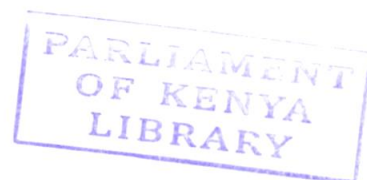




**COMMISSION ON REVENUE ALLOCATION**  
*Promoting an Equitable Society*

**RECOMMENDATION ON THE BASIS FOR  
EQUITABLE SHARING OF REVENUE BETWEEN  
THE NATIONAL AND COUNTY GOVERNMENTS  
FOR THE FINANCIAL YEAR 2025/2026**



**DECEMBER, 2024**

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### COMMISSION ON REVENUE ALLOCATION

**OUR REF:** CRA/EA/HF/02/Vol.1/(22)

**DATE:** 31<sup>st</sup> December 2024

Clerk of the Senate  
Clerk of the National Assembly  
Cabinet Secretary, The National Treasury and Planning  
Chairman, Council of Governors  
Chairman, County Assemblies Forum

#### **RECOMMENDATION ON SHARING OF REVENUE FOR THE FINANCIAL YEAR 2025/26**

Pursuant to Article 216 (1)(a) of the Constitution, the Commission on Revenue Allocation (CRA) is mandated to make recommendations concerning the basis for equitable sharing of revenue raised by the national government, between the national and county governments. Section 190 (1) of the PFMA (2012) requires that the recommendation be submitted at least six months before the beginning of the financial year or at a later date agreed between the Cabinet Secretary and the Commission on Revenue Allocation.

Based on a revenue projection of Ksh. 3,018.8 billion in the financial year 2025/26, the Commission recommends that for financial year 2025/26, the national government be allocated Ksh. 2,601.4 billion and county governments Ksh.417.4 billion as equitable shares. In addition, the Commission recommends that Ksh. 7.85 billion be allocated to the Equalisation Fund. This allocation is equivalent to 0.5 per cent of the most recent audited and approved accounts of revenue for financial year 2020/21 amounting to Ksh. 1,570.56 billion, as stipulated in Article 204.

Yours sincerely,

CPA Mary Wanyonyi Chebukati  
**CHAIRPERSON**

## Table of Contents

ACRONYMS.....	v
EXECUTIVE SUMMARY.....	vi
1 INTRODUCTION .....	1
2 PERFORMANCE OF THE ECONOMY .....	2
2.1 Introduction .....	2
2.2 Real Sector .....	2
2.2.1 Gross Domestic Product .....	2
2.2.2 Inflation .....	6
2.3 Monetary Sector .....	7
2.3.1 Interest Rates .....	7
2.3.2 Private Sector Credit .....	9
2.3.3 Exchange Rates .....	10
3 FISCAL PERFORMANCE .....	11
3.1 Introduction .....	11
3.2 Performance of Nationally Raised Revenue .....	11
3.3 Analysis of Ordinary Revenue to Gross Domestic Product .....	13
3.4 Analysis of Expenditure .....	14
3.5 Fiscal Deficit.....	16
3.5.1 Public Debt.....	16
3.6 County Governments Fiscal Framework .....	21
3.6.1 County Revenues.....	21
3.6.2 County Expenditure Performance .....	26
3.6.3 County Pending Bills.....	28
4 RECOMMENDATION ON SHAREABLE REVENUE ALLOCATION FOR THE FINANCIAL YEAR 2025/26.....	32
5 SHARING OF REVENUE AMONG COUNTY GOVERNMENTS FOR FINANCIAL YEAR 2025/26 .....	35
APPENDICES .....	37
Appendix 1: Summary of Conditional Grants and Loans from Development Partners (Ksh. Million), 2013/14 to 2024/25 .....	37
Appendix II: County Pending Bills as at 30th June 2024 .....	1



## List of Tables

Table 2-1: GDP Growth by Sector 2019 to 2023 .....	6
Table 3-1: Tax Performance of the Main Tax Heads, FYs 2021/22 to 2025/26-Ksh.Billion .....	12
Table 3-2: National Government Pending Bills.....	15
Table 3-3: Domestic Debt Composition (%) as at June 2020 to June 2024 .....	18
Table 3-4: Domestic Debt by Investor Category (%), June 2020 to June 2024 .....	19
Table 3-5: External Debt Composition (%) June 2020 to June 2024 .....	19
Table 3-6: External Debt Sustainability 2022 to 2027.....	20
Table 3-7: Summary of National Government Conditional Grants, Ksh. Billion.....	24
Table 3-8: Nairobi City County Pending Bills (Ksh.).....	31
Table 4-1: Performance of Ordinary Revenue and Allocation for the FYs 2013/14 to 2025/26, Ksh. Billion.....	32
Table 4-2: Equalisation Fund Allocation for the FYs 2013/14 to 2025/26 - Ksh. Billion.....	34
Table 5-1: Fourth Basis Framework.....	35
Table 5-2: Allocation to County Governments for FY 2025/26 .....	36

## List of Figures

Figure 2-1: Global GDP Growth Rates, 2013-2023 .....	2
Figure 2-2 East African Community's GDP Growth Rates, 2013-2023 .....	4
Figure 2-3: Kenya's GDP Growth Rates, 2013-2023.....	4
Figure 2-4: Selected Sectors' Contribution to GDP, Percentage (2019 to 2023).....	5
Figure 2-5: Inflation Rates, September 2022-September 2024 .....	7
Figure 2-6: Short Term Interest Rates (%), September 2022 to September 2024.....	8
Figure 2-7: Commercial Banks Lending and Deposit Rates (%), September 2021 to September 2024 .....	9
Figure 2-8: Growth in Credit to Public and Private Sectors .....	10
Figure 2-9: Kenya Shilling Exchange Rates, September 2021 to September 2024 .....	10
Figure 3-1: Target and Actual Ordinary Revenue for FYs 2014/15 to 2025/26-Ksh. Billion.....	11
Figure 3-2: Actual and Targeted Ordinary Revenue as % of GDP .....	13
Figure 3-3: Government Expenditures as a Proportion of the Budget for the FY 2014/15 to 2023/24.....	14
Figure 3-4: Non-Discretionary Recurrent Expenditures as a Proportion of Total Recurrent Expenditure .....	15
Figure 3-5: Primary and Overall Balance as a Per cent of GDP.....	16
Figure 3-6: Gross Public Debt for the FY 2014/15 to 2025/26 (Ksh. Billion).....	17
Figure 3-7: Public Debt to GDP Ratio for FYs 2018/19 to 2023/24 .....	18
Figure 3-8: External Debt by Currency Composition as at June 2024 .....	20
Figure 3-9: Debt Service as a Percentage of Ordinary Revenue for the FYs 2014/15 to 2023/24.....	21
Figure 3-10: County Allocations for FYs 2012/13 to 2024/25 (Ksh. Billion).....	22
Figure 3-11: Proportion of County Governments' Revenues (%), FY 2013/14 to 2024/25 .....	23
Figure 3-12: Performance of OSR in Ksh. Billion and Percentage, FY 2013/14 to 2023/24.....	25
Figure 3-13: County Expenditures for FYs 2013/14 to 2023/24, Percentage .....	26
Figure 3-14: Average Development Expenditure (%) for FYs 2019/20 to 2023/24.....	27
Figure 3-15: Average Wage Bill (%) for FYs 2019/20 to 2023/24 .....	28
Figure 3-16: Pending Bills as a Percentage of County Total Revenue .....	29
Figure 3-17: Recurrent Expenditure Pending Bills (Ksh. Million) .....	30
Figure 3-18: Development Expenditure Pending Bills (Ksh. Million) .....	30



## ACRONYMS

BPS	Budget Policy Statement
CARA	County Allocation of Revenue Act
CBK	Central Bank of Kenya
CBR	Central Bank Rate
COVID	Corona Virus Disease
CRA	Commission on Revenue Allocation
DANIDA	Danish International Development Agency
DORA	Division of Revenue Act
EAC	East African Community
EMDEs	Emerging Markets and Developing Economies
EU	European Union
FY	Financial Year
GDP	Gross Domestic Product
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IGRTC	Intergovernmental Relations Technical Committee
KCB	Kenya Commercial Bank
KP	Kenya Power
KRA	Kenya Revenue Authority
MPC	Monetary Policy Committee
MTRS	Medium Term Revenue Strategy
NITA	National Industrial Training Authority
NSSF	National Social Security Fund
PAC	Public Accounts Committee
PFMA	Public Finance Management Act
PPG	Public and Publicly Guaranteed
PV	Present Value
RMLF	Road Maintenance Levy Fund
UNFPA	United Nations Fund for Population Activities
US	United States
VAT	Value Added Tax

## EXECUTIVE SUMMARY

The financial year 2025/26 recommendation on the sharing of revenue between the national and county governments has been developed at a period when the Kenyan economy is recovering from the effects of negative and persistent global and domestic shocks. The growth rate was 5.6 per cent in 2023, and is projected to be sustained at above 5 per cent in both 2024 and 2025. Further inflation rates have stabilised within the government's target range in the period to September 2024, while the Kenya Shilling has stabilised against major international currencies.

In line with the performance of the economy, performance of ordinary revenue has also remained positive. The revenue is projected to grow to Ksh. 3,018.8 billion in the financial year 2025/26 from an estimate of Ksh. 2,631.4 billion in the financial year 2024/25. Despite the growth in absolute terms, the ordinary revenue has been below target over the years. The shortfall in the ordinary revenue has often resulted into a constrained fiscal space given the pressure from other non-discretionary expenditures such as debt service payment.

This recommendation on shareable revenue allocation for the financial year 2025/26 has been made at a period when the Commission has recommended to Parliament the Fourth Basis for Revenue Sharing among County Governments for the financial years 2025/26 to 2029/30. The Commission is cognizant of the fact that any changes to the revenue sharing framework will occasion revenue shifts among county governments. To ensure that programmes and projects across counties do not stall, the Commission recommends that no county will get less than what they were allocated in the financial year 2024/25.

Against the pace of economic recovery and based on a revenue projection of Ksh. 3,018.8 billion in the financial year 2025/26, the Commission recommends that for financial year 2025/26, the national government be allocated Ksh. 2,601.4 billion and county governments Ksh.417.4 billion as equitable shares. The increased allocation to the county governments will ensure that no county gets a lower allocation in the financial year 2025/26 than what they were allocated in the financial year 2024/25 following the change in the revenue sharing framework. This is in line with Article 203(1)(j) on the need to ensure that in determining the equitable shares to county governments, consideration should be given to the need for desirability of stable and predictable allocations of revenue.



In addition, the Commission recommends that Ksh. 7.85 billion be allocated to the Equalisation Fund. This allocation is equivalent to 0.5 per cent of the most recent audited and approved accounts of revenue for financial year 2020/21 amounting to Ksh. 1,570.56 billion, as stipulated in Article 204.

In accordance with the provisions of Section 190 (1)(b) of the *Public Finance Management Act 2012*, the Commission also presents the determination of each county's equitable share for the financial year 2025/26 based on the recommendation on the Fourth Basis for Revenue Sharing among County Governments for the financial years 2025/26 to 2029/30, which is before Parliament for determination.



## 1 INTRODUCTION

The Commission on Revenue Allocation (the Commission) is mandated by Article 216(1)(a) of *The Constitution of Kenya 2010* to make recommendations on the basis for the equitable sharing of revenue raised nationally between the national and county governments. Section 190(1) of the *Public Finance Management Act (PFMA) 2012* requires the Commission to make the recommendations six months before the beginning of the financial year or at a later date agreed between the National Treasury and the Commission.

In determining the equitable share to each level of government, the Commission is guided by the provisions of Article 203(1), which sets the criteria to be considered in the sharing of revenue. In addition, Article 203(2) provides that for every financial year, the equitable share of revenue allocated to county governments shall be not less than fifteen per cent of all revenue collected by the national government. This amount is calculated on the basis of the most recent audited accounts of revenue received, as approved by the National Assembly.

The recommendation for the financial year 2025/26 is the fourteenth that the Commission is making since the beginning of devolution in the financial year 2012/13. This recommendation has been made at a time when the economy is on the recovery path from the negative effects of global and domestic shocks which include: Covid-19 pandemic, conflicts in Eastern Europe and Middle East, and drought in 2021. The economy is expected to remain strong and expand by 5.4 per cent in 2025.

The rest of the recommendation is organised as follows: Section Two assesses the performance of the economy while Section Three evaluates the national and county governments fiscal performance. Section Four presents the recommendation on equitable shares of revenue to the national and county governments. Section Five details the sharing of revenue among county governments for the financial year 2025/26.



## 2 PERFORMANCE OF THE ECONOMY

### 2.1 Introduction

This section analyses the real and monetary sector indicators that drive economic performance. Macroeconomic stability is a prerequisite for long term economic growth, national economic prosperity and productivity growth. Therefore, analyzing the size and structure of the economy is essential in evaluating revenue performance which informs revenue sharing between the national and county governments.

### 2.2. Real Sector

#### 2.2.1. Gross Domestic Product

**At the global level**, the economy remained resilient in 2023 despite the disruptions emanating from the residual effects of COVID-19, the Russia-Ukraine conflict and tightened monetary policies in some economies. Growth in the world real Gross Domestic Product (GDP) slowed to 2.7 per cent in 2023 compared to 3.1 per cent in 2022 (Figure 2-1). The slowdown was more pronounced across advanced economies than in Emerging Markets and Developing Economies (EMDEs). Growth in advanced economies slowed down from 2.6 per cent in 2022 to 1.6 per cent in 2023. This was mainly attributed to the slowed growth in the Euro Area and the tighter monetary conditions in most economies in the bloc. Growth in EMDEs remained at 4.1 per cent in the period under review. This growth was mainly supported by the easing of supply constraints, strong domestic demand and increased investments in most of the economies in the EMDEs. Global GDP in 2024 is projected to grow at 2.6 per cent.

**Figure 2-1: Global GDP Growth Rates, 2013-2023**



Source of data: World Bank



**Sub-Saharan Africa (SSA)** economies grew by 3.3 per cent in 2023, mostly supported by strong performance in non-resource-intensive countries and improvement in macroeconomic conditions. The growth was, however, lower compared to 4.0 per cent in 2022.

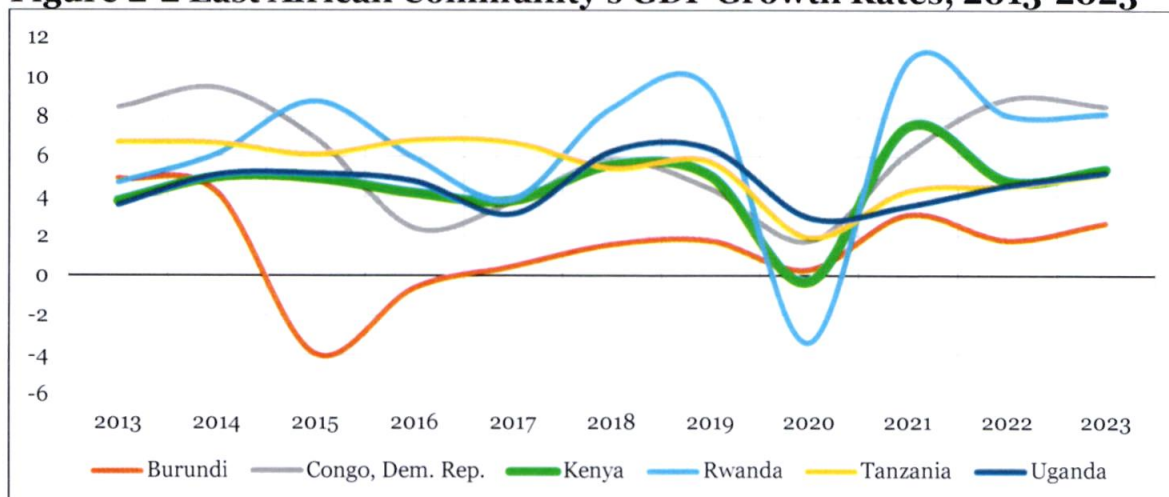
The slowdown in the regional growth was affected by the three largest economies, namely Nigeria, South Africa and Angola. Further, growth was curtailed by the global economic slowdown, unfavourable weather conditions and domestic supply chain disruptions across the bloc. The inflationary shock caused by Russia-Ukraine conflict had a ripple effect on the region, leading to decreased international demand, increased global interest rates and exchange rate pressures, which posed a challenge for the region amidst recovery from the effects of COVID-19 pandemic. The real GDP of SSA is projected to grow by 3.8 per cent in 2024 as the negative effects of earlier weather shocks subside and supply constraints gradually reduce.

