REPUBLIC OF KENYA

PARLIAMENT

NATIONAL ASSEMBLY BILLS
(*Bill No. 10 of 2025*)

THE DIVISION OF REVENUE BILL, 2025

(A Bill published in the Kenya Gazette Supplement No. 38 of 2025 and passed by the National Assembly, without amendments, on 9th April,2025)

N.A. /B/No. 10/2025

THE DIVISION OF REVENUE BILL, 2025

ARRANGEMENT OF CLAUSES

Clause

THE DIVISION OF REVENUE BILL, 2025

A Bill for

AN ACT of Parliament to provide for the equitable division of revenue raised nationally between the national and county governments in the 2025/26 financial year, and for connected purposes.

ENACTED by Parliament of Kenya, as follows—

Short title.

1. This Act may be cited as the Division of Revenue Act, 2025.

Interpretation.

Cap.428.

2. In this Act, unless the context otherwise requires, "revenue" has the meaning assigned to it under section 2 of the Commission on Revenue Allocation Act.

Object and purpose of the Act.

3. The object and purpose of this Act is to provide for the equitable sharing of revenue raised nationally among the national and county governments in the 2025/26 financial year in accordance with Article 203(2) of the Constitution.

Allocations to national and county governments.

4. Revenue raised nationally in respect of the 2025/26 financial year shall be shared equitably among the national and county governments as set out in the Schedule to this Act.

Variation in revenue.

5. (1) If the actual revenue raised nationally in the financial year falls short of the expected revenue set out in the Schedule, the shortfall shall be borne by the national government.

(2) If the actual revenue raised nationally in the financial year exceeds the projected revenues set out in the Schedule, the excess revenue shall accrue to the national government, and may be used to reduce borrowing or pay debts.

SCHEDULE

(s.4)

ALLOCATION OF REVENUE RAISED NATIONALLY BETWEEN THE NATIONAL GOVERNMENT AND COUNTY GOVERNMENTS FOR THE 2025/26 FINANCIAL YEAR

Type/level of allocation	Amount in Kshs.	Percentage (%) of 2020/21 audited and approved Revenue i.e. Kshs. 1,570,562,945,014
A. Total Sharable Revenue	**2,835,040,979,609**	
B. National Government	**2,419,382,005,336**	
C. Equalization Fund	**10,589,554,076**	
Of which: a) 0.5 Per Centum	*7,852,814,725*	**0.5%**
b) Arrears	*2,736,739,351*	
D. County equitable share	**405,069,420,197**	**25.79%**

APPENDIX

EXPLANATORY MEMORANDUM TO THE DIVISION OF REVENUE BILL, 2025

Background

1. This memorandum has been prepared as an attachment to the Division of Revenue Bill (DoRB), 2025 in fulfilment of the requirements of Article 218(2) of the Constitution and section 191(5) of the Public Finance Management Act (Cap. 412A).

2. Article 218(2) of the Constitution requires that the Bill be submitted to Parliament every year together with a memorandum explaining:

a) the proposed revenue allocation set out in the Bill;

b) the extent to which the Bill has taken into account the provisions of Article 203(1) of the Constitution; and

c) a summary of any significant deviation from the recommendations of the Commission on Revenue Allocation (CRA), with an explanation for each such deviation.

3. Section 191 (5) of the Public Finance Management Act (Cap. 412A) requires that the Bill be accompanied by a memorandum which explains:

a) how the Bill takes into account the criteria listed in Article 203(1) of the Constitution;

b) the extent of the deviation from the Commission on Revenue Allocation's recommendations;

c) the extent, if any, of deviation from the recommendations of the Intergovernmental Budget and Economic Council; and

d) any assumptions and formulae used in arriving at the respective shares mentioned in section 191(2) and (3) of the Public Finance Management Act (Cap. 412A).

