6	Garissa	83	630,912,260	90	608,467,503
7	Homa-Bay	20	131,603,304	31	131,603,302
8	Isiolo	25	166,157,751	26	166,157,748
9	Kajiado	64	414,765,595	39	414,765,596
10	Kericho	10	60,882,122	12	60,882,122
11	Kilifi	78	539,901,714	70	537,150,000
12	Kisumu	4	24,333,610	4	24,333,610
13	Kitui	63	397,477,349	119	376,892,625
14	Kwale	39	292,590,513	60	285,347,747
15	Laikipia	18	119,303,227	29	119,302,927
16	Lamu	10	57,614,460	10	57,614,460
17	Machakos	2	12,923,347	2	12,923,347
18	Mandera	97	753,408,998	91	753,408,997
19	Marsabit	68	469,644,478	105	466,856,157
20	Meru	5	29,927,013	6	29,004,018
21	Migori	27	177,764,414	41	177,512,998
22	Murang'a	1	5,679,579	1	5,679,579
23	Nakuru	1	6,435,119	1	6,435,119
24	Nandi	19	116,745,012	32	116,745,012
25	Narok	112	771,670,228	159	768,535,576
26	Samburu	95	649,686,536	56	635,683,344
27	Siaya	5	31,973,185	7	31,910,044
28	Taita Taveta	2	13,335,187	3	13,329,996
29	Tana River	65	442,122,368	63	414,627,314
30	Tharaka-Nithi	7	44,005,716	9	43,306,307
31	Trans Nzoia	1	7,478,246	1	7,478,246
32	Turkana	144	1,144,091,494	100	1,144,091,493
33	Wajir	94	730,167,615	193	656,867,179
34	West Pokot	149	1,021,690,952	91	1,021,690,952
	TOTAL	**1,424**	**10,020,407,909**	**1624**	**9,815,744,475**

Source: *Equalisation Fund Advisory Board (EFAB); Equalisation Fund Appropriation Act, 2023.*

The sectoral distribution of the approved projects reflects a strong emphasis on Water (497 projects) and Roads (433 projects), followed by Health (308 projects), Education (281 projects) and Energy (103 projects), consistent with the basic-services priorities set out under Article 204(2) of the Constitution. A county-level analysis further reveals significant variation in sectoral allocation: Wajir County recorded the highest number of approved projects (193), followed by Narok (159), Baringo (144), Kitui (119) and Marsabit (105). The distribution of approved projects by county and priority sector[9] is presented in **Table 4.**

Table 4: Analysis by county and priority sector for approved projects

S/No.	County	Education	Energy	Health	Roads	Water	Grand Total
1	Baringo	60	6	18	16	44	144
2	Bomet	-	-	1	1	1	3
3	Bungoma	1	-	1	3	3	8
4	Busia	-	2	-	1	-	3
5	Elgeyo Marakwet	1	2	3	4	5	15
6	Garissa	4	16	33	21	16	90
7	Homa Bay	3	-	5	18	5	31
8	Isiolo	-	-	4	15	7	26
9	Kajiado	2	1	6	13	17	39
10	Kericho	-	2	-	4	6	12
11	Kilifi	-	-	20	29	21	70
12	Kisumu	-	-	1	2	1	4
13	Kitui	20	-	27	30	42	119
14	Kwale	13	12	-	15	20	60
15	Laikipia	8	-	2	1	18	29
16	Lamu	-	1	3	1	5	10
17	Machakos	-	-	1	-	1	2
18	Mandera	-	10	30	18	33	91
19	Marsabit	26	10	21	19	29	105
20	Meru	1	1	-	3	1	6
21	Migori	-	10	12	7	12	41
22	Murang'a	-	-	-	-	1	1
23	Nakuru	-	-	-	-	1	1
24	Nandi	-	-	4	19	9	32
25	Narok	95	-	6	34	24	159
26	Samburu	-	8	6	25	17	56
27	Siaya	-	1	1	-	5	7
28	Taita Taveta	-	-	-	-	3	3
29	Tana River	-	8	13	15	27	63
30	Tharaka Nithi	-	-	3	3	3	9
31	Trans Nzoia	-	-	1	-	-	1
32	Turkana	6	6	28	11	49	100
33	Wajir	40	6	37	65	45	193
34	West Pokot	1	1	19	40	30	91
	Grand Total	**281**	**103**	**306**	**433**	**501**	**1,624**

Source: *Equalisation Fund Advisory Board (EFAB).*

[9] The priority sectors are the basic-service sectors identified under Article 204(2) of the Constitution — water, roads, health and electricity, with education included in the analysis — to which Equalisation Fund resources are principally directed.

4.0 STATUS OF DISBURSEMENTS OF FUNDS

This chapter presents the status of Equalisation Fund receipts and disbursements for the **Financial Year ended 30 June 2026**, including cumulative receipts into the Fund since inception, outstanding arrears[10] against constitutional entitlements, transfers to implementing entities, and progress in financing projects approved under the First and Second Marginalization Policies.

For the Financial Year ended 30 June 2026, the National Treasury transferred **Ksh. 7,507,170,425** into the Equalisation Fund. Consequently, cumulative receipts into the Fund since its inception increased to **Ksh. 22,422,361,366** against cumulative constitutional entitlements of **Ksh. 79,858,744,200**. This represents **28.1 per cent** of the cumulative entitlement, leaving outstanding arrears of **Ksh. 57,670,479,428** equivalent to **71.9 per cent** of the total entitlement.

Withdrawals from the Fund continued to be undertaken in accordance with Articles 204(9) and 228 of the Constitution and the Public Finance Management (Equalisation Fund Administration) Regulations, 2021. Under this framework, all withdrawals from the Fund are authorised by the Controller of Budget and effected through the designated Equalisation Fund account at the Central Bank of Kenya, with resources applied as conditional grants to beneficiary county governments and national government implementing agencies in accordance with the relevant Equalisation Fund Appropriation Acts. **Table 5** summarises the entitlements, the payments into the Fund and the arrears as at 30th June 2026.