The real GDP of the **East African Community (EAC-5)** bloc grew by 5.0 per cent in 2023, compared to 5.2 per cent in 2022 (Figure 2-2). This deceleration was partly attributed to a combination of external factors, such as fluctuations in commodity prices and high global interest rates. The EAC bloc had mixed economic performances across its member states, reflecting the diverse impacts of regional and global economic dynamics on the regional economies. Tanzania's economy grew by 5.2 per cent in 2023, driven by its robust agricultural sector, mineral exports, and a resurgence in the tourism industry. Uganda's economy grew by 5.2 per cent in 2023, compared to a growth of 4.6 per cent in 2022. Rwanda's economy grew by 8.2 per cent in 2022 and 2023. The EAC region is expected to grow by 5.7 per cent in 2024.





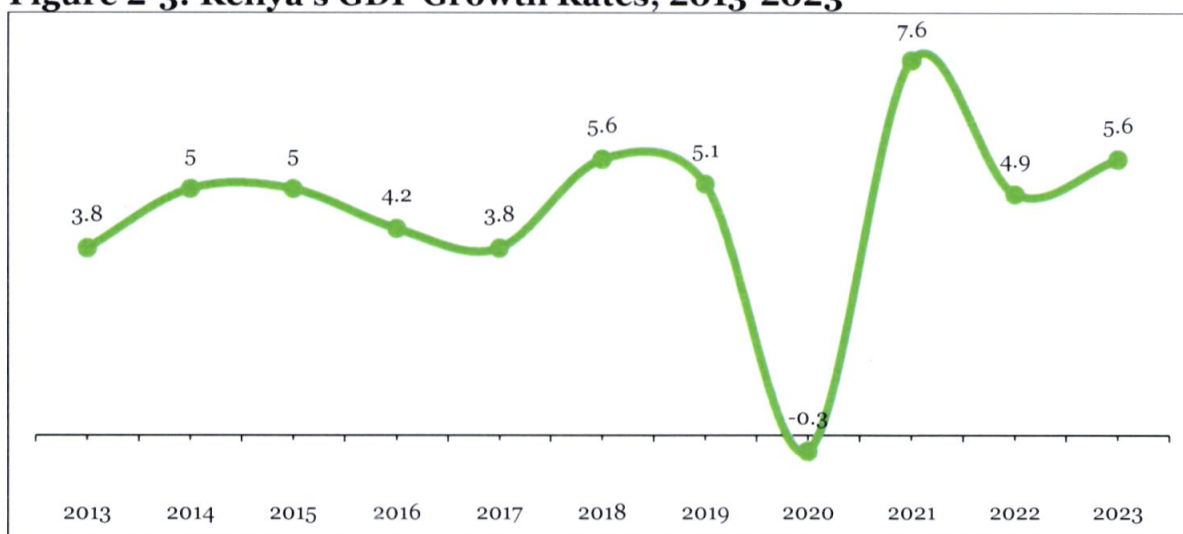
**Figure 2-2 East African Community's GDP Growth Rates, 2013-2023**



Source of data: World Bank

**Kenya's GDP growth** rate was 5.6 per cent in 2023 compared to 4.9 per cent in 2022 (Figure 2-3). The Kenyan economy is still recovering from the effects of negative and persistent global and domestic shocks. These shocks include: COVID-19 pandemic, conflict in Eastern Europe and Middle East that led to global supply chain disruptions and the adverse effects of climate change.

**Figure 2-3: Kenya's GDP Growth Rates, 2013-2023**



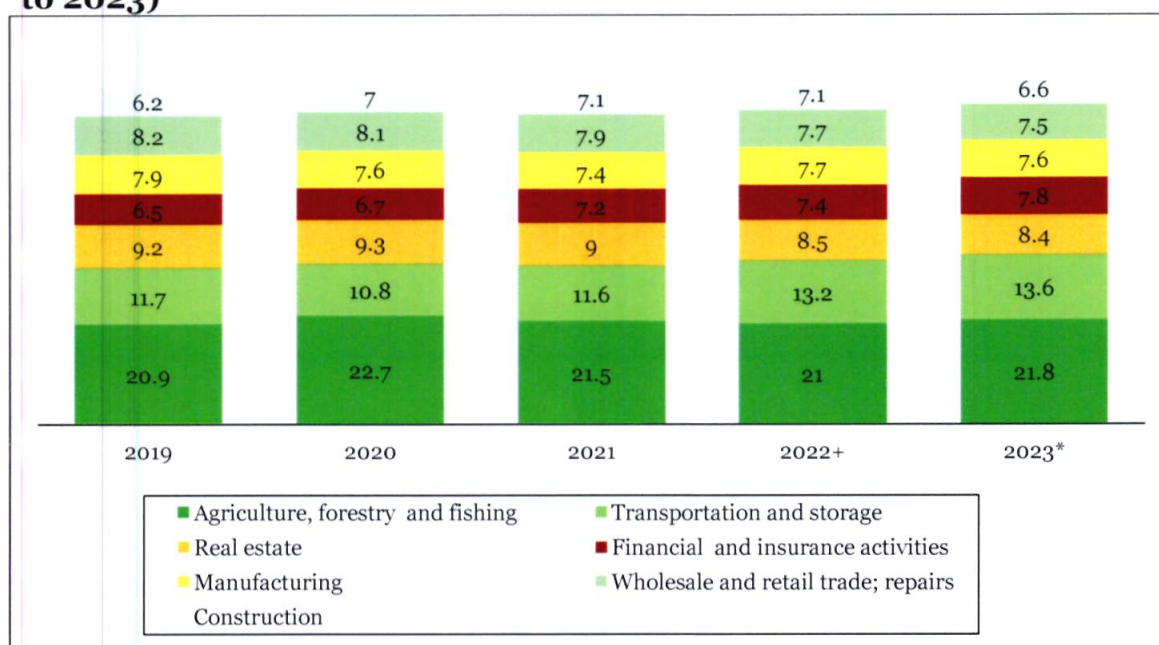
Source of data: Kenya National Bureau of Statistics

Economic indicators for the first half of 2024 point to mixed performance in the economy reflecting sustained performance in agriculture, improved exports and services sector and subdued industrial sector. Given this and other considerations

including domestic and external factors, economic growth is projected at 5.2 per cent in 2024 and 5.4 per cent in 2025<sup>1</sup>.

Analysis of sector contribution to GDP shows that Agriculture, Forestry, Fishing and Transportation and Storage constitute on average 21.6 and 12.2 per cent of the GDP respectively (Figure 2-4). The contribution of the Manufacturing Sector has largely remained stagnant at 7.6 per cent.

**Figure 2-4: Selected Sectors' Contribution to GDP, Percentage (2019 to 2023)**



Source of data: Kenya National Bureau of Statistics; +revised; \*provisional

The gross value added (GVA) in Agriculture, Forestry, and Fishing activities rose by 6.5 per cent in 2023 compared to a contraction of 1.5 per cent in 2022 owing to favourable weather conditions that characterized the better part of 2023 (Table 2-1). During the review period, all the economic activities registered positive growths except Mining and Quarrying, which contracted by 6.5 per cent. The contraction in Mining and Quarrying was reflected by decline in production of most minerals such as titanium, soda ash and gemstone.

*[Handwritten signature]*

<sup>1</sup> National Treasury-BROP 2024

**Table 2-1: GDP Growth by Sector, 2019 to 2023**

Industry	2019	2020	2021	2022+	2023*
Agriculture, forestry and fishing	2.7	4.6	-0.4	-1.5	6.5
Mining and quarrying	4.3	5.5	18.0	9.3	-6.5
Manufacturing	2.6	-0.3	7.3	2.6	2.0
Construction	7.2	10.1	6.7	4.1	3.0
Wholesale and retail trade; repairs	5.3	-0.4	8.0	3.5	2.7
Transportation and storage	6.3	-8.0	7.4	5.8	6.2
Accommodation and food service activities	14.3	-47.7	52.6	26.8	33.6
Information and communication	7.0	6.0	6.1	9.0	9.3
Financial and insurance activities	8.1	5.9	11.5	12.0	10.1
Real estate	6.7	4.1	6.7	4.5	7.3
Public administration and defence	8.4	7.0	6.0	5.1	4.6

Source of data: Kenya National Bureau of Statistics; +Revised; \* Provisional

Some of the key sectors that recorded significant growths were: Accommodation and Food Service Activities (33.6%); Financial and Insurance (10.1%); Information and Communication (9.3%); Real Estate (7.3%) and Transportation and Storage (6.2%).

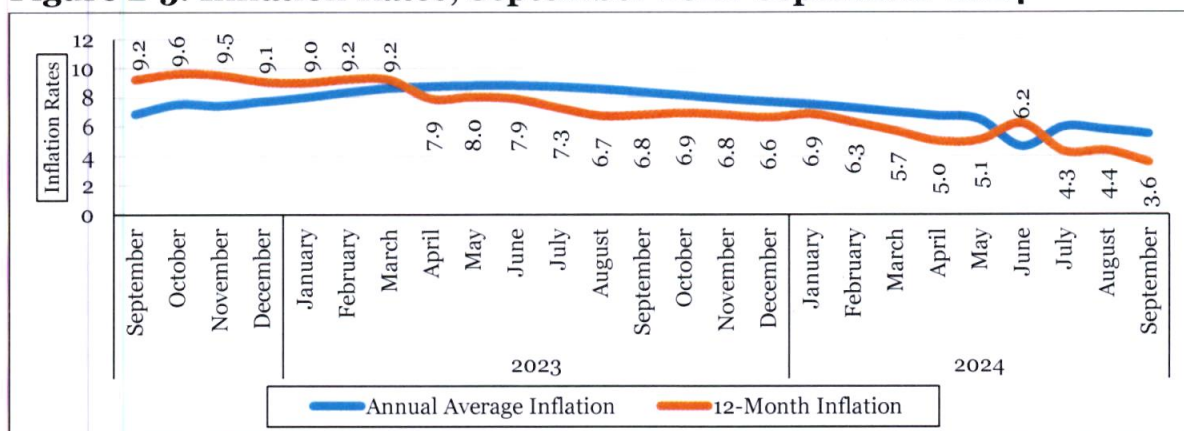
### **2.2.2. Inflation**

The overall year-on-year inflation between September 2023 and September 2024 is within the government target range of  $5 \pm 2.5$  per cent largely driven by easing of food and fuel prices (Figure 2-5). Overall inflation remained stable at 3.6 per cent in September 2024. This is a drop from 6.8 percent in September 2023 and a peak of 9.2 percent in September 2022. Factors that supported low inflation include: favourable weather conditions that led to reduction in food prices; strengthening of the exchange rate; decrease in electricity and pump prices; and tightened monetary policies.

To anchor inflation expectations, the Central Bank tightened the monetary policy by raising the Central Bank Rate (CBR) from 10.5 per cent in July 2023 to 13.0 per cent in February 2024. However, in December 2024 the CBR was lowered to 11.25 per cent as the previous measures had contributed to lowering overall inflation.



**Figure 2-5: Inflation Rates, September 2022-September 2024**



Source of data: Kenya National Bureau of Statistics

**Food inflation** remained a key driver of overall year-on-year inflation though it declined to 5.3 per cent in August 2024 from 7.5 per cent in August 2023. The easing of food prices was supported by increased food supply arising from favourable weather conditions, continued government interventions particularly through subsidized fertilizer, and the general easing of international food prices.

**Fuel inflation** declined to 4.7 per cent in August 2024 from 14.2 per cent in August 2023. The decline largely reflected the easing of global oil prices and appreciation of the Kenya Shilling which resulted in a downward adjustment of pump prices and lower electricity prices.

**Core (non-food non-fuel) inflation** has remained low and stable reflecting the impact of tight monetary policy on demand.

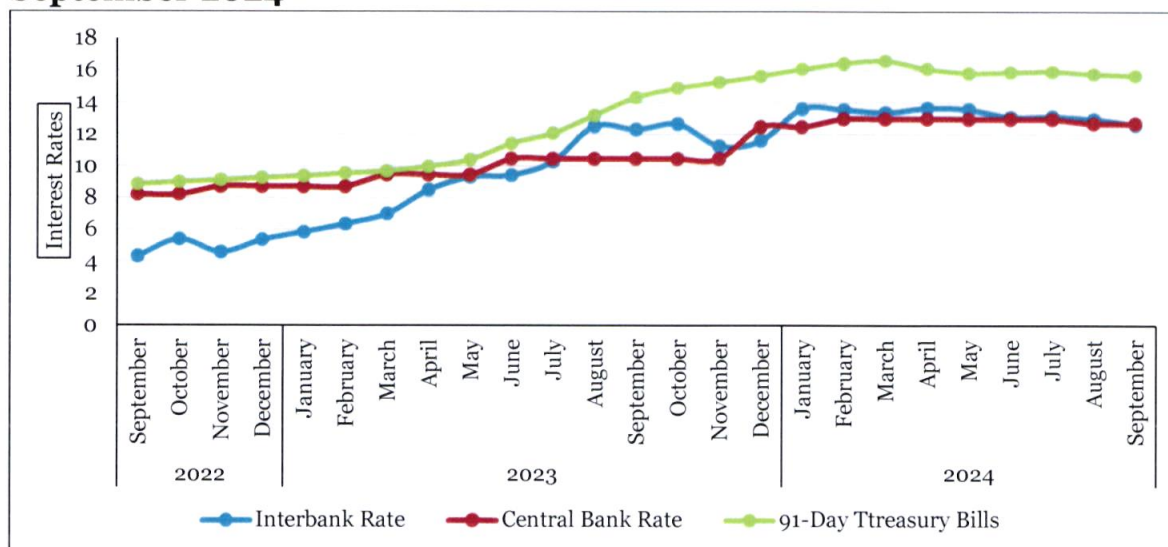
## 2.3. Monetary Sector

### 2.3.1. Interest Rates

Interest rates in the year to September 2024 increased reflecting the tight monetary policy stance. The interbank rate increased to 12.75 per cent in September 2024 compared to 12.36 per cent in September 2023 (Figure 2-6). The 91-day Treasury Bills rate increased to 15.8 per cent in September 2024 compared to 14.4 per cent in September 2023.