Explanation of the Allocations to the National and County Governments as Proposed in the Bill

County Governments' Equitable Share

4. The Bill proposes to allocate County Governments Kshs. 405.1 billion for the financial year 2025/26 as equitable share of revenue raised nationally, translating to an increase of Kshs. 17.6 billion from a base of KSh.387.4 billion allocated in the financial year 2024/25.

5. In the financial year 2024/25, the Division of Revenue (Amendment) Act, 2024, allocated Kshs. 387.4 billion to County Governments as equitable share resulting from mediation between the National Assembly and the Senate.

6. The National Treasury has proposed an allocation of Kshs. 2,419.4 billion to the National Government; and Kshs. 405.1 billion to County Governments in financial year 2025/26, translating to an increase of Kshs. 17.6 billion (see Table 1).

Table 1: Equitable Revenue Share Allocation to County Governments, Financial Year 2025/26

BUDGET ITEM	Amount (KSh. million)
1. **Baseline** (i.e. allocation in the previous FY 2024/25)	**387,425**
Add:	
2. Adjustment for Revenue Growth	**17,644**
Equitable Revenue Share allocation for FY 2025/26 (1+2)	**405,069**

Source: National Treasury

7. The proposed County Governments' equitable revenue share allocation of Kshs. 405.1 billion is informed by the following factors:

a) Trends in the performance of revenue (this was taken into consideration in determining the Kshs. 17.6 billion increase in equitable share of revenue in financial year 2025/26);

b) Increased expenditures for National Government for purposes of debt servicing coupled with a weakened shilling against the dollar;

c) The Government commitment to implement a fiscal consolidation plan targeting to reduce the fiscal deficit to 4.3 percent of GDP in financial year 2025/26. This is designed to slow down accumulation of public debt, improve primary surplus thereby achieve fiscal sustainability;

d) Financing constraints due to limited access to finance in the domestic and international financial markets;

e) Low ordinary revenue collections attributed to the ongoing geopolitical shocks. The global economy is on a recovery path from the negative shocks in supply chain constraints and the rising US Federal Reserve interest rate that destabilized dollar exchange rate and the international debt market.; and

f) The National Government continues to solely bear shortfalls in revenue in any given financial year whereas the County Governments continue to receive their full allocation despite the budget cuts affecting the National Government.

8. The above proposed Equitable Share for financial year 2025/26 of **Kshs. 405.1 billion** is equivalent to **25.8 percent** of the last audited and approved actual revenues raised nationally of KSh.1,570,563 million for financial year 2020/21 pursuant to Article 203(3) of the Constitution.

Evaluation of the Bill against Article 203 (1) of the Constitution

9. Article 218(2)(b) of the Constitution requires that the division of revenue between the two levels of government and among county governments takes into consideration the criteria set out in Article 203(1) of the Constitution. The criteria include factors such as: national interest, public debt and other national obligations, the needs of the disadvantaged groups and areas, among others.

10. Table 2 provides an assessment of the extent to which this Bill has taken into consideration the requirements of Article 203(1) of the Constitution in estimating the division of revenue between the national and county levels of Government in the financial year 2025/26.