Table 5: Entitlement, Payment, and Arrears to the Equalization Fund (Ksh.)

S/N	Financial Year	Base Year	Audited & Approved Revenues (Ksh.)	EF Entitlement (0.5%)	Amount in DORA (Ksh.)	Payment into EF	Arrears
1	2011/12	2008/2009	468,151,970,000	2,340,759,850	0.00	0.00	0.00
2	2012/13	2009/2010	529,300,000,000	2,646,500,000	0.00	0.00	0.00
3	2013/14	2009/2010	529,300,000,000	2,646,500,000	0.00	0.00	0.00
4	2014/15	2009/2010	529,300,000,000	2,646,500,000	3,400,000,000	400,000,000	3,000,000,000
5	2015/16	2012/2013	776,900,000,000	3,884,500,000	6,000,000,000	6,000,000,000	0.00
6	2016/17	2013/2014	935,653,000,000	4,678,265,000	6,000,000,000	6,000,000,000	0.00
7	2017/18	2013/2014	935,653,000,000	4,678,265,000	7,727,000,000	0.00	7,727,000,000
8	2018/19	2013/2014	935,653,000,000	4,678,265,000	4,700,000,000	0.00	4,700,000,000
9	2019/20	2014/2015	1,038,035,000,000	5,190,175,000	5,760,000,000	0.00	5,760,000,000
10	2020/21	2016/2017	1,357,698,000,000	6,788,490,000	6,788,490,000	0.00	6,788,490,000
11	2021/22	2016/2017	1,357,698,000,000	6,788,490,000	6,825,317,433	0.00	6,825,317,433
12	2022/23	2017/2018	1,413,694,840,000	7,068,474,200	7,068,474,211	0.00	7,068,474,211
13	2023/24	2019/2020	1,673,715,000,000	8,368,575,000	8,368,574,000	1,030,000,000	7,338,574,000
14	2024/25	2020/2021	1,570,562,814,725	7,852,814,725	7,852,814,725	1,485,190,941	6,367,623,784
15	2025/26	2021/2022	1,920,434,085,078	9,602,170,425	9,602,170,425	7,507,170,425	2,095,000,000
	TOTAL		**15,621,877,439,450**	**79,858,744,200**	**80,092,840,794**	**22,422,361,366**	**57,670,479,428**

Source: *Division of Revenue Act*[11]*, 2014/15 to 2025/26, and Equalisation Fund Advisory Board (EFAB).*

To address the accumulated Equalisation Fund arrears, the National Treasury developed a phased payment plan in **2023** aimed at progressively clearing the historical funding backlog while continuing to finance current constitutional entitlements. Under the plan, the National Treasury committed to providing **additional annual allocations of approximately Ksh. 9.98 billion** towards arrears clearance, over and above the annual Equalisation Fund entitlement of **0.5 per** cent of the most recent audited national revenue approved by the National Assembly. The proposed payment schedule is presented in **Table 6.**

[10] In this context, arrears denote the cumulative difference between the entitlement due to the Fund since inception and the amounts actually paid into the Fund by the National Treasury.

[11] The Division of Revenue Act is the annual statute that divides nationally raised revenue between the national and county levels of government; the Board recommends that payments into the Fund be anchored on this Act to enhance predictability and timeliness.

Table 6: Proposed Payment plan of Equalization Fund Arrears (Ksh.)

Financial Year	Budget Estimates	Equalization Fund Arrears
2023/24	8,368,574,000	0.00
2024/25	8,368,574,000	9,976,766,000
2025/26	9,590,000,000	9,976,766,000
2026/27	10,960,000,000	9,976,766,000
2027/28	14,393,000,000	9,976,766,000
Grand Total	51,680,148,000	39,907,064,000

Source: *The National Treasury.*

Implementation of the payment plan continued during the Financial Year ended **30 June 2026**, contributing to increased transfers into the Equalisation Fund and supporting the financing of projects approved under the Equalisation Fund Appropriation Act, 2023. Nevertheless, cumulative arrears remained substantial at **Ksh. 57.67 billion** by the end of the reporting period, underscoring the need for sustained implementation of the payment plan to ensure full financing of the Equalisation Fund in accordance with constitutional requirements.

4.1 Transfers from the Equalization Fund

Transfers from the Equalisation Fund are undertaken in accordance with the respective Equalisation Fund Appropriation Acts and the Public Finance Management (Equalisation Fund Administration) Regulations, 2021. Consistent with the implementation arrangements under the two Marginalization Policy frameworks, transfers under the **First Marginalization Policy** are made to national government implementing agencies, while transfers under the **Second Marginalization Policy** are disbursed to beneficiary county governments as conditional grants through their Special Purpose Accounts.

4.3.1 Transfers under the First Marginalization Policy

Under the Equalisation Fund Appropriation Act, 2018, Parliament appropriated **Ksh. 11,801,199,601** for the implementation of **360 projects** across the fourteen beneficiary counties identified under the First Marginalization Policy. The full appropriated amount was subsequently transferred by the National Treasury into the Equalisation Fund Account to facilitate project implementation.

By the end of the Financial Year ended 30 June 2026, cumulative transfers from the Equalisation Fund to the implementing Ministries, Departments and Agencies (MDAs) amounted to **Ksh. 10,976,662,326.99** representing a **93.0 per cent** of the approved allocation. This left an undisbursed balance of **Ksh. 824,537,274.01** equivalent to **7.0 per cent** of the appropriated amount. The cumulative transfers to implementing MDAs by county are presented in **Table 7.**

Table 7: Transfers to MDAs for EF Appropriation Act 2018 by County (Ksh.)