*[Handwritten signature]*

**Figure 2-6: Short Term Interest Rates (%), September 2022 to September 2024**

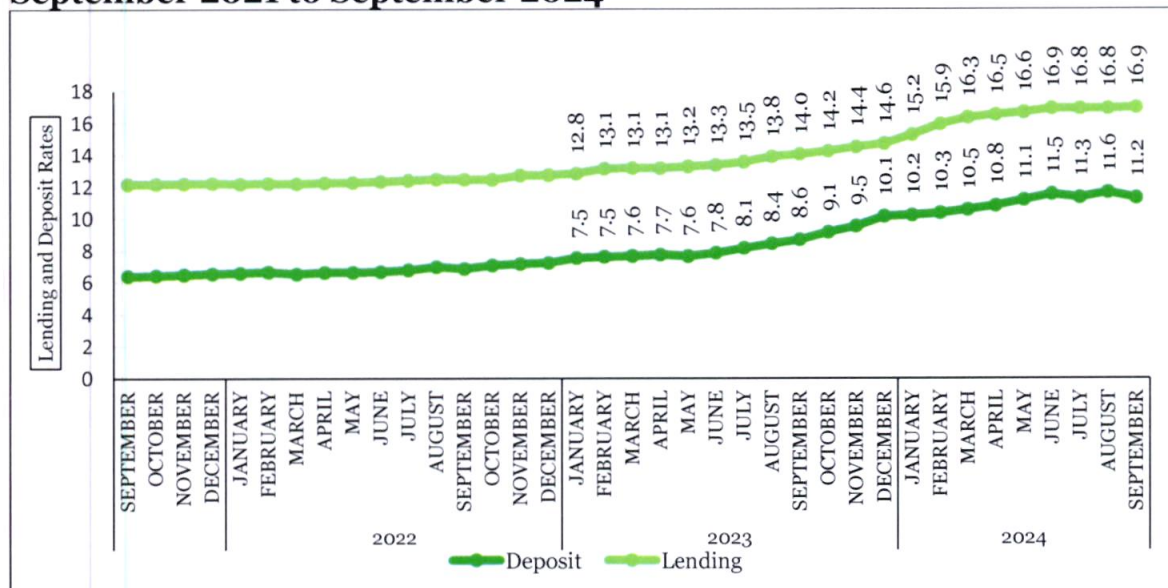


Source of data: Central Bank of Kenya

Apart from the Treasury Bills, the interest rates on Treasury Bonds remained high over the same period at an average of 16.7 per cent. This has increased the cost of borrowing by Government from the domestic market.

Commercial banks average lending and deposit rates increased in the year to September 2024 in tandem with the tightening of the monetary policy thereby reflecting high cost of investable funds. The average lending rate increased to 16.91 per cent in September 2024 from 13.98 per cent in September 2023 while the average deposit rate increased to 11.2 per cent from 8.6 per cent over the same period (Figure 2.7).

**Figure 2-7: Commercial Banks Lending and Deposit Rates (%), September 2021 to September 2024**



Source of data: Central Bank of Kenya

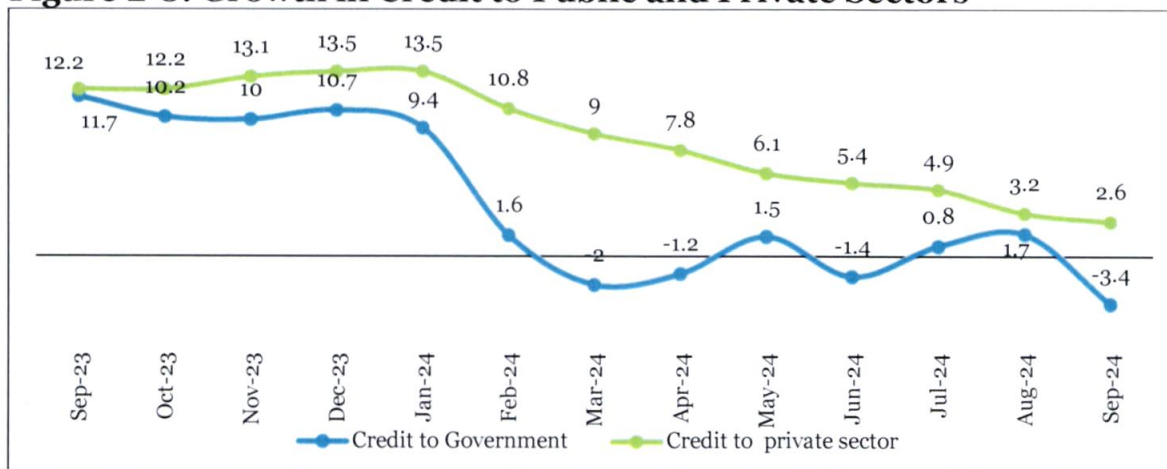
### 2.3.2. Private Sector Credit

The monthly (month-on-month) credit flows to the private sector slowed down since December 2023 (Figure 2-8). This resulted from the tightening of the monetary policy and exchange rate valuation effects on foreign currency denominated loans. Reduced credit growth was observed in manufacturing, trade (exports), and building and construction. These are some of the sectors with significant foreign currency denominated loans.

However, demand particularly for working capital among the vulnerable Micro and Small Medium Enterprises (MSMEs) has been sustained through the government's Credit Guarantee Scheme.



**Figure 2-8: Growth in Credit to Public and Private Sectors**

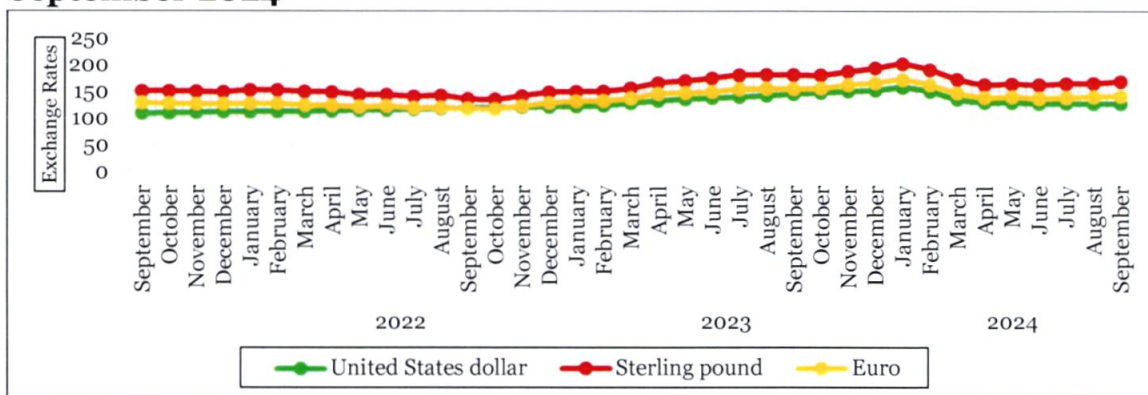


Source of data: Central Bank of Kenya

### 2.3.3. Exchange Rates

The foreign exchange market remained stable in the first half of 2024 despite increased global uncertainties, effects of a stronger U.S. Dollar and geopolitical tensions in the Middle East. The foreign exchange market was mainly supported by inflows from agricultural exports, remittances and portfolio investors while demand was driven by pickup in economic activities specifically in the manufacturing, wholesale, and retail sectors. Although the Kenya Shilling exchange rate was weaker in January 2024 against all major currencies, it strengthened from February to September 2024 (Figure 2-9).

**Figure 2-9: Kenya Shilling Exchange Rates, September 2021 to September 2024**



Source of data: Central Bank of Kenya

This appreciation of the Kenya Shilling has helped to reduce foreign debt service costs, improve performance of domestic borrowing and stabilize interest rates.

### 3 FISCAL PERFORMANCE

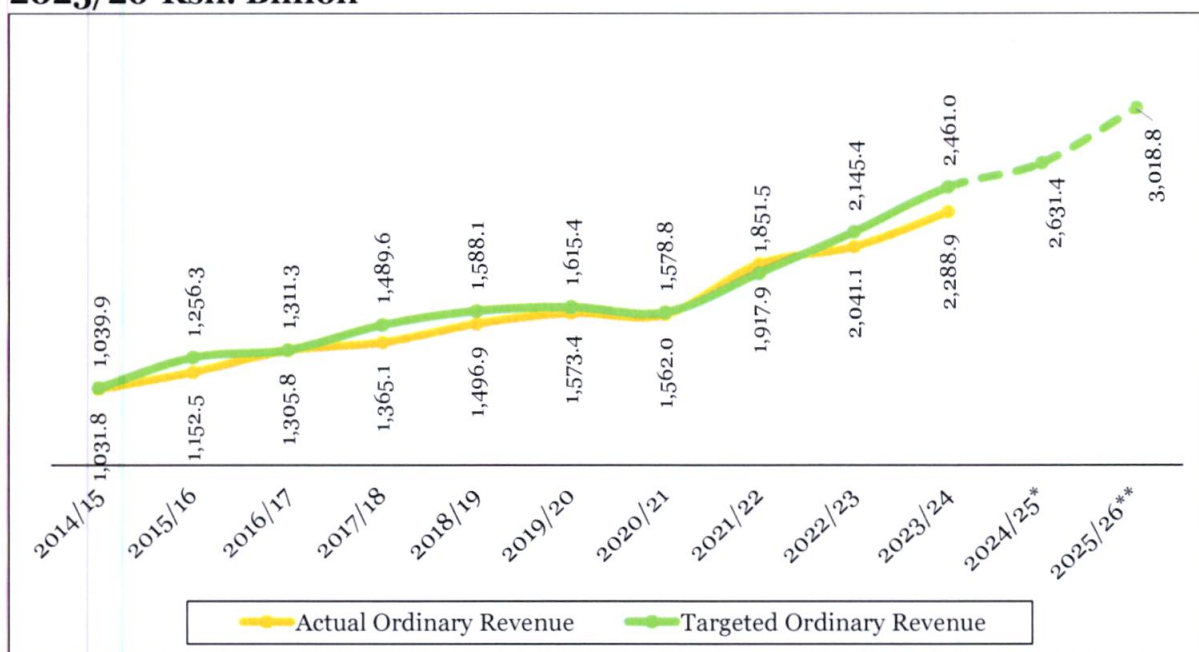
#### 3.1. Introduction

This section analyses the performance of nationally raised revenue (ordinary revenue), expenditures of the national government, and public debt. Further the section analyses county governments' revenues, expenditures and pending bills. The analysis of nationally raised revenues is important in assessing the quantum of revenue available for sharing between the two levels of government.

#### 3.2. Performance of Nationally Raised Revenue

The actual ordinary revenue for the financial year 2023/24 grew by Ksh. 247. 8 billion from Ksh. 2,041.1 billion in financial year 2022/23 to Ksh. 2,288.9 billion in financial year 2023/24. However, the growth however fell below the target of Ksh. 315.6 billion (Figure 3-1). The growth was underpinned by revenue enhancement measures in the Finance Act 2023 which included: introduction of fourth and fifth Pay As You Earn (PAYE) tax bands, increase in Value Added Tax (VAT) on petroleum products (excluding Liquefied Petroleum Gas) to 16 per cent and increase in excise duty on various excisable goods and services among others.

**Figure 3-1: Target and Actual Ordinary Revenue for FYs 2014/15 to 2025/26-Ksh. Billion**



Source of data: The National Treasury; \*Suppl. 1 Budget Projection; \*\*BROP, 2024 Projection





The ordinary revenue for the financial year 2024/25 is projected at Ksh. 2,631.4<sup>2</sup>, an increase of Ksh. 342.5 billion from the financial year 2023/24 actual collection of Ksh.2,288.9 billion. The projection is lower than the 2024 Budget Policy Statement (BPS)<sup>3</sup> of Ksh.2,948.10 billion. The BPS estimates were based on the 2024 Finance Bill which contained revenue enhancement measures such as introduction of: motor vehicle circulation tax, eco levy, and VAT on selected financial services. The Bill however, caused widespread public outcry and protests which led to its rejection. The rejection of the Bill also affected the revenue projection for the financial year 2025/26 which has been revised down from Ksh. 3,294 billion to Ksh.3,018.8 billion<sup>4</sup>.

A disaggregation of the ordinary revenue shows that income tax and VAT remain the major sources of revenue accounting for at least 70 per cent of ordinary revenue. Income tax alone accounts for 45 per cent of the ordinary revenue. Despite its high contribution to revenue, it constitutes the largest deficit year-in-year (Table 3-1). The largest shortfall in income tax was in the financial year 2023/24 where it fell below target by Ksh. 49.9 billion, notwithstanding the introduction of fourth and fifth PAYE tax bands. Some of the reasons for the below target collection include<sup>5</sup>: delayed exchequer disbursements to various government entities which affected PAYE remittances, non-payment of bonuses by private firms, reduction in monthly cash pay per employee due to restructuring and utilisation of PAYE to offset tax liabilities by the large tax payers.

**Table 3-1: Tax Performance of the Main Tax Heads, FYs 2021/22 to 2025/26-Ksh.Billion**

Tax Head	2021/22			2022/23			2023/24			2024/25	2025/26
	Actual	Target	Deviation	Actual	Target	Deviation	Actual	Target	Deviation	Target	Target
Income Tax	876.7	836.7	40.0	941.6	982.1	-40.6	1,051.5	1,101.4	-49.9	1,180.3	1,320.7
VAT	523.1	514.1	9.0	550.4	580.6	-30.2	645.5	654.8	-9.3	723.8	820.3
Excise duty	252.1	255.9	-3.8	264.5	294.0	-29.5	276.7	290.1	-13.4	324.8	389.6
Import duty	118.3	115.9	2.4	130.1	142.7	-12.6	133.9	142.4	-8.4	160.0	201.3
Other revenue*	147.7	129.0	18.8	154.5	146.0	8.5	72.9	137.0	-64.2	242.5	286.9

Source of data: The National Treasury; \*Other revenue includes: investment revenue, traffic revenue, taxes on international trade & transport, rent on land/buildings, fines and forfeitures, other taxes, loan interest receipts reimbursements and other fund contributions, fees, and miscellaneous revenue

<sup>2</sup> Based on the Supplementary I Budget Estimates

<sup>3</sup> Based on the 2024 Budget Policy Statement approved by the National Assembly in March 2024

<sup>4</sup> BROP 2024

<sup>5</sup> ibid

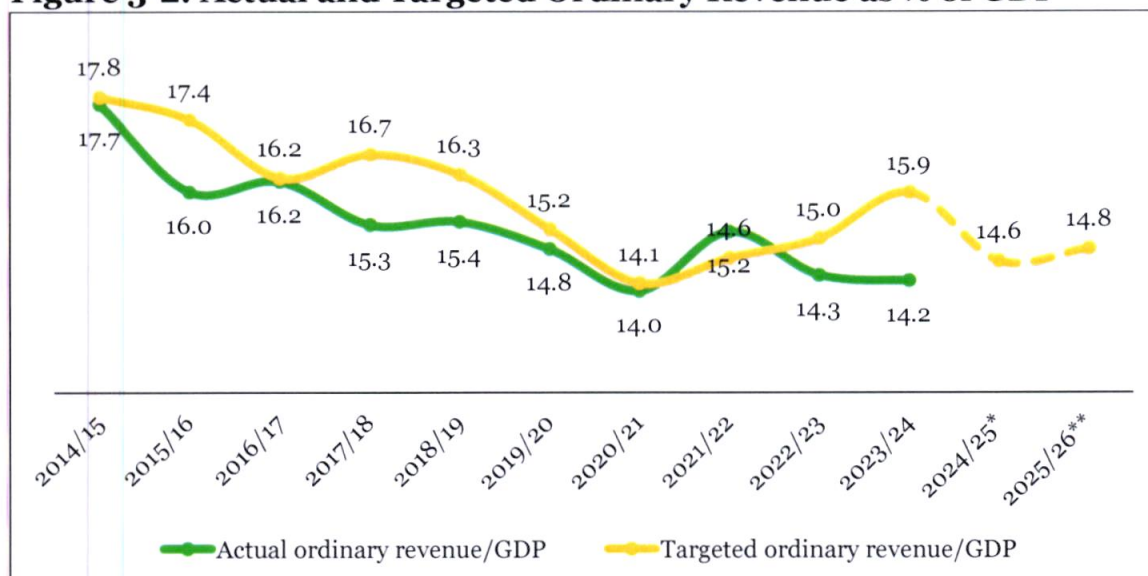
The VAT and Excise Duty shortfall in the 2023/24 were Ksh. 9.3 billion and Ksh. 13.4 billion respectively.