Table 2: Evaluation of the Bill against Article 203 (1) of the Constitution

	ITEM DESCRIPTION (KSh. millions)	FY2021/22	FY2022/23	FY2023/24	FY 2024/25*	FY 2025/26**
	ORDINARY REVENUE (EXCLUDING AIA)	**1,775,624**	**2,141,584**	**2,565,959**	**2,631,418**	**2,835,041**
A	**National Interest** [Article 203 (1)(a)]	**83,197**	**92,466**	**97,854**	**92,456**	**101,252**
	Enhancement of security operations (police vehicles, helicopters, defense etc.)	22.261	24.299	23.969	33.044	33.320
	National irrigation & fertilizer clearance	11.199	16.800	24.654	17.943	16.994
	Youth empowerment	14.548	15.290	13.087	10.290	11.175
	National social safety net - (for older persons, OVC, child welfare, presidential bursary, severe disability, Hunger Safety Net)	29.286	31.074	31.120	29.178	33.763
	Primary school digital literacy program	1.800	-	-	-	-
	School examination fees (KSCE & KCPE& Grade 6(CBC Examination)	4.103	5.003	5.023.47	2.000	6.000
B	**Public debt (Art. 203 [1][b])**	**1,174,013**	**930,354**	**1,187,784**	**1,340,588**	**1,606,419**
C	**Other National obligations** (Article. 203 [1][b])	**557,863**	**595,269**	**691,148**	**738,456**	**758,368**
	Pensions, constitutional salaries & other	136.978	145.951	211.019	227.357	239.623
	Constitutional commissions (Art. 248(2)) i.e., CRA, SRC, NLC, NPSC, IEBC, TSC	299.333	321.968	332.497	355.313	391.101
	Independent offices (Art. 248(3)) - i.e., AG & CoB	6.499	6.981	8.756	8.808	9.430
	Parliament	37.883	38.477	41.002	40.865	42.488
	Other constitutional institutions- State Law Office and DPP	8.371	8.713	10.054	9.414	10.478
	Other statutory bodies (e.g., EACC, RPP, WPA, CAJ, IPOA, NGEC)	7.036	8.462	9.002	8.911	9.714
	Judiciary	17.918	18.297	22.287	22.505	25.750
D	*Other statutory allocations/earmarked funds (e.g., NG-CDF, Affirmative Action)*	43.845	46.420	56.532	65.283	29.785
E	**Emergencies** [Art. 203 (1)(k)]	**5,000**	**5,000**	**1,200**	**4,000**	**5,000**
	a) Contingencies	5.000	5.000	1.200	4.000	5.000
	b) Strategic grain reserve	-	-	-	-	-
F	**Equalization Fund** [Art. 203 (1) (g) and (h)]	**6,825**	**7,068**	**10,867**	**8,000**	**10,590**
	Of which:					
	Allocation in FY 2025/26				7.867	7.867
	Arrears				147	2.737
G	**BALANCE TO BE SHARED BY THE 2 LEVELS OF GOVERNMENT**	**-7,429**	**547,843**	**577,106**	**447,918**	**353,411**
	County Government allocation from revenue raised nationally of which; -	**377,537**	**375,654**	**391,661**	**394,419**	**417,964**
	a) Equitable Share of Revenue	370.000	370.000	380.645	387.425	405.069
	b) Additional conditional allocations financed from revenues raised nationally	7.537	5.654	11.016	6.994	12.894
H	**Balance left for the National Government**	**-384,966**	**172,189**	**185,445**	**53,499**	**(64,553)**

11. National Interest: These are expenditures which relate to projects and programmes that:

- are critical to the achievement of the country's economic development objectives;
- potentially will have significant impact on social well-being of citizens;
- are anchored in the Vision 2030 and the Medium-Term Plan IV (2023 – 2027);
- are addressing the Bottom-Up Economic Transformation Agenda (BETA) of the Government;
- have significant resource investment requirements and whose benefits accrue nationwide; and
- are contained in the 2025 Budget Policy Statement.

The identified programmes of national interest include: activities aimed at enhancing security operations; national irrigation and fertilizer subsidy initiatives; Youth Empowerment; provision of national social safety net for vulnerable groups, and school examination fees subsidy.

12. Allocations for these programs is expected to increase significantly by Kshs. 8.8 billion from Kshs. 92.5 billion in financial year 2024/25 to Kshs. 101.3 billion in financial year 2025/26 as shown in Table 2. This increase is largely accounted for by the Kshs. 4.6 billion increase in expenditures on National Safety Net Programme to cover the elderly persons under the Indigent Fund for Social Health Authority; and the Kshs. 4.0 billion additional funding towards school examination fees.