S/No.	County	Allocation EF Appr. Act 2018	Transfers to MDAs	Outstanding Balances
1	Garissa	783,500,000.00	783,500,000.00	0.00
2	Kwale	795,300,000.00	719,824,837.78	75,475,162.22
3	Lamu	722,199,600.00	670,858,586.67	51,341,013.33
4	Kilifi	763,500,000.00	678,387,803.44	85,112,196.56
5	Isiolo	746,900,000.00	689,070,137.50	57,829,862.50
6	Mandera	967,600,000.00	967,266,621.60	333,378.40
7	Marsabit	886,200,000.00	844,847,881.55	41,352,118.45
8	Narok	809,500,000.00	679,750,828.50	129,749,171.50
9	Samburu	865,917,863.00	826,088,884.02	39,828,978.98
10	Taita Taveta	751,700,000.00	723,470,483.43	27,729,516.57
11	Tana River	859,000,000.00	840,670,032.51	18,329,967.49
12	Turkana	1,050,200,000.00	901,654,676.11	148,545,323.89
13	Wajir	929,800,000.00	861,450,481.39	68,349,518.61
14	West Pokot	869,882,138.00	789,616,908.33	80,765,229.67
	Totals	11,801,199,601.00	10,976,662,326.99	824,537,274.01

Source: *Equalisation Fund Advisory Board (EFAB); Equalisation Fund Appropriation Act, 2018.*

4.3.2 Transfers under the Second Marginalization Policy

Under the Equalisation Fund Appropriation Act, 2023, Parliament appropriated **Ksh. 10,023,440,883** for the implementation of projects in the marginalised areas identified under the Second Marginalization Policy. In accordance with Regulation 24 of the Public Finance Management (Equalisation Fund Administration) Regulations, 2021, these resources are disbursed as conditional grants to beneficiary county governments through Special Purpose Accounts established for the implementation of Equalisation Fund projects.

By the end of the Financial Year ended 30 June 2026, cumulative disbursements to beneficiary county governments amounted to **Ksh. 6,924,402,672.85** representing **69 per cent** of the approved allocation. Consequently, **Ksh. 3,096,005,237.15** (**31 per cent**), remained undisbursed.

During the reporting period, disbursements continued to support implementation of approved projects across the beneficiary counties. The cumulative disbursement position by county, together with the corresponding absorption[12] rates and outstanding balances, is presented in **Table 8.**

[12] The absorption rate measures the proportion of the funds available to a county that has actually been disbursed and applied to projects, expressed as a percentage of the approved budget.

Table 8: Cumulative Disbursements to Beneficiary County Governments under the Equalisation Fund Appropriation Act, 2023 (Ksh.)

S/N	County	Approved Budget	Q1	Q2	Q3	Q4	Total (30 Jun 2026)	Absorption	Outstanding Balance
1	Baringo	595,027,099	0.00	0.00	61,255,489.80	49,971,727.00	174,145,208.56	29%	420,881,891.44
2	Bomet	19,215,174	0.00	0.00	0.00	0.00	0.00	0%	19,215,175.00
3	Bungoma	58,779,835	0.00	32,746,967.25	14,668,021.00	0.00	47,414,988.23	81%	11,364,847.77
4	Busia	17,979,656	0.00	0.00	0.00	0.00	0.00	0%	17,979,656.00
5	Elgeyo Marakwet	65,114,752	0.00	0.00	0.00	0.00	0.00	0%	65,114,751.00
6	Garissa	630,784,868	0.00	0.00	0.00	0.00	0.00	0%	630,912,260.00
7	Homa Bay	131,603,302	0.00	0.00	0.00	6,201,027.97	129,770,252.62	99%	1,833,051.38
8	Isiolo	166,157,748	0.00	70,946,512.60	0.00	4,947,650.92	165,885,795.22	100%	271,955.78
9	Kajiado	410,765,596	0.00	121,989,923.50	32,196,275.60	172,369,112.30	399,341,116.20	96%	15,424,478.80
10	Kericho	60,882,122	0.00	0.00	0.00	0.00	0.00	0%	60,882,122.00
11	Kilifi	554,293,696	0.00	0.00	0.00	157,079,787.54	353,170,932.54	65%	186,730,781.46
12	Kisumu	24,333,610	0.00	0.00	0.00	0.00	22,774,183.73	94%	1,559,426.27
13	Kitui	395,977,347	0.00	118,562,504.45	0.00	184,089,061.35	302,651,565.80	76%	94,825,783.20
14	Kwale	299,668,190	0.00	0.00	49,460,240	24,423,157.15	73,883,397.15	25%	218,707,115.85
15	Laikipia	119,302,927	0.00	0.00	36,817,307	39,225,061.00	106,679,105.00	89%	12,624,122.00
16	Lamu	57,614,460	0.00	0.00	0.00	0.00	0.00	0%	57,614,460.00
17	Machakos	12,923,347	0.00	9,283,822.00	0.00	0.00	9,283,822.00	72%	3,639,525.00
18	Mandera	754,389,495	0.00	0.00	0.00	58,575,869.70	752,033,033.70	100%	1,375,964.30
19	Marsabit	475,185,157	0.00	103,151,648.00	73,640,507.70	80,409,386.29	469,508,857.89	100%	135,620.11
20	Meru	29,004,018	0.00	11,914,175.20	0.00	16,705,784.00	28,619,959.20	96%	1,307,053.80
21	Migori	182,868,880	0.00	0.00	59,562,562	14,168,553.20	73,731,115.20	41%	104,033,298.80
22	Murang'a	5,679,579	0.00	0.00	5,679,579	0.00	5,679,579.00	100%	0.00
23	Nakuru	6,435,119	0.00	0.00	0.00	0.00	3,046,902.40	47%	3,388,216.60
24	Nandi	119,999,759	0.00	6,303,020.00	0.00	3,251,588.60	113,967,645.18	98%	2,777,366.82
25	Narok	768,535,576	0.00	0.00	152,360,780	232,229,468.90	384,590,248.90	50%	387,079,979.10
26	Samburu	641,090,960	0.00	0.00	153,688,148	135,821,994	608,462,747.00	94%	41,223,789.00
27	Siaya	31,910,044	0.00	0.00	0.00	6,028,377.00	6,028,377.00	19%	25,944,808.00
28	Taita Taveta	13,329,996	0.00	13,036,663.25	0.00	0.00	13,036,663.25	98%	298,523.75
29	Tana River	442,052,368	0.00	29,730,587.80	0.00	46,124,015.57	219,186,052.37	50%	222,936,315.63
30	Tharaka Nithi	42,915,203	0.00	0.00	0.00	39,528,794.00	39,528,794.00	90%	4,476,922.00
31	Trans Nzoia	7,478,246	0.00	0.00	0.00	0.00	0.00	0%	7,478,246.00
32	Turkana	1,111,549,914	0.00	197,651,337.50	210,727,445	420,742,829.97	1,067,213,507.77	93%	76,877,986.23
33	Wajir	738,901,889	0.00	0.00	164,281,700	298,884,074.00	463,165,774.00	63%	267,001,841.00
34	West Pokot	1,021,690,952	0.00	192,049,609.40	0.00	112,991,698.39	891,603,048.94	87%	130,087,903.06
	Total	**10,023,440,883**	0.00	**907,366,770.95**	**1,014,338,054.4**	**2,103,768,840.89**	**6,924,402,672.85**	**69%**	**3,096,005,237.15**