The shortfall in VAT is attributed to a decline in the volume of imported products during this period and that of Excise Duty is due to lower excise rate in petrol and diesel.

### 3.3. Analysis of Ordinary Revenue to Gross Domestic Product

As a share of GDP, actual ordinary revenue has declined from 17.7 per cent in the financial year 2014/15 to 14.2 per cent in 2023/24 (Figure 3-2). The decline has been attributed to the significant growth of the hard to tax and low tax sectors namely: informal sector; small-scale subsistence agriculture; and digital economy among others. Further, the decline is attributed to the increase in tax expenditure over the years<sup>6</sup>.

**Figure 3-2: Actual and Targeted Ordinary Revenue as % of GDP**



Source of data: The National Treasury \* Suppl. 1 Budget Projection \*\* BROP, 2024 Projection

To reverse the declining trend of the tax-to-GDP ratio the government is implementing the Medium-Term Revenue Strategy (MTRS) for financial years 2024/25 to 2026/27 as a key revenue mobilizing facet. The target of the MTRS is to increase the ratio of tax-to-GDP from the current 14.2 per cent to 20 per cent in financial year 2026/27 and achieve the EAC optimal ratio of 25 per cent by 2030.

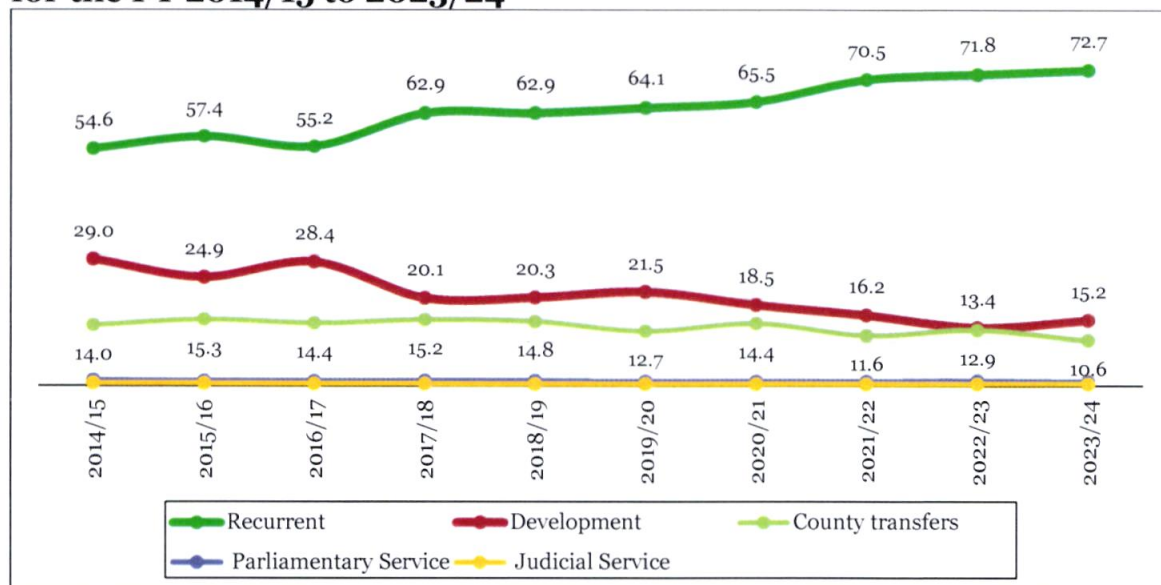
<sup>6</sup> Medium Term Revenue Strategy



### 3.4. Analysis of Expenditure

The analysis of expenditure across levels and arms of government show a significant spending on national government development expenditure in the financial years 2014/15 to 2016/17 (Figure 3-3). During this period the government initiated high capital-intensive projects in infrastructure and energy. However, there was a notable slowdown in development spending between the financial years 2019/20 to 2022/23 which signalled the government's policy on completion of ongoing infrastructural projects before starting new ones. County transfers and expenditures of Parliament and Judiciary have relatively remained stable between the financial years 2014/15 to 2023/24

**Figure 3-3: Government Expenditures as a Proportion of the Budget for the FY 2014/15 to 2023/24**

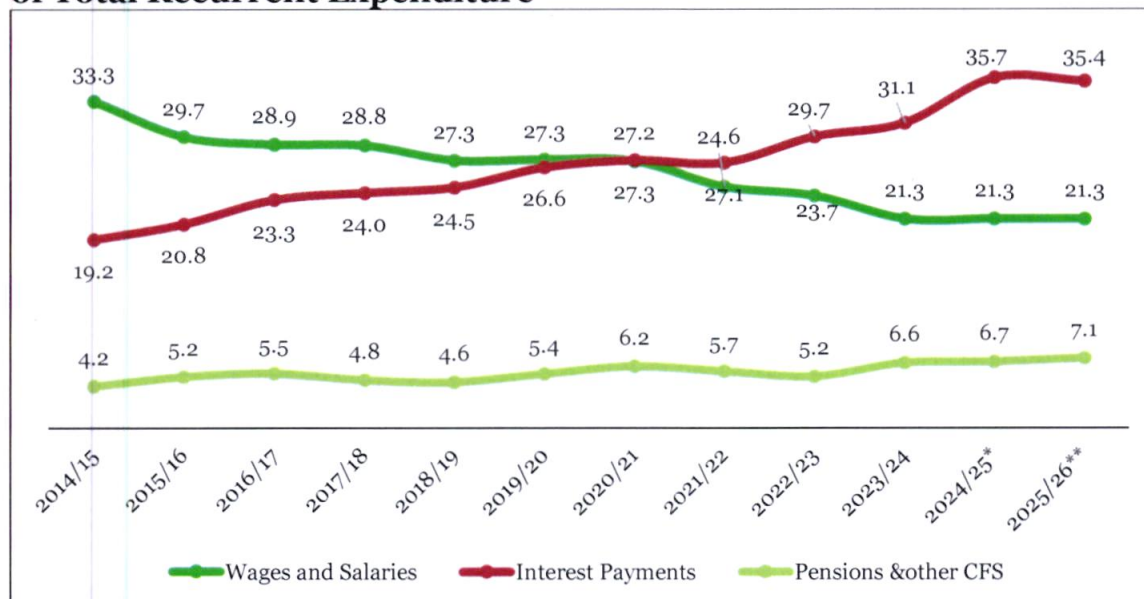


Source of data: The National Treasury

National government recurrent expenditures rose from 54.6 per cent in the financial year 2014/15 to 72.7 per cent in 2023/24.

A disaggregation of the recurrent expenditure shows an increase in interest payments from 19.2 per cent in the financial year 2014/15 to 31.1 per cent in 2023/24, which is attributed to increased public debt (Figure 3-4). Expenditure on wages and salaries declined from 33.3 per cent to 21.3 percent within the same period, in line with the government's policy of containing the wage bill through restriction on new hiring of civil servants except for critical services.

**Figure 3-4: Non-Discretionary Recurrent Expenditures as a Proportion of Total Recurrent Expenditure**



Source of data: The National Treasury \*Projected \*\*Targeted

The national government pending bills remain elevated. The total pending bills were Ksh. 516.3 billion as at 30th June, 2024. Out of this, Ksh. 245.6 billion were in recurrent while Ksh. 270.7 billion were in development (Table 3-2). Settling existing pending bills could unlock cash flow to government contractors and suppliers, reduce nonperforming loans and reduce government arrears which constitute a form of public debt.

**Table 3-2: National Government Pending Bills**

Category	Pending Bill as of 30th June 2024 (Ksh.)
<b>Ministries Departments and Agencies (MDAs)</b>	
Recurrent	100,735,013,033
Development	35,717,790,513
Sub-total	136,452,803,546
<b>State Corporations/State Owned Enterprises/Semi-Autonomous Government Agencies (SAGAs)</b>	
Recurrent	144,816,038,223
Development	234,999,223,023
Sub-total	379,815,261,245
<b>Total</b>	<b>516,268,064,791</b>

Source of data: Office of the Controller of Budget

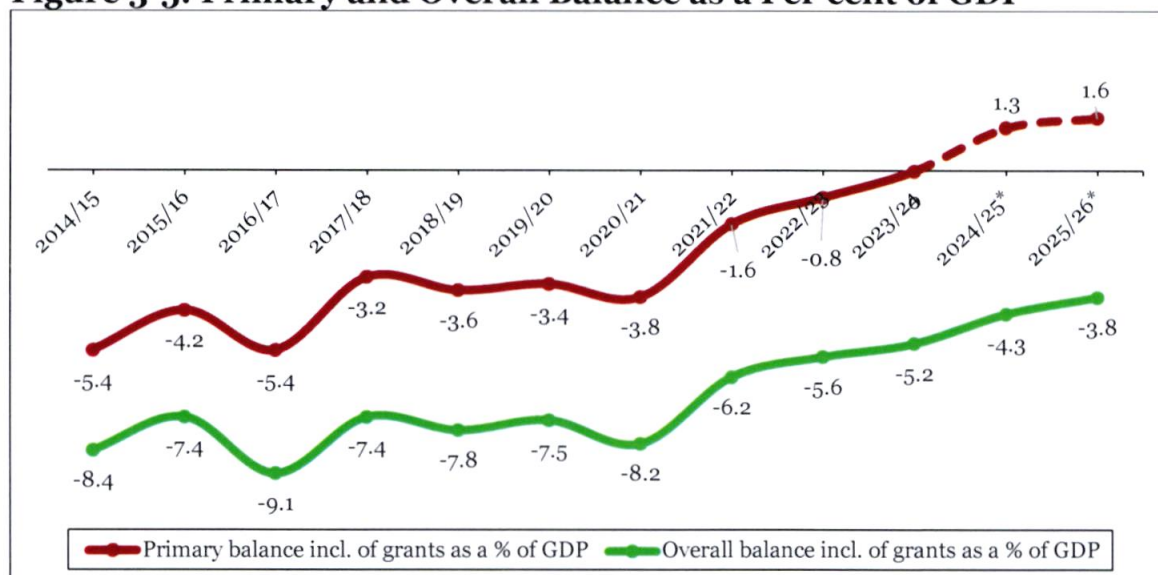


To address the pending bills, the government has implemented measures that include: the formation of a pending bills verification committee in February 2024 and initiation of transition from cash to accrual basis accounting in July 2024<sup>7</sup>. The transition will allow the government to present a fuller picture of its financial position, including key obligations such as pending bills and pension liabilities.

### 3.5. Fiscal Deficit

The government measures of enhancing revenue collection and rationalizing non-priority expenditures have resulted in low fiscal deficit as shown in Figure 3-5. The financial year 2023/24 had a primary balanced budget for the first time in over a decade and this is projected to rise to a primary surplus of 1.3 per cent of the GDP in the financial year 2024/25.

**Figure 3-5: Primary and Overall Balance as a Per cent of GDP**



Source of data: The National Treasury; \*Projected

The overall fiscal deficit as a per cent of GDP declined from 5.6 per cent in the financial year 2022/23 to 5.2 per cent in 2023/24 and is projected to decline further to 3.8 per cent in the financial year 2025/26.

#### 3.5.1. Public Debt

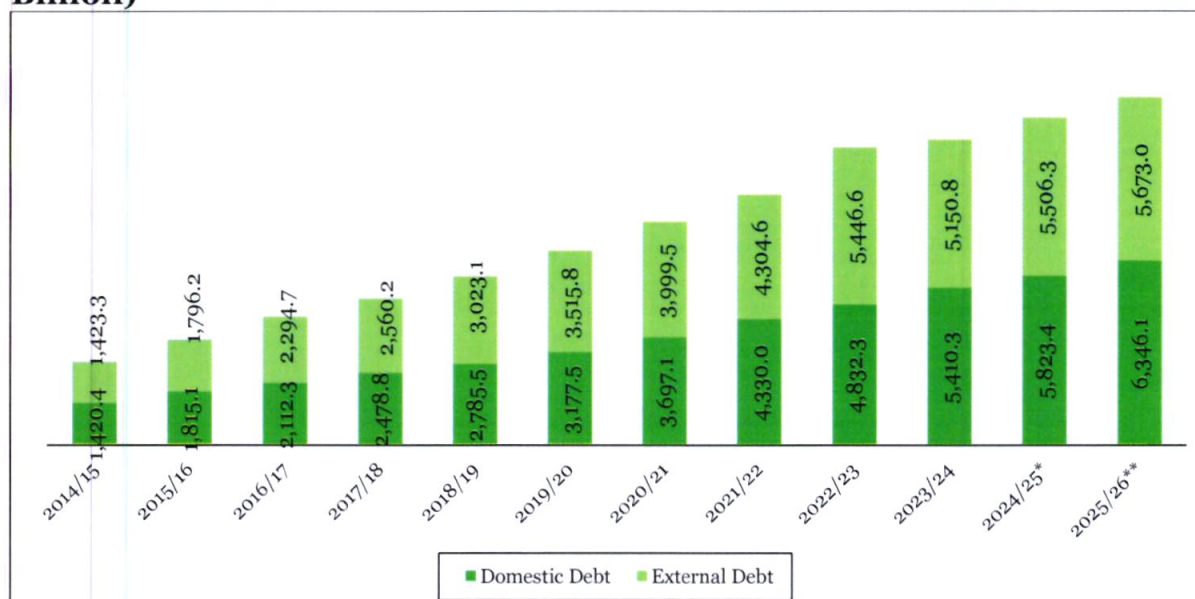
The stock of public debt was Ksh. 10,561.1 billion as at the end of the financial year 2023/24. Out of this, external debt constituted Ksh. 5,150.8 billion while domestic debt constituted Ksh. 5,410.3 billion. The external debt declined by Ksh. 295.8 billion in the financial year 2023/24 due to the partial repayment of the US Dollar

<sup>7</sup> <https://www.treasury.go.ke/wp-content/uploads/2024/10/Press-release-Cash-Accrual.pdf>



2 billion Euro Bond in February 2024 through the issuance of a US Dollar 1.5 billion Eurobond. Subsequently external debt in the financial year 2024/25 increased to Ksh. 5,506.3 billion. The public debt stock is projected to reach Ksh. 11,329.7 billion by the end of the financial year 2024/25, of which Ksh. 5,823.4 billion is domestic and Ksh. 5,506.3 billion is external debt (Figure 3-6).