13. Public Debt: The Bill has taken into account public debt related costs. These comprise the annual debt redemption cost as well as the interest payment for both domestic and external debt. In financial year 2025/26, the allocation for payment of public debt related costs is expected to increase from Kshs. 1,340,588 million allocated in financial year 2024/25 to Kshs. 1,606,419 million allocated in the financial year 2025/26, reflecting an increase of Kshs. 265.8 billion.

14. Other National Obligations: As provided for under Article 203(1) (b) of the Constitution, the Bill has also taken into account the requirements for other national obligations, such as, mandatory pension contributions and/or payments, financing for constitutional offices, including Parliament and Judiciary as well as expenses relating to other statutory bodies. These are estimated to cost Kshs. 758,368 million in financial year 2025/26 up from Kshs. 738,456 million allocated in the financial year 2024/25. Moreover, in financial year 2025/26 Kshs. 26.3 billion has been earmarked for the National Government – Constituency Development Fund (NG-CDF) and Kshs. 3.5 billion Affirmative Action Social Development Fund. After taking into consideration the above expenditures as well as debt related costs, the National Government is left with a deficit amounting to Kshs. 64.6 billion, which shall further stretch borrowing and increase public debt.

15. Fiscal Capacity and Efficiency of County Governments: The National Treasury has proposed an increase of Kshs. 17.6 billion equitable share to County Governments. Similarly, it is expected that the County Governments will also grow their Own Source Revenue (OSR). The National Treasury has further instituted measures to support County Governments enhance their revenue collection. These include the National Rating Act, 2024, the County Governments Revenue Raising Process Bill currently under consideration, the Model Tariffs and Pricing policy proposed for adoption by County Governments as well as the proposed Integrated County Revenue Management System. The National Treasury recommends that the Senate considers including the fiscal effort parameter in the Fourth-Generation basis so as to enhance OSR collection by the Counties in order to incentivize the attainment of the intended objectives of the above measures.

16. County Governments' ability to perform the functions assigned to them and meet other developmental needs of the County Governments: As explained above, the baseline for the equitable share allocation for the financial year 2025/26 was derived from the Division of Revenue Act, 2024. This base line is informed by costing of expenditure for devolved functions done at onset of devolution, which has been the basis for equitable share over the years.

17. Developmental needs of the County Governments and their ability to perform the functions assigned to them: County Governments are allocated equitable share of revenue which is an unconditional allocation to enable counties have autonomy to plan, budget and implement development projects based on county priorities and account for the same. In addition, Article 209 of the Constitution has assigned counties revenue raising powers and as such counties are expected to improve and maintain sustained collection of their own source revenues.

18. Additionally, the equitable share to County Governments is proposed to increase from a base of Kshs. 387.4 billion in financial year 2024/25 to Kshs. 405.1 billion in financial year 2025/26, an increase of Kshs. 17.6 billion, which is meant to facilitate County Governments enhance service delivery in performance of their assigned functions under Part II of the Fourth Schedule of the Constitution.

19. It should be noted that, in order to achieve balance between priority development and performance of the assigned functions, the Third Basis for horizontal revenue sharing is premised on eight parameters which relate to devolved functions assigned to County Governments in Part II of the Fourth Schedule of the Constitution.

20. Thus, the proposed vertical division of revenue proposed in the Division of Revenue Bill, 2025, therefore, takes into account the cost of County Governments' developmental needs and it is expected that County Governments will have the ability to perform the functions assigned and transferred to them as contemplated under Article 203(1)(f).