Source: *Equalisation Fund Advisory Board (EFAB).*

Note: *The Total Disbursements column represents the cumulative, inception-to-date position as at 30th June 2026 and therefore includes amounts disbursed in prior financial years; the quarterly columns reflect only the disbursements made during the respective quarters of FY 2025/26. No disbursements were made in the first quarter of the year.*

5.0 EQUALISATION FUND IMPLEMENTATION STATUS

5.1 Preamble

This chapter presents the consolidated year-end status of implementation of projects financed under the Equalisation Fund pursuant to both the First and Second Marginalisation Policies for the Financial Year 2025/26. The status reflects the cumulative position as at 30th June 2026 and is informed by progress reports submitted throughout the year by the Ministries, Departments and Agencies (MDAs) implementing projects under the First Policy, and by the County Governments implementing projects under the Second Policy.

Over the four quarters of the year, implementation registered steady and measurable progress. Under the First Policy, the proportion of projects that were fully complete and in use, or substantially complete, rose progressively from the first quarter to year-end, while county reporting compliance under the Second Policy improved from fifteen (15) counties in the first quarter to thirty-three (33) counties by the fourth quarter. The sections that follow set out the year-end completion profile for each policy and the status of county reporting.

5.2 Implementation Status of Equalization Fund Projects

5.2.1 Status of Projects under the First Policy

At the end of the first quarter (July - September 2025), a total of 360 projects had been approved for implementation across the fourteen (14) counties under the First Marginalisation Policy and the Equalisation Fund Appropriation Act, 2018, implemented directly by National Government Ministries, Departments and Agencies (MDAs). As at 30th September 2025, 249 projects (69.17%) were reported by the implementing MDAs as complete, while 36 projects (10%) were reported at less than 50 per cent of implementation.

By the close of the financial year on 30th June 2026, a total of 266 projects (73.89%) of the 360 approved projects had been reported as complete by the implementing MDAs. The proportion of projects at less than 50 per cent of implementation, however, remained largely unchanged at 36 projects (10%), having stagnated between the first quarter and the end of the financial year. This is attributed to a number of stalled projects, some of which have had their contracts terminated while others are pending contract termination and re-tendering; in the health sector, for instance, delayed payment of certificates has affected project implementation. To address this, the Fund has constituted a task force to fast-track this category of projects by reactivating the stalled works, expediting payments and verifying the actual physical status of the projects on the ground. **Table 9** presents the year-end status of First Policy projects by county.

Table 9: Status of projects under the First Policy by county

S/N	County	<50%	50%-74%	75%-89%	90%-99%	100%	Totals
1	Garissa	0	1	0	0	8	9
2	Isiolo	1	3	0	2	11	17
3	Kilifi	7	0	1	4	46	58
4	Kwale	4	0	1	0	24	29
5	Lamu	6	3	3	2	24	38
6	Mandera	0	0	0	1	11	12
7	Marsabit	0	0	2	4	21	27
8	Narok	7	2	1	3	16	29
9	Samburu	1	0	0	2	11	14

S/N	County	<50%	50%-74%	75%-89%	90%-99%	100%	Totals
10	Taita Taveta	2	2	0	6	28	38
11	Tana River	1	0	0	0	25	26
12	Turkana	4	1	0	3	6	14
13	Wajir	0	0	3	3	21	27
14	West Pokot	3	1	3	1	14	22
	Total (14 Counties)	**36**	**13**	**14**	**31**	**266**	**360**
	Percentage	**10.00%**	**3.61%**	**3.89%**	**8.61%**	**73.89%**	**100%**

Source: *Implementation Status Reports by MDAs compiled by EFAB.*

5.2.2 Status of Projects under the Second Policy

At the end of the first quarter (July - September 2025), a total of 1,564 projects had been approved for implementation across the thirty-four (34) counties under the Second Marginalisation Policy. As at 30th September 2025, 328 projects (20.97%) were reported as complete, while 1,145 projects (73.21%) were reported at less than 50 per cent of implementation.