**Figure 3-6: Gross Public Debt for the FY 2014/15 to 2025/26 (Ksh. Billion)**



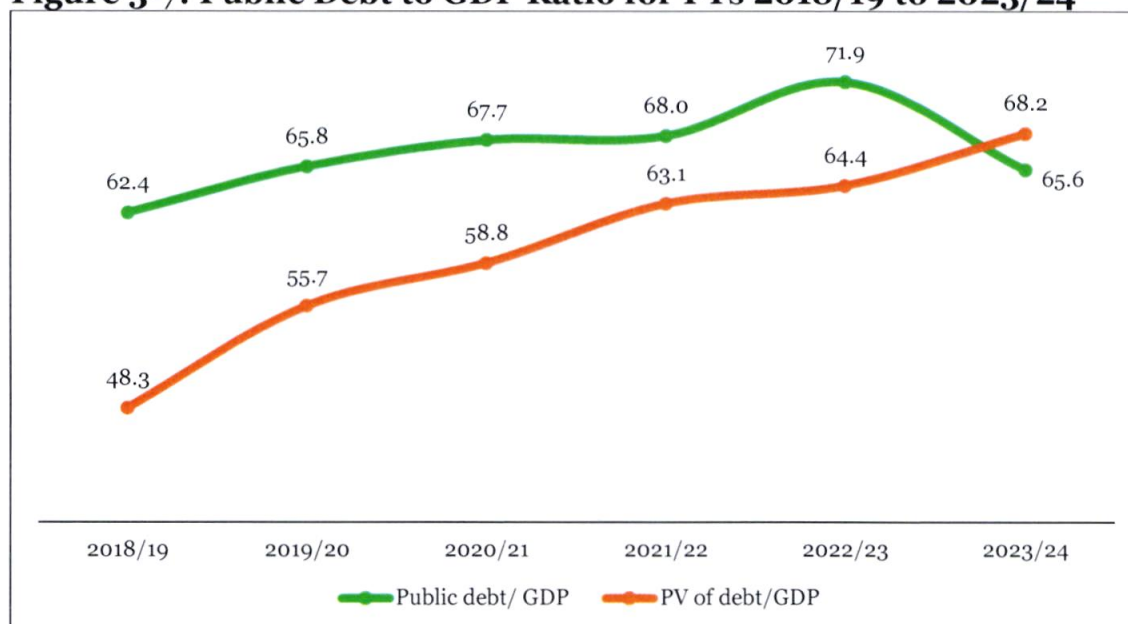
Source of data: The National Treasury

\*Projected, \*\*Targeted

Public debt as a percentage of the GDP (nominal) declined from 71.9 per cent in the financial year 2022/23 to 65.6 per cent in 2023/24. The decline was attributed to the appreciation of the Kenya Shilling against major currencies. In Present Value (PV) terms, the public debt to GDP ratio increased from 64.4 per cent to 68.2 per cent during the same period (Figure 3.7). The current ratio of PV of debt to GDP of 68.2 per cent is above the 55 per cent benchmark for Kenya which is rated at medium debt-carrying capacity<sup>8</sup>. Section 6 of the Public Finance Management (Amendment) Act, 2023 provides that the government can only in exceptional circumstances exceed the threshold and by not more than five per cent.

<sup>8</sup> International Monetary Fund rating

**Figure 3-7: Public Debt to GDP Ratio for FYs 2018/19 to 2023/24**



Source of data: The National Treasury

The spread between the ratio of total public debt to GDP (nominal) and the PV of debt to GDP has narrowed as shown in Figure 3-7. This is due to the change in the structure of public debt from short-term to long-term domestic debt and from commercial to concessional external debt.

The disaggregation of the stock of public debt into domestic and external shows that the structure is in favour of the long-term Treasury Bonds which constituted over 80 per cent of the total stock of domestic debt between the financial years 2021/22 and 2023/24 (Table 3-3). The longer maturity periods for the Treasury Bonds spread their redemption over many years which is in line with the government's objective of managing refinancing risks.

**Table 3-3: Domestic Debt Composition (%) as at June 2020 to June 2024**

Domestic Debt*	June 2020	June 2021	June 2022	June 2023	June 2024+
Treasury Bonds	69.8	77.1	82.4	83.1	85.5
Treasury Bills	27.9	20.7	14.5	12.7	11.4
Others (CBK Overdraft)	1.5	1.6	1.4	1.6	1.1
IMF SDR Allocation	0	0	0.9	2.0	1.5

Source of data: Central Bank of Kenya;

\*Excludes Pre-1997 government debt; +Provisional

Analysis of domestic debt by investor category shows that the highest proportion of domestic debt was held by commercial banks at 43.7 per cent as at June 2024.



Trust and pension funds and insurance companies held 28.7 and 7.0 per cent respectively during the same period (Table 3.4). The proportion of domestic debt held by other investors increased from 10.5 per cent as at June 2020 to 17.4 per cent as at June 2024.

**Table 3-4: Domestic Debt by Investor Category (%), June 2020 to June 2024**

Investor	June 2020	June 2021	June 2022	June 2023	June 2024+
<b>Banks</b>					
Commercial Banks	51.6	49.0	47.1	43.4	43.7
Central Bank	3.1	2.4	2.0	4.1	3.1
<b>Non-Banks</b>					
Trust and Pension Funds	28.8	30.7	32.7	32.8	28.7
Insurance companies	5.9	6.7	7.2	7.2	7.0
Other investors*	10.5	11.3	11.0	12.6	17.4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source of data: Central Bank of Kenya; +Provisional; \* other investors include: households, parastatals & private companies

Between June 2020 and June 2024, commercial banks reduced their investments in domestic debt in an effort to reduce their mark to market losses.

The composition of external debt has shifted from commercial debt to concessional multilateral financing in line with the government's policy of reducing refinancing risk. Multilateral lenders held 53.9 per cent of the total external debt in the 2023/24 financial year, commercial debt which attracts high interest rates and stringent repayment terms constituted 23.3 per cent within the same period (Table 3.5).

**Table 3-5: External Debt Composition (%) June 2020 to June 2024**

External Debt	June 2020	June 2021	June 2022	June 2023	June 2024+
Multilateral	37.6	41.5	44.7	48.7	53.9
Bilateral	30.6	28.5	27.2	24.6	22.5
Commercial	31.4	29.7	27.8	26.4	23.3
O/w ISB holders	18.5	19.2	19.4	18.3	16.5
Suppliers' Credit	0.5	0.3	0.3	0.3	0.3

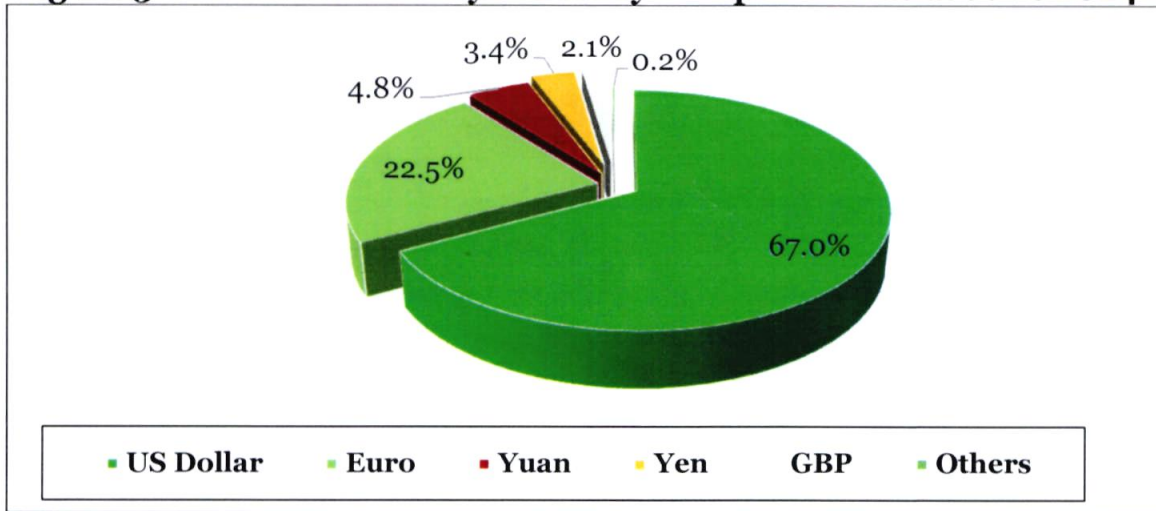
Source of data: The National Treasury; +Provisional

The share of external debt held by the dominant currency-the US Dollar was 67 per cent as at June 2024. Euro denominated debt comprised of 22.5 per cent of the total external debt, while other currencies accounted for 0.2 per cent (Figure 3-8).





**Figure 3-8: External Debt by Currency Composition as at June 2024**



Source of data: The National Treasury

The external debt sustainability thresholds show a breach of the PV of debt-to-exports ratio and the Public and Publicly Guaranteed (PPG) debt service-to-exports ratio (Table 3.6). The PPG debt service-to-revenue ratio breached the threshold in 2024 due to the maturing of the International Sovereign Bond (ISB) which has since been repaid.

**Table 3-6: External Debt Sustainability 2022 to 2027**

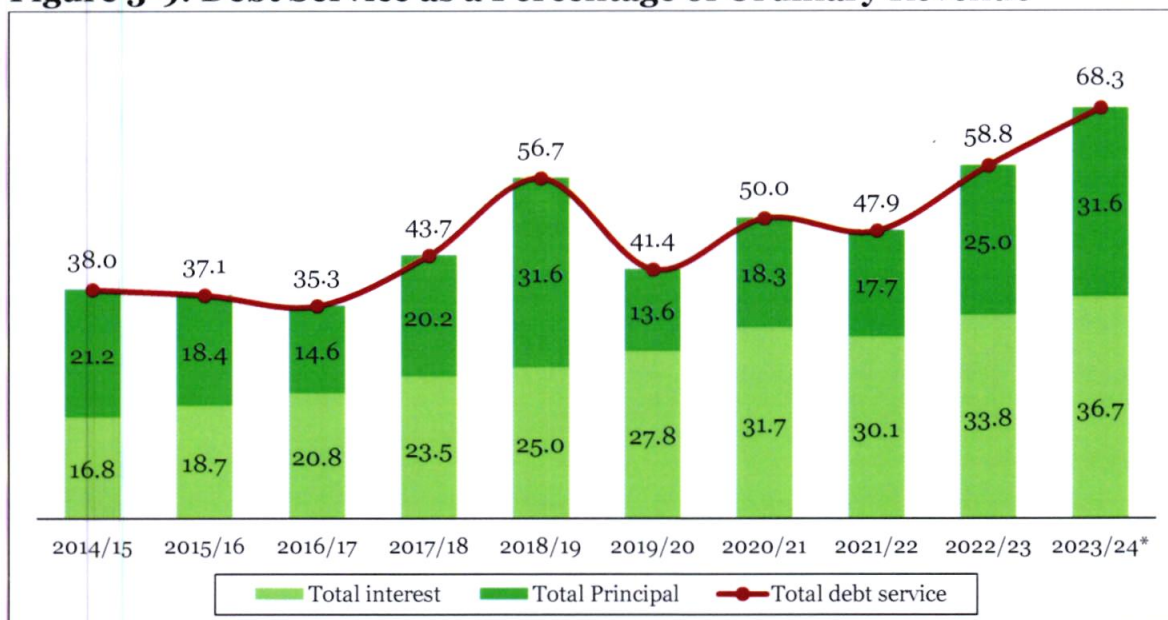
Indicators	Thresholds	2022	2023	2024*	2025*	2026*	2027*
PV of debt-to-GDP ratio	40	29.0	31.7	35.8	33.8	31.8	29.9
PV of debt-to-exports ratio	180	238.2	256.9	240.3	224.0	209.9	194.3
PPG Debt service-to-exports ratio	15	21.5	24.9	36	25.1	24.9	21.1
PPG Debt service-to-revenue ratio	18	15.3	17.3	28.5	19.8	19.6	16.9

Source of data: The National Treasury

\* projections

Interest payments accounted for 36.7 per cent of the ordinary revenue in the financial year 2023/24, leaving 64 per cent towards spending on other areas (Figure 3.9). Debt repayment on the principal rose from 25 per cent in the financial year 2022/23 to 31.6 per cent in 2023/24 due to the partial repayment of US Dollar 2 billion Euro Bond.

**Figure 3-9: Debt Service as a Percentage of Ordinary Revenue**



Source of data: The National Treasury & Central Bank;

\*Provisional

Overall, debt service rose in the financial year 2023/24 driven by tightened monetary policy in the domestic debt market. In the foreign debt market high global interest rates and depreciation of the Kenya Shilling affected amortization of the existing external debt.

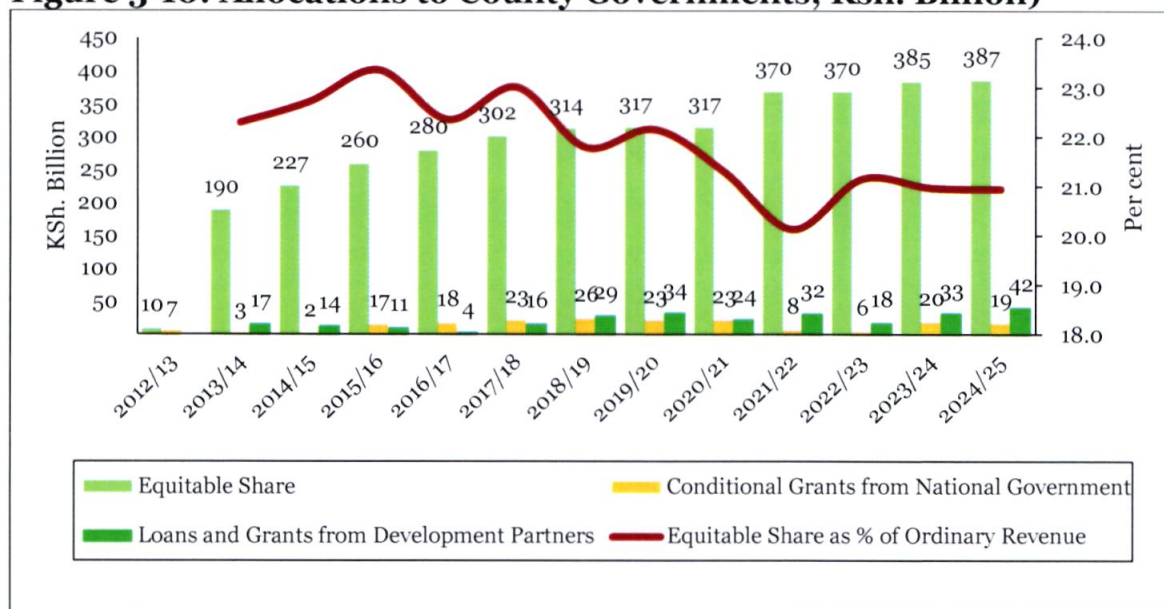
### 3.6. County Governments Fiscal Framework

#### 3.6.1. County Revenues

Revenues to county governments consist of four main sources: equitable share transfers, conditional grants, Own Source Revenue (OSR) and borrowing. The county governments have been allocated revenues amounting to Ksh. 4,208.71 billion from the financial years 2012/13 to 2023/24, of which; equitable share is Ksh. 3,741.1 billion, conditional grants from national government is Ksh. 193.55 billion, and loans and grants from development partners is Ksh. 274.12 billion. Figure 3.10 gives a breakdown of the annual total allocation.