21. **Economic Disparities within and among counties and the need to remedy them:** Allocation of the sharable revenue (i.e., equitable share of Kshs. 405.1 billion) among County Governments is based on the Third-generation formula approved by Parliament in September 2020 pursuant to provisions of Article 217 and paragraph 16 of the Sixth Schedule of the Constitution. The Third Basis formula which is applicable from financial year 2020/21 to financial year 2025/26 has taken into account the following parameters; (i) Population (18%); (ii) Health Index (17%); (iii) Agriculture Index (10%); (iv) Urban Index (5%); (v) Poverty Index (14%); (vi) Land Area Index (8%); (vii) Roads Index (8%), and; (viii) Basic Share index (20%). The horizontal distribution of County Governments' equitable revenue share allocation of Kshs. 405.1 billion for financial year 2025/26 shall be based on the Third Basis Formula. Noting the equity and sectoral parameters outlined above, the Third basis formula applied in financial year 2025/26, takes into account disparities among counties and aims at equitable distribution of resources across counties.

22. Further, Kshs. 10.6 billion has been set aside for the Equalization Fund in financial year 2025/26, which for purposes of Division of Revenue in financial year 2025/26 includes Kshs. 7.9 billion as 0.5 per cent of the last audited and approved actual revenues for financial year 2020/21 (i.e., Kshs. 1,570,563 million); and the balance of Kshs. 2.7 billion which is the contribution of arrears towards the Fund. The Equalisation Fund is used to finance development programmes that aim at reducing regional disparities among beneficiary counties.

23. **Need for Economic Optimization of Each County:** Allocation of resources to County Governments was guided by the historical costing of expenditures for functions assigned to the County Governments. The equitable share of revenue allocated to County Governments in the financial year 2025/26 is Kshs. 405.1 billion, an allocation which is Kshs.

17.6 billion higher than the allocation of Kshs. 387.4 billion for financial year 2024/25. This is an unconditional allocation which means that the County Governments can independently plan, budget and spend the funds. With the resources, therefore, County Governments are able to prioritize projects and allocate resources, thus optimizing their potential for economic development.

24. Stable and Predictable Allocations of County Governments' Vertical Share of Revenue: The County Governments' equitable share of revenue raised nationally has been protected from reductions that may be occasioned by shortfall in revenue raised nationally more so in the advent of the effects of projected global economic downturn in 2025. According to Clause 5 of the Division of Revenue Bill (DoRB) 2025, the National Government will bear any shortfall in revenue raised nationally.

25. Need for Flexibility in Responding to Emergencies and Other Temporary Needs: The National Government equitable share of revenue has an allocation of Kshs. 5 billion for the Contingencies Fund established pursuant to Article 208 of the Constitution. This Fund will be used to meet the demands arising from urgent and unforeseen needs in all Counties that suffer from calamities in the manner contemplated under sections 19 - 21 of the Public Finance Management Act (Cap. 412A). In addition, the Public Finance Management Act (Cap. 412A) requires each County Government to set up a County Emergency Fund. County Governments are, therefore, expected to set aside budgets to respond to emergency functions.

26. It should be noted that after taking into account all the other factors contemplated under Article 203(1) of the Constitution, including the needs of County Governments, there are no resources left to finance other National Government needs, such as defense, roads, energy among others. In fact, the National Government is left with a deficit amounting to KSh. 64.6 billion to finance needs of other non-discretionary expenditures such as salaries of National Government staff. To bridge this financing gap, the National Government will require additional borrowing which may negatively impact on the fiscal consolidation plan.

Summary of Deviations from the Recommendations of the Commission on Revenue Allocations

27. The Division of Revenue Bill, 2025 proposes to allocate county governments an equitable share of Kshs. 405.1 billion from the shareable revenue raised nationally to be shared among county governments on the third basis formula for sharing revenue approved by Parliament under Article 217 of the Constitution. The CRA, on the other hand, recommends County Governments' equitable share of revenue of Kshs. 417.4 billion as an unconditional allocation to be shared among county governments on the proposed fourth basis formula for sharing revenue submitted to Parliament for consideration and approval pursuant Article 217 of the Constitution.

