SUBMISSION ON THE DIVISION OF REVENUE BILL 2024 TO THE SENATE

Submitted on 16th May 2024

Contact Person,

Josephine Nyamai,

Lead Coordinator, Coast Regional Budget Hub

Contacts: jnyamai70@gmail.com or info@crbhhub.org

1.0.Introduction

Division of Revenue Bill, 2024 is an Act of Parliament to provide for the equitable division of revenue raised nationally between the national and county governments in the 2024/25 financial year, and for connected purposes enacted by the Parliament of Kenya.

The **Coast Regional Budget Hub** is a PFM practitioners' Platform, that brings together regional voices for collective efforts and synergy for better public budgets and services in the Coast Region. Comprised of Budget coordinators, budget facilitators and budget champions, drawn from organizations, informal groups and individuals, the Hub builds the collective capacity of communities to engage effectively in the budget-making process at the county and regional level and undertakes research/analysis for evidence-based advocacy.

The Coast Regional Budget Hub operates in Mombasa, Kwale, Kilifi, Lamu, Taita-Taveta and Tana River Counties. The Coast Regional Budget Hub is among the four hubs: The Nairobi Eastern and Central (NEC) Hub, The Rift Valley Hub and the Lake Region Hub, established by Bajeti Hub, formerly International Budget Partnership Kenya.

2.0. Summary

i. There is a discrepancy in the approved audited accounts being used. Section 10 mentions that the last approved audited accounts used to determine the equitable revenue share allocations is for FY 2019/2020 while section 32 mentions that the last audited accounts used are for FY 2020/2021. There is a need for clarification on the last approved audited accounts being used.

ii. **Increased Debt Servicing Expenditures (9b):** The government should explore debt refinancing options to reduce debt servicing costs, potentially increasing the equitable revenue share allocation to County Governments.

iii. **Low Ordinary Revenue Collections (9e):** The government should set realistic ordinary revenue targets, considering ongoing geopolitical shocks like the Russia-Ukraine war and US interest rate hikes, and consistent shortfalls in revenue collections experienced in the past.

iv. **Equitable Share Calculation (10):** The government should use the latest approved audited accounts (FY 2022/2023) for equitable share calculations instead of the outdated FY 2019/2020 accounts.

v. **Fiscal Effort Parameter (16):** Reinstating the fiscal effort parameter is crucial to enhance Own Source Revenue (OSR) collection by counties and should be included in the fourth revenue-sharing formula.

vi. **Timely Disbursement of Funds (17)-** The National Government should ensure timely disbursement of funds to County Governments to enable them to meet developmental needs and improve service delivery.

vii. **Equalization Fund (23)-** The government should ensure the disbursement of the Kshs. 7.852 billion set aside for the Equalization Fund in FY 2024/25 to bridge marginalization gaps.

3.0 Our Observations, interpretation and understanding of the proposed Bill.

No.	PROVISION IN THE BILL/ CLAUSE	ISSUE OF C ONCERN/ ASK	RECOMMENDATION	JUSTIFICATION
1.	**9(b)**	Increased expenditures for the National Government for purposes of debt servicing coupled with a weakening shilling against the dollar.	The government may explore options for debt refinancing to reduce the cost of debt servicing. This could involve renegotiating terms with creditors to lower interest rates or extend repayment periods, providing some relief on debt servicing costs.	If this option is explored, it could mean an increase in the equitable revenue share allocation to the County Governments.
2.	**9 (e)**	Low ordinary revenue collections are attributed to the ongoing geopolitical shocks. This includes the Russia-Ukraine war and the US Federal Reserve's interest rate hike which has negatively affected the dollar exchange rate against the Kenya shilling and the international debt market;	. The government may want to be realistic when setting up its ordinary revenue targets.	The government is projecting a higher ordinary that it never meets.

		and		
3	**10**	The above proposed Equitable Share for FY 2024/25 of Kshs. 391.1 billion is equivalent to 24.90 per cent of the actual revenues raised nationally of Kshs. 1,573,4 18 million for FY 20 19/20, as per the records of the National Treasury.	The Government needs to consider using the latest approved audited accounts. The last audited accounts are for the financial year 2022/2023.	Using the approved audited accounts for FY 2019/2020 is unfair to counties as there has been an increase in revenue raised nationally.
4	**16**	The National Treasury recommends that the Senate considers reinstating the fiscal effort parameter intended to enhance OSR collection by the Counties to incentivize the attainment of the intended objectives of the above m e a s u r e s.	Reinstating the fiscal effort parameter is timely as it should be considered when developing the fourth revenue sharing formula.	This will mean that counties will put more effort in OSR collection.
5	**17**	County governments' ability to perform the functions assigned to them and meet other developmental needs of the county governments:	The National Government should ensure timely disbursement of funds to the County Governments to enable them to meet their developmental needs.	The County Governments have failed to effectively perform their functions, sighting late disbursement of the equitable share by the National Government. This in-turn affects service delivery by Counties.
6	**23**	Further, it should be noted that Kshs. 7.852 billion h as al so been set aside for the Equalization Fund in FY 2024/25, which for purposes of Division of Revenue in FY 2024/25 translates to 0.5 per cent of the actual revenue for FY 2020/21, as per the records of the	The Government should ensure that the Equalization Fund is disbursed. Every year the funds are set aside but are never utilized.	The Equalization fund is meant to bridge marginalization gaps in some parts of this Country.

		National Treasury		