*[Handwritten signature]*

**Figure 3-10: Allocations to County Governments, Ksh. Billion)**



Source of Data: Controller of Budget

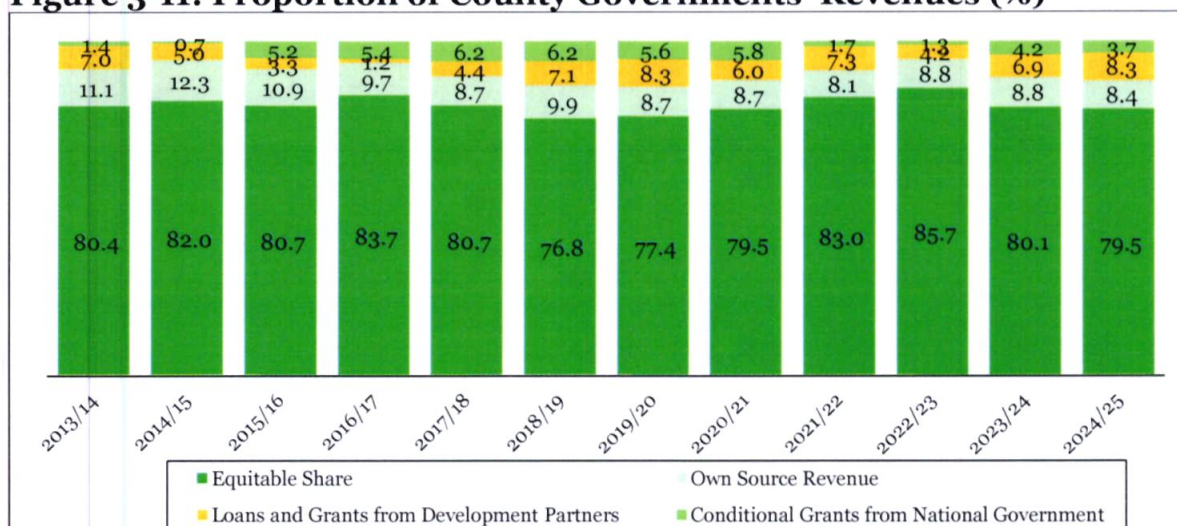
#### **i. Equitable Share**

County governments receive equitable share allocation from the revenue raised nationally in accordance with Article 202(1). The equitable share allocation to county governments has grown in absolute terms over time as shown in Figure 3-10. Although, the equitable share as a proportion of the ordinary revenue has been declining, it is still within the provision of Article 203 (2) that requires that the equitable share allocated to county governments every financial year shall be not less than fifteen per cent of all revenue collected by the national government.

The equitable share allocation constituted on average 80.8 per cent of total county revenue for the financial years 2013/14 to 2023/24 as shown in Figure 3-11. The contribution of the conditional grants from national government, and loans and grants from the development partners averaged 4 per cent and 5.8 per cent, respectively over the same period. The proportion of OSR to total county revenue averaged 9.5 per cent.



**Figure 3-11: Proportion of County Governments' Revenues (%)**



Source of Data: Controller of Budget

\*OSR for financial year 2024/25 is a projection

## ii. Conditional Grants

The conditional grants supplement financing in health and education sectors, as well as roads, trade and agriculture subsectors. County governments have been allocated conditional grants from the national government amounting to Ksh. 193.5 billion from the financial year 2012/13 to 2024/25 (Table 3.7). In the financial year 2021/22, the following four conditional grants were converted into equitable share: grants to level 5 hospitals, user fees foregone, Road Maintenance Levy Fund (RMLF) and grants for rehabilitation of village polytechnics.

The RMLF is excluded from the shareable revenue by Article 206(1)(a) of the Constitution and Section 2 of the CRA Act. In compliance and in line with the Summit<sup>9</sup> resolution of February 2023, the RMLF was allocated to county governments as a conditional grant in the financial year 2024/25.

In the financial year 2024/25, county governments were provided with a new conditional allocation for Community Health Promoters (CHPs). The conditional allocation is aimed at accelerating the achievement of Universal Health Coverage through support to the county governments.

<sup>9</sup> The Summit is an intergovernmental relations forum comprising of the representatives from both the national and county governments that is chaired by The President.

The programme has been allocated Ksh 2.5 billion to all the 47 county governments. The county governments are expected to provide an equal amount of counterpart funding.

**Table 3-7: Summary of National Government Conditional Grants, Ksh. Billion**

Conditional Grant	2013-16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Renovation of County HQs	6.7										6.7
Level 5 Hospitals	8.9	4	4.2	4.3	4.3	4.3					30.0
Compensation for User Fees Foregone	0.9	0.9	0.9	0.9	0.9	0.9					5.4
Leasing of Medical Equipment	4.5	4.5	4.5	9.4	6.2	6.2	7.2	5.2	5.9		53.6
Road Maintenance Fuel Levy (RMLF)	3.3	4.3	11.1	8.3	8.9	9.4				10.5	55.8
Construction of County Headquarters	0		0.6	0.6	0.49	0.3	0.3	0.45	0.5	0.52	3.8
Development of Youth Polytechnics	0		2	2	2	2					8.0
Free Maternal Health Care	4.3	4.1									8.4
Medical Grant	0	0.2									0.2
Aggregated Industrial Parks Programme	0										
Provision of Fertilizer Subsidy Programme	0								4.7	4.5	9.2
De-risking and Value Enhancement (drive)	0								5		5.0
De-risking and Value Enhancement (drive)	0								2.2		2.2
Kenya Marine Fisheries and Socio-Economic Development (KEMSFED)	0								0.3		0.3
Livestock Value Chain Support Project	0								1.6		1.6
Transfer of Museums	0									0.03	0.03
Community Health Promoters (CHPs) Project	0									3.32	3.3
<b>Total Conditional Transfer</b>	<b>23.7</b>	<b>18</b>	<b>23</b>	<b>26</b>	<b>23</b>	<b>23</b>	<b>8</b>	<b>5.7</b>	<b>20.2</b>	<b>18.9</b>	<b>193.5</b>

Source of data: CARA various issues, County Government Additional Allocation Bill 2024

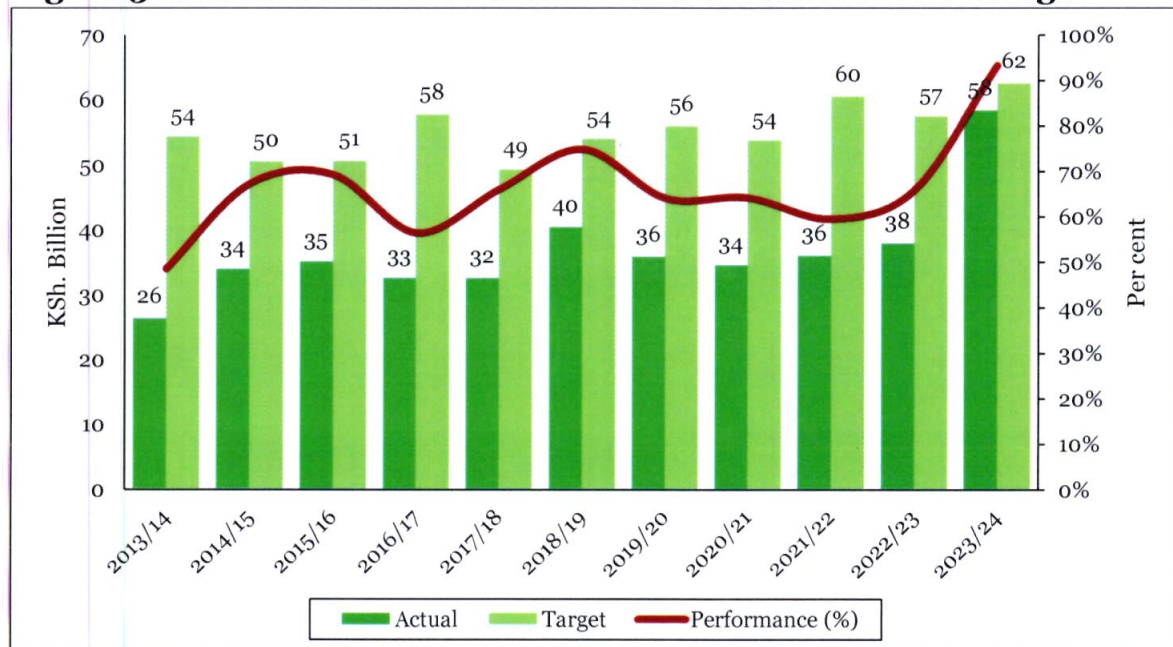
Conditional grants and loans from development partners are earmarked for financing health, agriculture, urban development, water and sanitation, social protection, climate change and capacity building programmes as summarised in Appendix I. In the financial year 2025/26, county governments will be provided with new additional funds of Ksh. 5.28 billion for County Climate Resilience Investment (CCRI), Food Systems Resilience Project (FSRP), Second Kenya Devolution Programme (KDSP II) and United Nations Fund for population activities (UNFPA).



### iii. Own Source Revenue

County governments have raised Ksh. 403 billion in OSR between the financial years 2013/14 and 2023/24 against a target of Ksh. 606 billion as shown in Figure 3.12. In all the financial years the revenue collection has remained below target, with county governments realizing an annual average of 66.3 per cent. In the financial year 2023/24 county governments collected OSR of Ksh. 58 billion. Out of this amount Ksh. 16.6 billion was in Facility Improvement Fund (FIF)<sup>10</sup> which is mainly collected from hospital fees.

**Figure 3-12: Performance of OSR in Ksh. Billion and Percentage**



Source of Data: Controller of Budget

The underperformance in OSR collection has been attributed to among others; unrealistic targets set by the county governments and use of manual revenue collection systems. The underperformance in OSR collection leads to budget deficits, which negatively affects implementation of planned activities and accumulation of pending bills.

<sup>10</sup> FIF consists of revenue collected at public health facilities from user fees for purpose of defraying the costs of running these facilities



#### iv. Additional Unconditional Grants

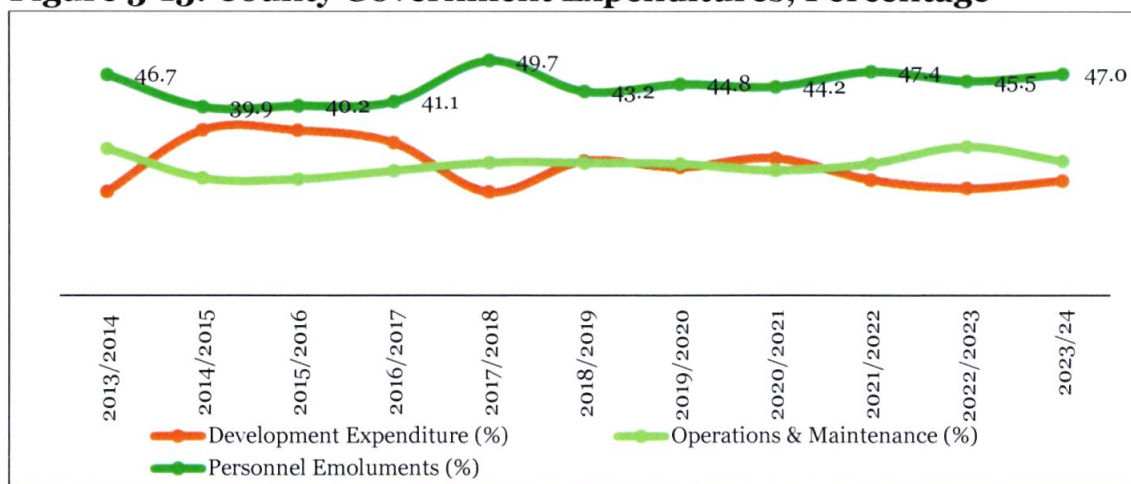
County governments where mining activities are taking place have also been allocated additional unconditional grants in form of mineral royalties. The mineral royalties allocated to the county governments amounted to Ksh. 2.93 billion and Ksh. 1.01 billion in the financial years 2023/24 and 2024/25, respectively. However, the allocation for the financial year 2023/24 has not been transferred to the respective county governments. The delay has been occasioned by nonexistence of regulations for the transfer of the mineral royalties to the communities.

County governments also receive revenue from court fines and fees. The allocation to the respective county governments from court fines and fees was Ksh. 108.6 million and Ksh. 7 million in the financial years 2023/24 and 2024/25, respectively.

#### 3.6.2. County Expenditure Performance

County governments spent an annual average of Ksh. 411.6 billion over the last five financial years. This comprised of Ksh. 306.4 billion (74.4 per cent) in recurrent expenditure and Ksh. 105.2 billion (25.6 per cent) in development expenditure. County governments spent a bigger proportion of their recurrent expenditure on personnel emoluments as shown in Figure 3-13.

**Figure 3-13: County Government Expenditures, Percentage**



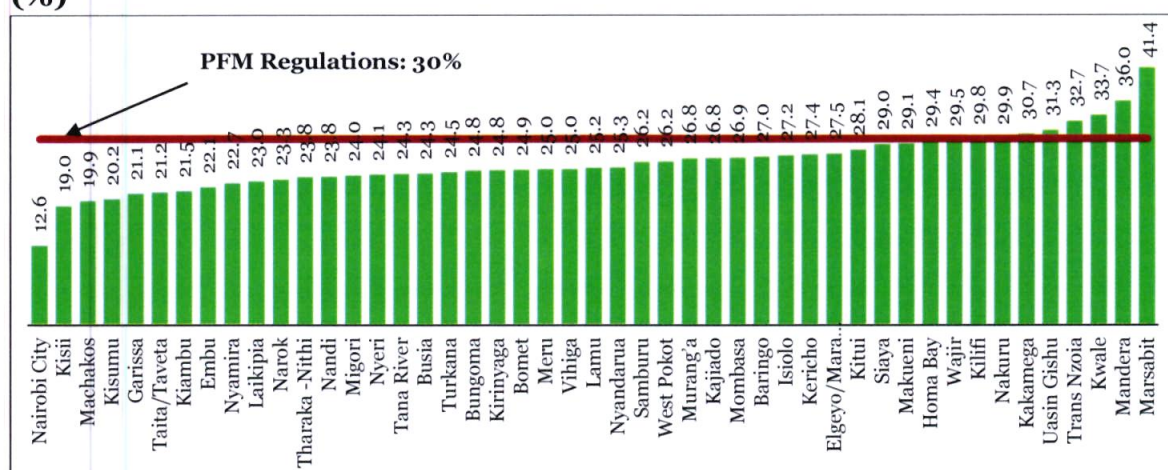
Source of Data: Controller of Budget

The proportion of personnel emoluments in the county governments' total expenditure has remained high since 2013/14. This has led to a majority of county governments unable to meet the PFMA 2012 requirements on wage bill and development. Section 107 of the PFMA 2012 requires county governments to

allocate a minimum of 30 per cent of their total budget to development expenditure and at most 35 per cent on the wage bill.

The county governments' actual development expenditures over the five-year period from 2019/20 to 2023/24 averaged 25.6 per cent. There are six county governments whose actual development expenditures were above 30 per cent as shown in Figure 3.14. Nairobi City County had the lowest development expenditure of 12.6 per cent over the period, followed by Kisii and Machakos county governments at 19.0 and 19.9 per cent, respectively.