By the close of the financial year on 30th June 2026, the number of approved projects had increased to 1,624 across the thirty-four (34) counties. Of these, 1,072 projects (66%) were reported as complete. Compared with the first quarter, when 1,145 (73.21 per cent) of projects were below 50 per cent implementation, only 457 projects (28.14%) remained below 50 per cent by year-end, reflecting substantial progress over the year. **Table 10** presents the year-end status of Second Policy projects by county.

Table 10: Status of projects under the Second Policy by county

S/No.	County	<50%	50%-74%	75%-89%	90%-99%	100%	Totals
1	Baringo	88	5	5	5	41	144
2	Bomet	3	0	0	0	0	3
3	Bungoma	2	0	0	0	6	8
4	Busia	2	0	0	0	1	3
5	Elgeyo Marakwet	15	0	0	0	0	15
6	Garissa	14	1	0	0	75	90
7	Homa Bay	0	0	0	0	31	31
8	Isiolo	0	0	0	0	26	26
9	Kajiado	4	2	0	0	33	39
10	Kericho	10	0	0	0	2	12
11	Kilifi	15	7	3	0	45	70
12	Kisumu	0	0	0	0	4	4
13	Kitui	27	3	1	0	88	119
14	Kwale	43	0	0	0	17	60
15	Laikipia	6	0	0	0	23	29
16	Lamu	10	0	0	0	0	10
17	Machakos	0	0	0	0	2	2
18	Mandera	0	0	0	0	91	91
19	Marsabit	7	0	0	0	98	105
20	Meru	1	0	0	0	5	6
21	Migori	16	0	0	0	25	41
22	Murang'a	0	0	0	0	1	1
23	Nakuru	0	1	0	0	0	1
24	Nandi	0	1	0	0	31	32

S/No.	County	<50%	50%-74%	75%-89%	90%-99%	100%	Totals
25	Narok	71	16	13	8	51	159
26	Samburu	6	3	0	1	48	58
27	Siaya	7	0	0	0	0	7
28	Taita Taveta	0	0	0	0	3	3
29	Tana River	24	4	0	2	33	63
30	Tharaka Nithi	0	2	0	0	7	9
31	Trans Nzoia	1	0	0	0	0	1
32	Turkana	9	5	2	1	83	100
33	Wajir	52	0	0	0	141	193
34	West Pokot	24	4	1	1	61	91
	Total (34 Counties)	**457**	**54**	**25**	**18**	**1,072**	**1,626**
	Percentage	**28.14%**	**3.32%**	**1.54%**	**1.11%**	**65.93%**	**100%**

Source: *Implementation Status Reports by beneficiary County Governments compiled by EFAB.*

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By the close of the financial year on 30th June 2026, the number of approved projects had increased to 1,626 across the thirty-four (34) counties. Of these, 1,072 projects (65.93%) were reported as complete. Compared with the first quarter, when 1,145 (73.21 per cent) of projects were below 50 per cent in implementation, only 457 projects (28.11%) remained below 50 per cent by year-end, reflecting substantial progress over the year. **Table 10** presents the year-end status of Second Policy projects by county.

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5	Elgeyo Marakwet	15	0	0	0	0	15
6	Garissa	14	1	0	0	75	90
7	Homa Bay	0	0	0	0	31	31
8	Isiolo	0	0	0	0	26	26
9	Kajiado	4	2	0	0	33	39
10	Kericho	10	0	0	0	2	12
11	Kilifi	15	7	3	0	45	70
12	Kisumu	0	0	0	0	4	4
13	Kitui	27	3	1	0	88	119
14	Kwale	43	0	0	0	17	60
15	Laikipia	6	0	0	0	23	29
16	Lamu	10	0	0	0	0	10
17	Machakos	0	0	0	0	2	2
18	Mandera	0	0	0	0	91	91

S/No.	County	<50%	50%-74%	75%-89%	90%-99%	100%	Totals
19	Marsabit	7	0	0	0	98	105
20	Meru	1	0	0	0	5	6
21	Migori	16	0	0	0	25	41
22	Murang'a	0	0	0	0	1	1
23	Nakuru	0	1	0	0	0	1
24	Nandi	0	1	0	0	31	32
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29	Tana River	24	4	0	2	33	63
30	Tharaka Nithi	0	2	0	0	7	9
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	Total (34 Counties)	**457**	**54**	**25**	**18**	**1,072**	**1,626**
	Percentage	**28.11%**	**3.32%**	**1.54%**	**1.11%**	**65.93%**	**100%**

Source: *Implementation Status Reports by beneficiary County Governments compiled by EFAB.*

Note: *The total of 1,626 projects reported under the Second Marginalisation Policy in Table 10 exceeds the 1,624 projects approved and presented in Chapter 3 by two (2) projects. This difference arises from two (2) projects in Samburu County, each of which comprises two components that were implemented and reported separately for each component, thereby accounting for the two additional entries in the implementation status.*

5.3 Submissions of County Project Implementation Status Reports

Pursuant to Regulation 20 of the Public Finance Management (Equalisation Fund Administration) Regulations, 2021, the County Executive Committee Members responsible for Finance are required, on a quarterly basis, to prepare and submit reports on funds received and the implementation status of all projects financed by the Fund. These reports facilitate the compilation of the Fund's quarterly and annual reports for submission to the Cabinet Secretary for the National Treasury, with copies to Parliament, the Commission on Revenue Allocation and the Controller of Budget.