28. The difference between the proposed allocation by the National Treasury and CRA is occasioned by: -

(a) **Adjustment for Revenue Growth: -** While the National Treasury has proposed an increase of Kshs. 17.6 billion to county governments' equitable share, the CRA has proposed an increase of Kshs. 30.0 billion, in FY 2025/26, resulting into a difference of Kshs. 12.4 billion; and

(b) **Assumptions Used in Arriving at the Respective Shares: -** Both the National Treasury and the CRA have made varying assumptions in arriving at the respective proposals on County Equitable Share for FY 2025/26, as discussed in paragraph 29 for the National Treasury; and paragraph 30 for the CRA.

Table 3 analyses the approaches by CRA and the National Treasury in computing the proposal on the division of revenue between the national and county governments in FY 2025/26.

Table 3: Comparison of approaches towards recommendations of the Commission on Revenue Allocation and the National Treasury on the equitable share of revenue proposed 2025/26 Financial Year

Expenditure Item	CRA	National Treasury	Variance
	A(million)	B(million)	C=(A-B(million))
1. Equitable Revenue Share in FY 2024/25	387,425	387,425	387,425
Add:			
2. Increase in Revenue Allocation	30,000	17,644	12,366
TOTAL EQUITABLE OF REVENUE = (2+3)	417,425	405,069	12,366

Source: The National Treasury

Assumptions Used in Arriving at the Respective Shares

29. In arriving at the allocation of Kshs. 405.1 billion, the National Treasury was informed by the following economic assumptions:

(i) The Equalization Fund arrears to be financed from the National Government's share of revenue;

(ii) That there will be no major economic shocks negatively affecting forecasted revenue in financial 2025/26;

(iii) That Ordinary revenues projected at Kshs. 2,835 billion (14.7 % of GDP) from Kshs. 2,631.4 billion (14.6% of GDP) in financial year 2024/25 is attainable;

(iv) That there shall be stability in interest rates and foreign exchange rates;

(v) That inflation shall remain stable within the government target of 5±2.5 percent;

(vi) That there shall be a steady GDP growth momentum with a projection of 5.3 percent in 2025; and

(vii) That County Governments will continue to enhance their Own Source Revenues to reduce overreliance on national transfers and improve their fiscal sustainability.

30. In arriving at the allocation of Kshs. 417.4 billion, the CRA was informed by the following factors:

(a) The need to ensure adequate resources for counties to perform assigned functions

(b) To provide for counter-part funding of shared commitments for County aggregated parks and community health promoters

(c) The need to ensure County Governments are able to meet financial obligations of non-discretionary commitments such as Housing Levy and Universal Health Coverage

(d) The need to ensure no County gets lower allocation than that for FY 2024/25 upon the application of the fourth basis revenue sharing among counties.

(e) Predictable and stable allocation to Counties in line with Article 203 (2) (c) & j

(f) Meeting of National Government provisions for National Debt and obligations under Article 203 (1) (b).

Conclusion

31. The proposals contained in the Bill take into account the financial objectives set out in the 2025 BPS and are intended to achieve fiscal sustainability against the backdrop of escalating expenditure pressure on the fiscal framework occasioned by an increase in Consolidated Fund Services (CFS) and the persistent underperformance of ordinary revenue. As demonstrated above, any increase in county allocation beyond the Kshs. 405.1 billion proposed by the National Treasury will necessitate additional borrowing thus leading to deterioration of Kenya's debt sustainability position.

32. The proposed equitable share allocated to County Governments in the Division of Revenue Bill, 2025 has also taken into account the approved Third Basis Formula for Revenue Allocation. The proposed Kshs. 405.1 billion allocations among County Governments pursuant to Article 217 of the Constitution is equivalent to 25.8 percent of the audited and approved actual revenue for financial year 2020/21. This is above 15 per cent minimum threshold required under Article 203(2) of the Constitution.

I certify that this printed impression is a true copy of the Bill passed by the National Assembly on the 9th April, 2025.

Clerk of the National Assembly

Endorsed for presentation to the Senate in accordance with the provisions of Standing Order 142 of the National Assembly Standing Orders.

Wetangula

Speaker of the National Assembly