**Figure 3-14: County government Average Development Expenditure (%)**



Source of Data: Controller of Budget

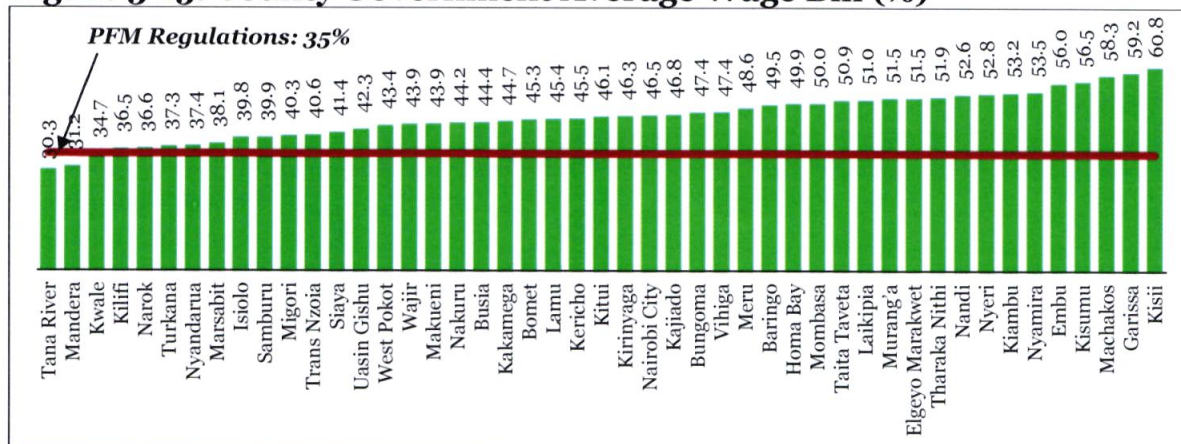
At the budgeting level, all county governments adhere to the PFMA 2012 requirement on development expenditure. However, during budget implementation, most county governments fail to comply with the PFMA 2012 requirement.

Analysis of county expenditure on wage bill shows that for the financial years 2019/20 to 2023/24, most county governments spent a significant proportion of their budget on wages. Three county governments, namely: Tana River; Mandera; and Kwale had their personnel emoluments within the PFMA 2012 threshold of 35 per cent as shown in Figure 3-15.

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**Figure 3-15: County Government Average Wage Bill (%)**



Source of Data: Controller of Budget

Kisii County had the highest expenditure on personnel emoluments at 60.8 per cent followed by Garissa (59.2%), Machakos (58.3%) and Kisumu (56.5%). The failure of the counties to abide by the wage bill threshold has arisen due to among others the engagement of CHPs, use of manual pay roll which is prone to abuse, non-regulation of staff engagement on contract and casual workers and failure to observe strict compliance with the approved staff establishment.

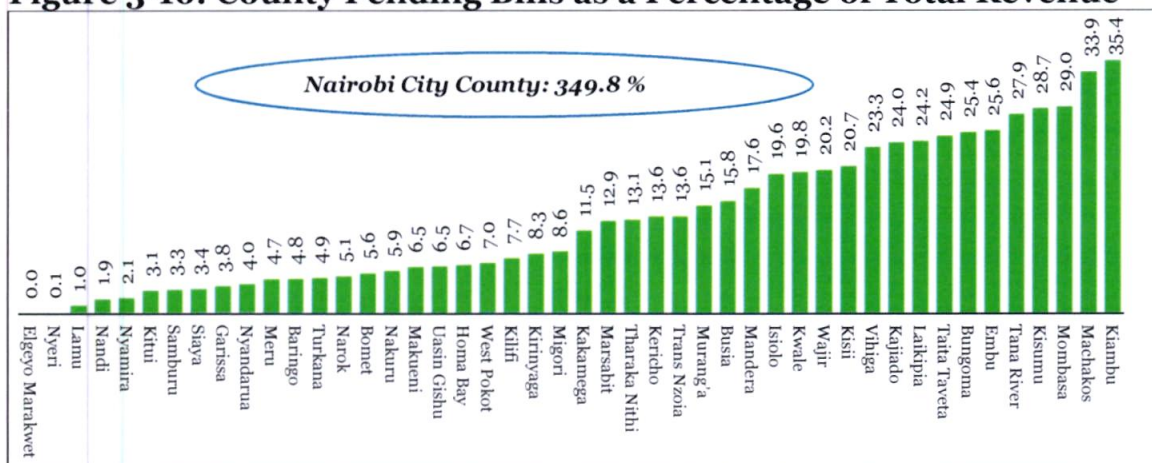
### 3.6.3. County Pending Bills

Cumulative pending bills for the county governments as at June 30, 2024 were Ksh. 181.98 billion (Appendix II). The accumulation of the pending bills has mainly been attributed to the underperformance of OSR and non-prioritisation of payments. The pending bills comprised of Kshs.179.87 billion (98.8 per cent) by the county executive and Kshs.2.11 billion (1.2 per cent) by county assemblies. Nairobi City County accounted for the highest pending bill of Ksh. 118.3 billion, equivalent to 65 per cent of the total stock of pending bills. Other county governments with high pending bills are Kiambu (Ksh. 6.49 billion), Mombasa (Ksh. 4.44 billion) and Machakos (Ksh. 4.20 billion).

The analysis of pending bills show that 14 county governments have pending bills above 20 per cent of their total revenue as shown in Figure 3-16. Nairobi City County has the highest proportion of pending bills at 349.8 per cent followed by Kiambu and Machakos county governments at 35.4 and 33.9 per cent, respectively.



**Figure 3-16: County Pending Bills as a Percentage of Total Revenue**

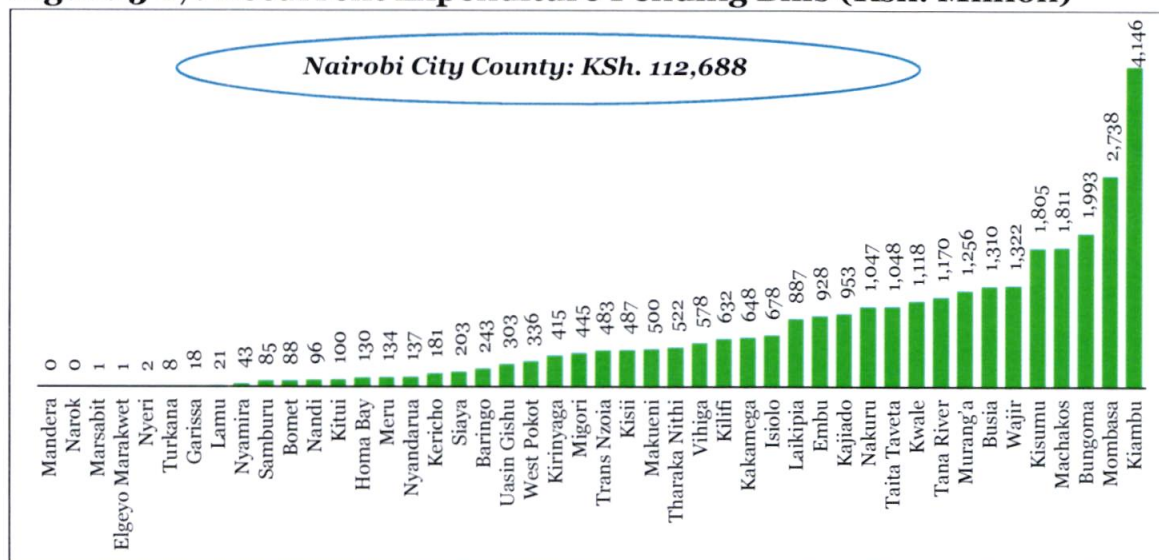


Source of Data: Controller of Budget

There are two county governments namely Elgeyo/Marakwet and Nyeri whose proportions of pending bills to total revenue are below one per cent. Article 212 and Sections 140 and 141 of the PFMA 2012 provide for borrowing by county governments. However, counties have not borrowed for development using this framework save for recurrent expenditures.

As at June 2024, recurrent and development expenditure pending bills accounted for 79 per cent (Ksh. 143.7 billion) and 21 per cent (Ksh. 38.2 billion), respectively (Figure 3-17). Nairobi City County had the highest recurrent pending bill at Ksh. 112.7 billion.

**Figure 3-17: Recurrent Expenditure Pending Bills (Ksh. Million)**

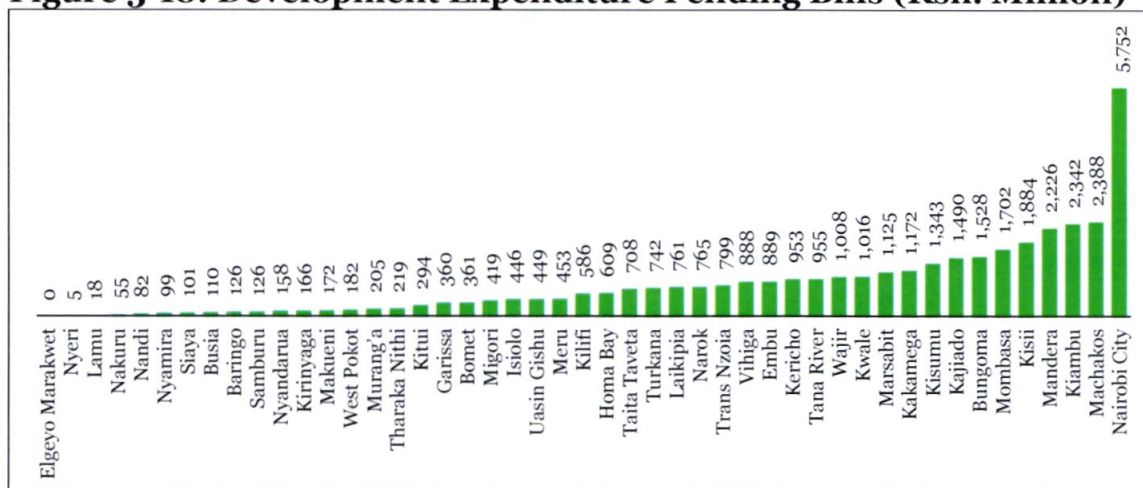


Source of data: Controller of Budget

Mandera and Narok county governments had nil recurrent pending bills while Kiambu and Mombasa county governments had Ksh. 4.1 billion and Ksh. 2.7 billion, respectively.

The development expenditure pending bills by county is presented in Figure 3.18. Nairobi City County had the highest development pending bill at Ksh. 5,752 million while Elgeyo/Marakwet had nil.

**Figure 3-18: Development Expenditure Pending Bills (Ksh. Million)**



Source of data: Controller of Budget

The Nairobi City County pending bills are mainly attributed to unremitted pension contributions, statutory creditors, legal creditors, bank loans and suppliers/contractors among others (Table 3-8).

**Table 3-8: Nairobi City County Government Pending Bills (Ksh.)**

No.	Category	Pending Bills Outstanding as at 30th June 2024-Ksh.
A	<b>Statutory Debts</b>	
	KRA (principal and penalties)	899
	NSSF	285
	<b>Sub-total</b>	<b>1,184</b>
B	<b>Suppliers and Contractors</b>	
	Recurrent	10,807
	Development	2,796
	National Bank automation service	336
	<b>Sub-total</b>	<b>13,940</b>
C	<b>Litigation Costs</b>	<b>21,202</b>
	<b>sub-total</b>	<b>21,202</b>
D	<b>Utilities</b>	
	KP - Electricity	725
	Water bills	235
	<b>Sub-total</b>	<b>960</b>
E	<b>Loans</b>	
	KCB Loan	4,504
	NITA	8
	<b>Sub-total</b>	<b>4,512</b>
F	<b>Pension schemes (Laptrust/Lapfund)</b>	54,850
	<b>Sub-total</b>	<b>54,850</b>
G	<b>Contingent Liabilities</b>	
	Pension schemes (actuarial deficit)	2,624
	Government guaranteed loans	15,328
	On lent Water (Foreign Loans)	3,816
	<b>Sub-total</b>	<b>21,768</b>
H	<b>Staff Costs</b>	
	Superannuation scheme	21
	Employee benefits- Retirees	357
	Unpaid allowances	545
	<b>Sub-total</b>	<b>923</b>
	<b>Total</b>	<b>119,339</b>

Source of data: Nairobi City County

The accumulation of pending bills by county governments has a negative effect on the suppliers of goods and services. County governments should therefore prioritise the payments of the pending bills.



#### 4 RECOMMENDATION ON SHAREABLE REVENUE ALLOCATION FOR THE FINANCIAL YEAR 2025/26

Article 202(1) stipulates that the nationally raised revenue shall be shared equitably between the national and county governments. The shareable revenue is defined in the Constitution and Section 2 of the CRA Act, 2011 as:

*“all taxes imposed by the national government under Article 209 of the Constitution and any other revenue (including investment income) that may be authorized by an Act of Parliament, but excludes revenues<sup>11</sup> referred to under Articles 206(1)(a)(b) and 209 (4) of the Constitution”.*

The performance of ordinary revenue is summarised in Table 4-1.

**Table 4-1: Performance of Ordinary Revenue and Allocations Ksh. Billion**

Year	Projected Ordinary Revenue	Actual Ordinary Revenue	Percentage increment	Revenue Shortfall	County Allocation	National Government Allocation
2013/14	939.4	919.0		(20.4)	190.0	746.4
2014/15	1,039.9	1,031.8	12.3	(8.1)	226.7	810.6
2015/16	1,256.3	1,152.5	11.7	(103.8)	259.8	992.6
2016/17	1,393.7	1,306.6	13.4	(87.1)	280.3	1,108.7
2017/18	1,561.2	1,365.1	4.5	(196.1)	302.0	1,254.5
2018/19	1,701.2	1,499.8	9.9	(201.4)	314.0	1,382.6
2019/20	1,871.4	1,573.4	4.9	(298.0)	316.5	1,549.7
2020/21	1,856.7	1,562.0	-0.7	(294.7)	316.5	1,533.4
2021/22	1,775.6	1,917.9	22.8	142.3	370.0	1,398.8
2022/23	2,141.6	2,041.1	6.4	(100.5)	370.0	1,764.5
2023/24	2,461.0	2,288.9	12.1	(172.1)	385.4	2,177.2
2024/25*	2,631.4	-	-	-	387.4	2,235.9
2025/26*	3,018.8	-	-	-	417.4	2,601.4

Source of data: National Treasury, DORA, CRA; \*projected

The revised projected ordinary revenue for the financial year 2024/25 is Ksh. 2,631.4 billion. This is lower than the 2024 BPS projection of Ksh. 2,948.10 billion. The revised projection was necessitated by the rejection of the 2024 Finance Bill. The rejection of the Bill also led to a downward revision of the revenue projection for the financial year 2025/26 from Ksh. 3,294 billion to Ksh. 3,018.8 billion.

<sup>11</sup> Art. 206(1)(a)(b) refers to revenues excluded from the Consolidated Fund by an Act of Parliament and payable into another public fund established for a specific purpose; or may, under an Act of Parliament, be retained by the State organ that received it for the purpose of defraying the expenses of the State organ. Art 209(4) refers to revenues from charges for services provided by either level of government.

**i. Recommendation on Shareable Revenue Allocation for Financial Year 2025/26**

The shareable revenue is projected to increase from Ksh. 2,631.4 billion in the financial year 2024/25 to Ksh. 3,018.8 billion in financial year 2025/26. This translates to an absolute revenue increment of Ksh. 387.4 billion. The Commission recommends that the national government be allocated Ksh. 2,601.4 billion and county governments Ksh. 417.4 billion as equitable shares for the financial year 2025/26. This translates to an increase of Ksh. 357.4 billion to the national government and Ksh. 30 billion to the county governments.