Reporting compliance improved consistently and substantially over the four quarters of the year. Of the thirty-four (34) counties under the Second Marginalisation Policy, fifteen (15) counties (44%) submitted status reports in the first quarter, rising to twenty (20) counties (59%) in the second quarter and twenty-five (25) counties (74%) in the third quarter. By the fourth quarter, thirty-three (33) counties (97%) had submitted their implementation status reports, achieving near full compliance for the year-end position. The counties that had been slower to report in earlier quarters - including Bomet, Busia, Elgeyo Marakwet, Garissa, Kericho, Lamu, Siaya, Tharaka Nithi and Trans Nzoia, which had not submitted as at the third quarter - all reported, with exception of Elgeyo Marakwet, which did not submit its status report by year-end.

5.4 Monitoring and Verification

The Equalisation Fund Advisory Board, in accordance with the Public Finance Management (Equalisation Fund Administration) Regulations, 2021, undertook monitoring and verification of Equalisation Fund projects in eleven (11) beneficiary counties during the Financial Year 2025/26. The exercise forms part of the Fund's oversight mandate to promote accountability and ensure that project implementation remains aligned with the objective of improving access to basic services in marginalised areas. Monitoring and verification of the remaining beneficiary counties will be undertaken progressively in subsequent reporting periods.

The monitoring and verification exercises focused on the physical implementation of projects and identified variances between the progress reported by counties and the status verified on site. They also revealed gaps between the planned project scope and completed works, weaknesses in the maintenance of project documentation, implementation challenges arising from difficult terrain, insecurity and site accessibility, and concerns regarding the equipping, utilisation and long-term sustainability of some completed facilities.

Following the exercise, the Fund prepared county-specific monitoring and verification reports outlining key findings and recommended corrective actions for implementation by the respective county governments. The Fund also initiated capacity-building interventions to address identified implementation gaps and commenced the development of a standardised, results-based Monitoring and Evaluation framework to strengthen project oversight, improve accountability, harmonise reporting, and support evidence-based decision-making across all beneficiary counties.

6.0 RESTRICTIONS IMPOSED ON A COUNTY GOVERNMENT OR ANY IMPLEMENTING AGENCY

6.1 Preamble

The implementation of projects under the Equalization Fund is governed by Article 204 of the Constitution of Kenya, 2010, and the Public Finance Management (Equalization Fund Administration) Regulations, 2021. The Fund is operationalized as a conditional grant to county governments and is therefore subject to specific constitutional, statutory, financial and administrative conditions intended to ensure that resources are applied exclusively for their intended purpose of financing basic services in marginalized areas.

These conditions are not mere administrative formalities. They give effect to the very purpose for which Article 204 established the Fund — to bring the quality of basic services in marginalized areas to the level generally enjoyed by the rest of the nation — and to the national values and principles of public finance enshrined in Articles 10, 201 and 204 of the Constitution, namely equity, inclusiveness, and the prudent, transparent and accountable use of public resources. By ring-fencing the Fund to its constitutional purpose, the restrictions safeguard the interests of marginalized communities and prevent the diversion of resources to unintended uses.

6.2 Restrictions Imposed on County Governments and Implementing Agencies

The restrictions set out below are those applied during the Financial Year 2025/26 in respect of resources appropriated under the Equalisation Fund Appropriation Act, 2023 (Second Marginalization Policy). They are reported in accordance with regulation 27 of the PFM (Equalization Fund Administration) Regulations, 2021, which expressly requires the Board to report on any restriction imposed on a county government or any implementing agency.

i. **Restriction to Basic Services.** Equalization Fund resources shall be applied exclusively to the provision of basic services, including water, roads, health facilities and electricity, to the extent necessary to bring the quality of such services in marginalized areas to a level generally enjoyed by the rest of the country, as provided under Article 204 of the Constitution.

ii. **Eligibility of Beneficiary Areas.** The Fund shall only finance projects implemented within marginalized areas identified in accordance with the policy framework developed by the Commission on Revenue Allocation (CRA). Counties and areas not identified under the approved marginalization framework shall not qualify for financing under the Fund.

iii. **Conditional Grant.** The Equalization Fund shall be administered as a conditional grant. County governments and implementing agencies shall utilize the Fund strictly in accordance with the approved purposes and conditions prescribed under the Constitution and the PFM (Equalization Fund Administration) Regulations, 2021. The Fund shall not be diverted to finance recurrent expenditure, administrative costs, salaries, or any activities outside the approved workplans.

iv. **Dedicated Special-Purpose Accounts.** Beneficiary county governments shall establish and maintain dedicated special-purpose[13] bank accounts at the Central Bank

[13] A special-purpose account is a dedicated bank account maintained at the Central Bank of Kenya for the receipt and accountability of a county's Equalisation Fund resources, ring-fencing them for the approved projects.

of Kenya for the receipt, management and accountability of Equalization Fund resources.

v. **Institutional Coordination and Oversight Structures.** County Commissioners in eligible counties shall establish County Technical Committees, Sub-County Technical Committees, and Ward-level Project Identification and Implementation Committees in accordance with regulations 14, 16 and 18 of the PFM (Equalization Fund Administration) Regulations, 2021. These committees facilitate project coordination, technical support, supervision, monitoring and accountability throughout the project implementation cycle.

vi. **Prior Approval for Additional Financing.** Ministries, Departments and Agencies (MDAs) are required to obtain prior concurrence and confirmation from the Equalisation Fund Advisory Board (EFAB), through the Chief Executive Officer, before committing additional resources to projects already approved under the First Marginalization Policy framework and funded by the EF Appropriation Act, 2018.

vii. **Integrated Financial Management Information System (IFMIS)**[14]**.** Project implementation under the Fund is undertaken through the Integrated Financial Management Information System (IFMIS), which provides a structured platform for planning, budgeting, procurement, expenditure tracking and reporting.

viii. **Procurement Rules Must Be Followed.** The County Executive Committee Member responsible for finance shall ensure that any projects undertaken under the workplan are carried out in accordance with the Public Procurement and Asset Disposal Act (Cap. 412C)[15] and any other applicable law.

ix. **Mandatory Reporting Requirements.** The County Executive Committee Member responsible for finance shall prepare and submit to the Board quarterly reports on the implementation of the projects or programmes under the workplan, in the format prescribed by the Board, with a copy to the Commission on Revenue Allocation. Failure to report may expose counties to further restrictions or the withholding of disbursements.

x. **Unspent Funds Do Not Revert to the County.** Any unexpended money in the Equalization Fund at the end of a particular financial year shall remain in that Fund for use, in accordance with its prescribed purposes, during any subsequent financial year. Counties cannot carry over or redirect unspent balances for other uses.

6.3 Summary

These provisions are intended to ensure that Equalization Fund resources are utilized strictly for their intended purpose, with strengthened oversight, transparency and accountability. Taken together, they align the administration of the Fund with both the letter and the spirit of the Constitution — particularly Article 204 — and with the Public Finance Management (Equalization Fund Administration) Regulations, 2021, ensuring that every shilling advances equitable access to basic services in the marginalized areas the Fund was established to serve.

[14] The Integrated Financial Management Information System is the Government of Kenya's automated platform for planning, budgeting, procurement, payments and financial reporting, through which Equalisation Fund transactions are processed to strengthen transparency and control.

[15] Cap. 412C is the principal statute governing public procurement and the disposal of public assets in Kenya, prescribing the procedures that implementing entities must follow when procuring goods, works and services under the Fund.

7.0 ACHIEVEMENTS, CHALLENGES AND RECOMMENDATIONS

7.1 Preamble

This chapter presents a full-year retrospective of the performance of the Equalisation Fund for the Financial Year 2025/26. It consolidates the key achievements realised since inception and during the year, the principal challenges encountered under both the First and Second Marginalization Policies, and the recommendations advanced to remedy those challenges and strengthen the implementation of the Fund. With a constitutional lifespan of twenty years under Article 204(6) of the Constitution, of which fewer than five years now remain, the retrospective set out below also underscores the urgency of accelerating delivery within the remaining period.

7.2 Achievements

The following achievements were realised over the course of the Financial Year 2025/26:

Project implementation across the beneficiary counties.

Implementation progressed steadily across all 34 counties under the Second Marginalization Policy and the 14 counties under the First Marginalization Policy. By the close of the year, a cumulative 1,624 projects valued at approximately Ksh. 9.812 billion had been approved under the Second Policy, up from 1,564 projects at the end of the first quarter, while the 360 projects valued at Ksh. 11.8 billion under the First Policy continued towards completion. The proportion of Second-Policy projects reported as complete rose steadily through the year — from 22 per cent in the first quarter to 34 per cent in the second quarter and 46 per cent by the third quarter, reaching 65.93 per cent by the end of FY 2025/26. Similarly, the proportion of First-Policy projects reported as complete by the implementing MDAs moved from 249 projects (69.17 per cent) in the first quarter to 266 projects (73.89 per cent) by the end of FY 2025/26.

Significant benefiting population.

The interventions of the Fund reach a substantial population: approximately 9 million residents in the 14 counties identified under the First Policy, and a further 6 million residents in the 1,424 areas identified under the Second Policy, benefit from improved access to water, health facilities, electricity and roads.

Disbursement of the Fund.

By 30th June 2026, the Fund had cumulatively transferred Ksh. 10.98 billion to implementing MDAs under the First Policy (Equalisation Fund Appropriation Act, 2018) and Ksh. 6.92 billion to the beneficiary county governments under the Second Policy (Equalisation Fund Appropriation Act, 2023), sustaining the flow of resources to project sites notwithstanding persistent liquidity constraints. Reflecting this progress, the overall absorption rate under the Second Marginalization Policy rose steadily over the course of the year — from 29 per cent as at the end of the first quarter to 38 per cent in the second quarter, 48 per cent in the third quarter, and 69 per cent by the close of FY 2025/26 — while cumulative transfers to the implementing MDAs under the First Policy stood at 93 per cent of the appropriated amount.

Monitoring and verification.

The Board intensified the monitoring and verification of projects to confirm value for money. During the year, 317 projects were verified across 11 counties, namely West Pokot, Samburu, Isiolo, Mandera, Tana River, Nandi, Kisumu, Migori, Homa Bay, Marsabit and Laikipia.

Stakeholder engagement and capacity building.

The Fund continued to sensitise county committees on their roles and on the provisions of the Regulations. Twelve counties that had lagged in implementation — Migori, Narok, Wajir, Garissa, Kwale, Lamu, Trans Nzoia, Busia, Bomet, Elgeyo Marakwet, Siaya and Kericho — received targeted sensitisation of their County Technical Committees, while five counties (Garissa, Wajir, Migori, Narok and Kwale) were trained on the Integrated Financial Management Information System (IFMIS).

Enactment of the Equalisation Fund Appropriation Act, 2026.

A significant milestone during the year was the enactment of the Equalisation Fund Appropriation Act, 2026 — the third Appropriation Act since the inception of the Fund — which was assented to by the President on 29th May 2026. The Act appropriates Ksh. 16.8 billion, comprising Ksh. 16.296 billion for development projects to be administered as conditional grants to the 34 beneficiary counties under the Second Marginalization Policy. The Board has since commenced preparatory activities, in collaboration with the beneficiary counties, ahead of the rollout of implementation in the Financial Year 2026/27.