In conformity with Article 203(1)(c) and (d) respectively, the increments to the national and county governments are meant to ensure that both levels of government have adequate allocations to perform their assigned functions. In addition, County governments have conditional commitments with the national government for implementation of specific programmes and projects, such as the establishment of County Aggregation and Industrial Parks (CAIPs) and CHP initiative that require county government to match the national government's conditional allocations. Other non-discretionary commitments by County governments include contributions towards the Housing Levy and Social Health Insurance. Though some of this financial obligations were meant to commence in financial year financial year 2024/25, the downward revision of projected ordinary revenue for the financial year 2024/25 and the subsequent revision of county government equitable share for financial year 2024/25 constrained the county governments' financial capacity to finance the programmes.

Additionally, the increment to the county governments is meant to ensure that no county gets a lower allocation in the financial year 2025/26 than in the financial year 2024/25 following the change in the revenue sharing framework. This is in line with Article 203(1)(c) and (j) on the need to: ensure that county governments are able to perform the functions assigned to them, and, ensure stable and predictable allocations of revenue to county governments. The national government's allocation will ensure that provisions are made in respect of the national debt and other obligations and that the needs of the national government are objectively met in line with Article 203 (1)(b).

Article 203(2) provides that for every financial year, the equitable share of the revenue raised nationally that is allocated to county governments shall not be less than fifteen per cent of all revenue collected by the national government based on the most recent audited accounts of revenue received, as approved by the National Assembly. The allocation of Ksh. 417.425 billion to county government for financial year 2025/26 is equivalent to 26.6 per cent of the most recent audited and





approved accounts for the financial year 2020/21 amounting to Ksh. 1,570.6 billion.

## ii. Allocations to the Equalisation Fund

Article 204 provides for an allocation of 0.5 per cent of the most recent audited and approved accounts to the Equalisation Fund. The Commission therefore recommends an allocation of Ksh. 7.85 billion to Equalisation Fund for financial year 2025/26 (Table 4-2).

**Table 4-2: Equalisation Fund Allocation, Ksh. Billion**

Year	Audited Accounts	FY of Audited Accounts	Equalization Fund (0.5%)
2013/14	608.1	2010/11	3.04
2014/15	529.3	2009/10	2.65
2015/16	776.9	2012/13	3.88
2016/17	935.6	2013/14	4.68
2017/18	935.6	2013/14	4.68
2018/19	935.6	2013/14	4.68
2019/20	1,038.0	2014/15	5.19
2020/21	1,357.7	2017/18	6.79
2021/22	1,357.7	2017/18	6.79
2022/23	1,413.7	2018/19	7.07
2023/24	1,673.7	2019/20	8.37
2024/25	1,673.7	2019/20	8.37
2025/26	1,570.6	2020/21	7.85

Source of Data: National Assembly PAC Reports



## 5 SHARING OF REVENUE AMONG COUNTY GOVERNMENTS FOR FINANCIAL YEAR 2025/26

Section 190 (1)(b) of the PFMA, 2012 mandates the Commission to submit the determination of each county's equitable share in the county share of that revenue while making recommendations for the following financial year.

The Commission has developed a recommendation on the Fourth Basis for revenue sharing, which is before Parliament for determination. The Fourth basis once determined by Parliament, will be used to share revenue among county governments for the next five financial years (2025/26 to 2029/30) in line with the provisions of Article 217. Table 5-1 provides a summary of the Fourth Basis Framework.

**Table 5-1: Fourth Basis Framework**

Objectives	Parameter	Assigned Weight %
<b>1. To share revenue equitably to facilitate service delivery</b>	Population	42
	Basic Share	22
	Geographical Size	9
<b>2. To share revenue equitably to address economic disparities and promote development</b>	Poverty	14
	Income Distance	13
<b>Total</b>		<b>100</b>

Source: CRA

### Implementation of the Fourth Basis

The Commission is cognizant of the fact that any change to a revenue sharing framework do occasion revenue shifts among county governments. Therefore, in implementing the Fourth Basis, a cushioning and stabilisation factor has been inbuilt in the framework to ensure no county government will get less than what they were allocated in financial year 2024/25. Stability in revenue sharing is important to ensure county programmes and projects continue without disruption that may be occasioned by sudden budget cuts arising from change of the revenue sharing framework.

The allocations to the county governments based on the Fourth Basis framework is shown in Table 5.2.

**Table 5-2: Allocation to County Governments for FY 2025/26, Ksh Million**

	County	Third Basis Allocation Index	2024/25 Allocation	Fourth Basis Allocation Index	2025/26 Allocation
1	Baringo	1.73	6,684	1.72	7,185
2	Bomet	1.81	7,015	1.80	7,528
3	Bungoma	2.88	11,171	2.82	11,766
4	Busia	1.94	7,515	1.89	7,893
5	Elgeyo-Marakwet	1.25	4,827	1.29	5,374
6	Embu	1.39	5,370	1.35	5,616
7	Garissa	2.14	8,290	2.61	10,894
8	Homa Bay	2.11	8,170	2.04	8,536
9	Isiolo	1.27	4,924	1.50	6,241
10	Kajiado	2.15	8,345	2.34	9,767
11	Kakamega	3.35	12,981	3.25	13,562
12	Kericho	1.74	6,738	1.83	7,653
13	Kiambu	3.17	12,294	3.14	13,094
14	Kilifi	3.14	12,170	3.05	12,715
15	Kirinyaga	1.41	5,449	1.36	5,693
16	Kisii	2.40	9,306	2.33	9,723
17	Kisumu	2.17	8,405	2.10	8,782
18	Kitui	2.81	10,886	2.72	11,374
19	Kwale	2.23	8,625	2.16	9,012
20	Laikipia	1.39	5,387	1.45	6,039
21	Lamu	0.84	3,254	0.94	3,935
22	Machakos	2.48	9,597	2.40	10,027
23	Makueni	2.19	8,497	2.13	8,878
24	Mandera	3.02	11,691	2.93	12,214
25	Marsabit	1.96	7,597	2.26	9,427
26	Meru	2.57	9,944	2.50	10,454
27	Migori	2.16	8,385	2.12	8,838
28	Mombasa	2.04	7,900	1.98	8,253
29	Murang'a	1.94	7,512	1.88	7,852
30	Nairobi City	5.21	20,179	5.05	21,082
31	Nakuru	3.53	13,667	3.42	14,279
32	Nandi	1.90	7,346	1.84	7,675
33	Narok	2.39	9,242	2.31	9,656
34	Nyamira	1.38	5,360	1.41	5,885
35	Nyandarua	1.53	5,937	1.49	6,202
36	Nyeri	1.68	6,519	1.63	6,811
37	Samburu	1.45	5,623	1.52	6,352
38	Siaya	1.88	7,301	1.92	8,019
39	Taita-Taveta	1.31	5,066	1.37	5,711
40	Tana-River	1.76	6,825	1.78	7,433
41	Tharaka-Nithi	1.14	4,400	1.20	5,028
42	Trans-Nzoia	1.95	7,541	1.89	7,878
43	Turkana	3.41	13,213	3.31	13,805
44	Uasin-Gishu	2.19	8,472	2.12	8,852
45	Vihiga	1.37	5,293	1.46	6,077
46	Wajir	2.56	9,903	2.70	11,283
47	West Pokot	1.71	6,610	1.69	7,070
	<b>Total</b>	<b>100.00</b>	<b>387,425</b>	<b>100.00</b>	<b>417,425</b>



## APPENDICES

### Appendix 1: Summary of Conditional Grants and Loans from Development Partners (Ksh. Million)

Source/Purpose	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Total
International Fund for Agricultural Development (IFAD)- Aquaculture Business Development Project (ABDP)											246	246	492
DANIDA Grant for Universal Healthcare in Devolved System Programme					763	1,013	987	900					3,663
DANIDA Grant to Supplement Financing of County Health Facilities			845	422									1,267
DANIDA Grant-Primary Health Care in Devolved Context									701	667	578	488	2,434
Donor Projects	16,581	13,889											30,470
EU Grant (Instruments for Devolution Advice and Support IDEAS)					986	1,040	493	216	231	120			3,086
EU- Water Tower Protection and Climate Change Mitigation and Adaptation Programme (WaTER)							495	528					1,023
German Development Bank (KfW)- Drought Resilience Programme in Northern Kenya (DRPNK)							350	300	370	825	765	782	3,392
IDA (World Bank) - Kenya Climate Smart Agriculture Project (KCSAP)						3,039	3,643	7,120	7,838	2,000	2,160		25,800
IDA (World Bank) Credit (Financing Locally-Led Climate Action (FLLoCA) Program, County Climate Institutional Support (CCIS) Grant											517		517
IDA (World Bank) Credit (Financing Locally-Led Climate Action											6,188	3,712	9,900



Source/Purpose	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Total
(FLLoCA) Program, County Climate Resilience Investment Grant (CCRIG)													
IDA (World Bank) Credit (National Agricultural and Rural Inclusive Growth Project (NARIGP))					1,050	2,949	7,233	4,262	6,395	3,563	3,150		28,602
IDA (World Bank) Credit National Agricultural Value Chain Development Project (NAVCDP)											8,250	5,000	13,250
IDA (World Bank) Credit: Kenya Devolution Support Project (KDSP) "Level 1 Grant"					2,148	2,300	1,410	2,115					7,973
IDA (World Bank) Credit: Kenya Devolution Support Project (KDSP) "Level 2 Grant"									4,600				4,600
IDA (World Bank) Credit: Kenya Urban Support Project (KUSP)-Urban Institutional Grants (UIG)							396					1,575	1,971
IDA (World Bank) Credit: Kenya Urban Support Project (KUSP)						11,465							11,465
IDA (World Bank) Credit: Water & Sanitation Development Project (WSDP)						3,800	3,500	3,400	5,000	5,900	5,350	5,700	32,650
IDA (World Bank) Credit (Financing Locally-Led Climate Action (FLLoCA) Program, County Climate Institutional Support (CCIS) Grant (Level 1)										517			517
IDA (World Bank) Transforming Health Systems for Universal Care Project					2,750	3,637	2,994	4,345	2,235				15,961
Kenya Livestock Commercialization Project (KELCLOP)											344	379	723
Other Loans & Grants			9,318	2,146	7,932								19,396
Sweden-Agricultural Sector Development Support Programme (ASDSP) II							850	653	1,300	775	73		3,651

Source/Purpose	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Total
UNFPA-9th Country Program Implementation									74				74
World Bank - Emergency Locust Response Project (ELRP)									800	1,200	2,303	1,900	6,203
IDA World bank - Kenya Informal Settlement Improvement Project (KISIP II)									2,800	2,700	3,270	10,600	19,370
World Bank Loan to Supplement Financing of County Health Facilities			508	1,302	779								2,589
German Development Bank (KfW)-Credit (Financing Locally-Led Climate Action (FLLoCA) Program County Climate Resilience Investment (CCRI) Grant												1,200	1,200
IDA (World Bank) loan for the Food Systems Resilience Project (FSRP)												2,250	2,250
IDA (World Bank) Credit- Second Kenya Devolution Support Program(KDSP II)												1,762	1,762
United Nations Fund for Population Activities (UNFPA) Grant 10th Country Grant												65	65
Grand Total	16,581	13,889	10,671	3,871	16,408	29,242	33,815	23,838	32,344	18,267	33,192	35,659	267,777



## Appendix II: County Pending Bills as at 30th June 2024

No.	County	County Executive			County Assembly		
		Recurrent	Development	Sub Total	Recurrent	Development	Sub Total
1	Baringo	243,387	125,863	369,251	-	-	-
2	Bomet	88,009	360,759	448,768	-	-	-
3	Bungoma	1,978,302	1,528,214	3,506,516	14,700	-	14,700
4	Busia	1,310,233	110,360	1,420,592	-	-	-
5	Elgeyo Marakwet	1,492	-	1,492	-	-	-
6	Embu	923,910	888,656	1,812,566	3,725	-	3,725
7	Garissa	17,032	360,167	377,199	741	-	741
8	Homa Bay	93,107	600,604	693,712	37,182	8,226	45,409
9	Isiolo	671,997	437,765	1,109,762	5,813	8,095	13,907
10	Kajiado	890,814	1,455,782	2,346,596	61,824	34,553	96,377
11	Kakamega	543,847	1,109,794	1,653,640	104,315	61,710	166,025
12	Kericho	181,302	953,412	1,134,714	-	-	-
13	Kiambu	4,069,015	2,318,872	6,387,888	77,228	23,153	100,382
14	Kilifi	620,074	586,137	1,206,211	12,347	-	12,347
15	Kirinyaga	415,041	166,205	581,246	-	-	-
16	Kisii	485,085	1,828,434	2,313,518	1,555	55,432	56,987
17	Kisumu	1,661,421	1,340,669	3,002,090	143,211	2,099	145,310
18	Kitui	100,133	293,843	393,977	-	-	-
19	Kwale	1,117,868	1,015,720	2,133,588	-	-	-
20	Laikipia	883,462	760,608	1,644,070	3,979	-	3,979
21	Lamu	21,198	18,336	39,535	-	-	-
22	Machakos	1,730,057	2,388,350	4,118,407	81,074	-	81,074
23	Makueni	364,448	170,410	534,858	135,156	2,030	137,186
24	Mandera	-	2,226,355	2,226,355	-	-	-
25	Marsabit	-	700,000	700,000	910	425,135	426,046
26	Meru	134,000	452,824	586,824	-	-	-
27	Migori	360,713	379,245	739,957	84,427	40,005	124,433
28	Mombasa	2,738,362	1,702,210	4,440,572	-	-	-
29	Murang'a	1,183,396	205,092	1,388,488	72,106	-	72,106
30	Nairobi City	112,563,911	5,751,843	118,315,754	124,529	-	124,529
31	Nakuru	966,041	55,227	1,021,268	81,211	-	81,211
32	Nandi	96,463	81,507	177,970	-	-	-
33	Narok	-	764,640	764,640	-	-	-
34	Nyamira	43,333	62,719	106,052	-	36,179	36,179
35	Nyandarua	79,081	158,448	237,529	57,635	-	57,635
36	Nyeri	1,986	5,407	7,393	-	-	-
37	Samburu	84,901	126,077	210,978	-	-	-
38	Siaya	202,659	101,251	303,910	-	-	-
39	Taita Taveta	921,956	708,347	1,630,303	126,222	-	126,222
40	Tana River	1,170,297	951,046	2,121,343	-	3,775	3,775
41	Tharaka Nithi	408,830	218,503	627,332	113,632	-	113,632
42	Trans Nzoia	483,133	799,227	1,282,360	-	-	-
43	Turkana	7,556	742,302	749,858	-	-	-
44	Uasin Gishu	250,098	449,140	699,238	52,584	-	52,584
45	Vihiga	577,909	888,371	1,466,280	-	-	-
46	Wajir	1,322,377	1,007,941	2,330,318	-	-	-
47	West Pokot	335,408	168,038	503,446	262	14,374	14,635
	<b>Total</b>	<b>142,343,645</b>	<b>37,524,722</b>	<b>179,868,367</b>	<b>1,396,368</b>	<b>714,767</b>	<b>2,111,135</b>