7.3 Challenges

i) **Spreading the Fund too thinly under the Second Marginalization Policy.**

The adoption of the sub-location as the unit of analysis, and the identification of 1,424 marginalised areas under the Second Policy, has spread the Fund thinly across a large number of small interventions. The resulting micro-projects risk being unsustainable and may fall short of the impact envisaged under Article 204 of the Constitution. This fragmentation has also driven a proliferation of projects — of the 1,647 projects proposed by beneficiary counties by year-end, 1,624 were approved — thereby raising administrative and overhead costs and straining implementation capacity.

ii) **Slow implementation.**

Although the Fund is fully operational, implementation has been constrained by both financing and process bottlenecks. As at 30th June 2026, the Fund was owed Ksh. 57.67 billion in unpaid arrears, notwithstanding the National Treasury's earlier commitments to Parliament to clear them, and this shortfall has restrained cash flow and delayed execution. Implementation has been further slowed by the lengthy legislative process of enacting the Equalisation Fund Appropriation Acts, and by delays, frequent revisions and the reprioritisation of projects by some counties at the Ward, Sub-County and County committee levels.

iii) **Uncertainty in the distribution of the Fund.**

The First and Second Policies apply markedly different methodologies for identifying marginalised areas and for allocating resources. The resulting inconsistencies in beneficiary areas and funding levels create uncertainty for implementing entities and counties, hinder long-term planning, and may ultimately diminish the impact of the projects financed. In particular, the shift from a historical-injustice basis to a poverty-based deprivation criterion has, in the view of some stakeholders, diluted the remedial intent of the Fund and disrupted long-term planning.

iv) **Weak intergovernmental coordination and county capacity constraints.**

The delivery of services in sectors that are functionally shared between the two levels of government — water, roads, health and electricity — has at times been slowed by the absence

of clear coordination mechanisms. The exclusive reliance on indirect implementation through county governments, as provided under the 2021 Regulations, has further constrained delivery where county technical capacity is limited, while a number of proposed projects fall within national government functions, creating functional overlaps.

v) **Absence of administrative-cost provisions for county governments.**

Because the Equalisation Fund operates outside the County Revenue Fund, no provision is made for the administrative costs incurred by county governments in coordinating and implementing Fund activities. This leaves counties without funded operational capacity and thereby constrains effective implementation and oversight at the county level.

7.4 Recommendations

To address the foregoing challenges, the Equalisation Fund makes the following recommendations:

i) **Develop and review a single Marginalization Policy.**

In line with Article 216(4) of the Constitution, the Fund recommends that the Commission on Revenue Allocation to establish, publish and regularly review a single Marginalization Policy that defines the criteria for identifying marginalised areas for the purposes of Article 204(2). A unified policy would enhance predictability, enable long-term planning, and adopt an approach that avoids spreading the Fund too thinly, both geographically and in the amounts allocated to the benefiting areas, thereby permitting the aggregation of resources into fewer, larger-scale and more impactful projects.

ii) **Strengthen the evidence base and guarantee a minimum allocation.**

The Fund equally recommends to the Commission on Revenue Allocation to provide detailed, ward-level data on the causes of marginalisation to guide the evidence-based prioritisation of projects. In addition, a resource-allocation framework that guarantees a minimum allocation — for instance, sharing one-half of the Fund equally among all identified marginalised areas and prorating the balance by the Commission's allocation factor — would safeguard equity while avoiding the thin dispersion of resources.

iii) **Fast-track the appropriation of Equalisation Fund arrears.**

The Fund further recommends that the outstanding arrears accrued to the Fund from the Financial Year 2011/12 to date be appropriated on a fast-tracked basis and settled under the proposed unified policy framework, so as to avoid the concurrent implementation of multiple appropriation and policy cycles and to restore predictability in financing. In this regard, the Fund notes that the National Treasury, through its letter Ref: TNT/Zz/81/014/E(74) dated 19th May 2023 addressed to the Clerk of the Senate, committed to settle the Equalisation Fund arrears in accordance with the phased payment plan set out in Table 6. The Fund therefore recommends that the National Treasury continue to honour this schedule and, concurrently, ring-fence Equalisation Fund allocations against supplementary budget reductions, so that the payment plan may realise its intended objectives

iv) **Review and amend the Equalisation Fund Administration Framework to enable both direct and indirect implementation, and provide for county administrative costs.**

The Equalisation Fund recommends a review and amendment of the current Equalisation Fund Administration Framework, including the Public Finance Management (Equalisation Fund

Administration) Regulations, 2021, to provide for both direct implementation by the National Government and indirect implementation through county governments, in accordance with Article 204(3)(b) of the Constitution. The amended framework should clearly provide for the respective implementation modalities, roles and responsibilities, and reasonable county administrative costs to facilitate effective coordination, implementation, monitoring and oversight of Fund-supported projects.

v) Streamline the legislative process and prioritise timely financing of the Equalisation Fund.

The Equalisation Fund recommends that the process for enacting Equalisation Fund Appropriation Acts be streamlined to address the lengthy legislative cycle, which delays the availability of appropriated resources and, consequently, project implementation. Consideration should be given to anchoring the Fund's annual appropriation and financing framework more closely to the Division of Revenue Act (DoRA) and facilitating the processing of the Equalisation Fund Appropriation Bill concurrently with the National Appropriation Bill, while maintaining the requisite constitutional and parliamentary approvals. This would promote timely and predictable financing of the Fund and minimise delays in implementation of approved interventions.

vi) Increase the coverage and frequency of sensitisation and capacity-building for beneficiary counties.

The Equalisation Fund recommends increasing the coverage and frequency of sensitisation and capacity-building programmes for beneficiary counties to strengthen understanding of the Fund's implementation framework, clarify the respective roles and responsibilities of the two levels of government, and enhance county capacity in project identification, planning, procurement, financial management, implementation and reporting. The programmes should also provide clearer guidance on the functional mandates of the two levels of government and the coordination mechanisms required for projects implemented in shared or overlapping sectors, thereby minimising functional overlaps, improving project readiness and accelerating the delivery and absorption of Equalisation Fund resources.