Rapid Own Source Revenue Analysis of Kisumu

October 2019

This study was carried out in collaboration with the County Government of Kisumu and served as a pilot of UN-Habitat's methodology on enhancing Own Source Revenues (ROSRA)

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Executive Summary

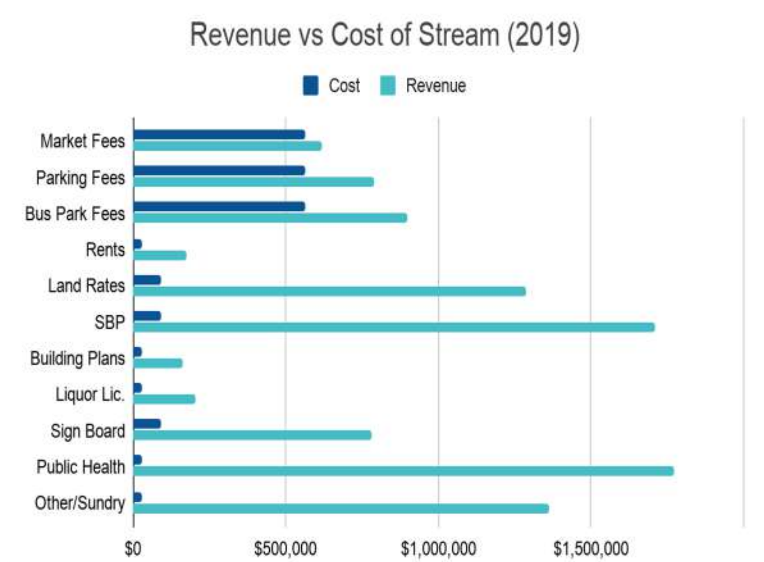
Context

- **There is pressure on the County Government of Kisumu to increase its own source revenue** (OSR) due to high dependence on national government transfers stagnating OSR and growing public expenditure needs
- **This Rapid Own Source Revenue Analysis (ROSRA) has the aim of supporting Kisumu County Government optimize its OSR, i.e. increase revenue, improve tax equity and administrative efficiency**. It was carried out by UN-Habitat between May and September of 2019.
- **This analysis is not an audit**, it seeks to help decision makers improve their OSR system
- **The findings of this analysis are confidential** and will only be shared with the permission of the Kisumu County Government
- **This analysis was carried out in close collaboration with the Kisumu Revenue Department** and would have not been possible without the department's generous support

Key Findings

- **Kisumu's OSR is at 17% of its full potential** of around $53 Million
- **Land rates are the the revenue stream that bears the most potential for revenue increases** (40% of gap), followed by Single Business Permits (14% of gap)
- **The tax gap is primarily due to suboptimal revenue administration** as opposed to revenue design (i.e. choice of revenue sources, setting of rates, exemptions)
- **The Revenue administration is focusing its efforts on unstructured revenue streams** (parking, bus park, market fees) which consume 75% of the cost of the revenue administration but only explain 8% of the tax gap
- **Tax effort needs to focus on structured revenue streams** and particularly land rates (which is currently only at 6% of total potential)
- **Tax efforts need to focus on increasing compliance of high-net individuals** to increase overall revenue (e.g. 90% of land arrears are owed by the top 10% wealthiest landowners) and improve the tax incidence (low and middle income groups almost pay twice as much per annum in taxes than high income groups)
- **The Strathmore system is not to blame for low OSR of unstructured revenue streams**, but the contractual conditions need to be addressed
- **Collections Africa Limited offers a model for increasing structured revenue** collection but existing contractual conditions should be revised

Data Highlights



$8.8 Annual OSR per capita

20% Collectors using POS devices

14% OSR as a % of Total Budget

20% % of OSR spent on Revenue Dept.

40% % of tax gap due to land rates

75% % of costs on unstructured revenue

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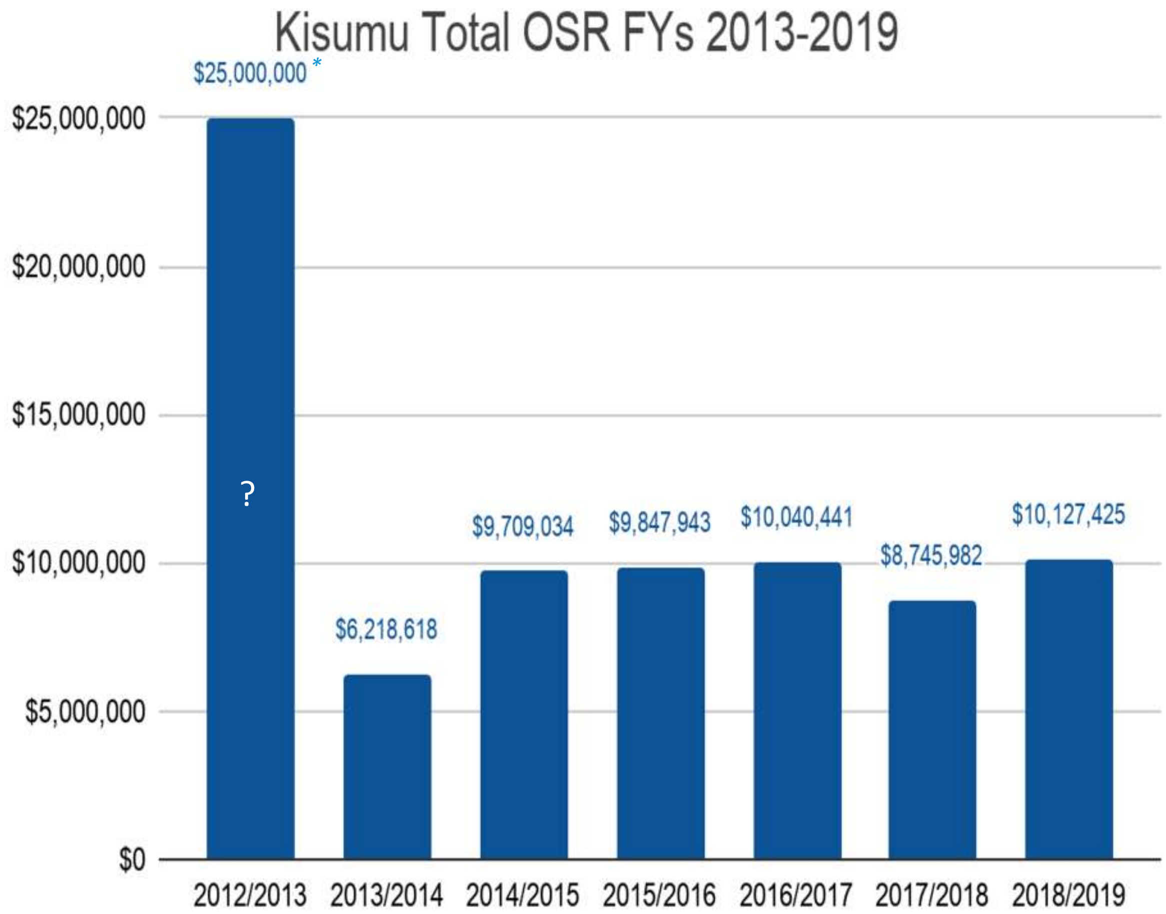
Kisumu’s OSR dropped after devolution, then stabilized at ~$10M



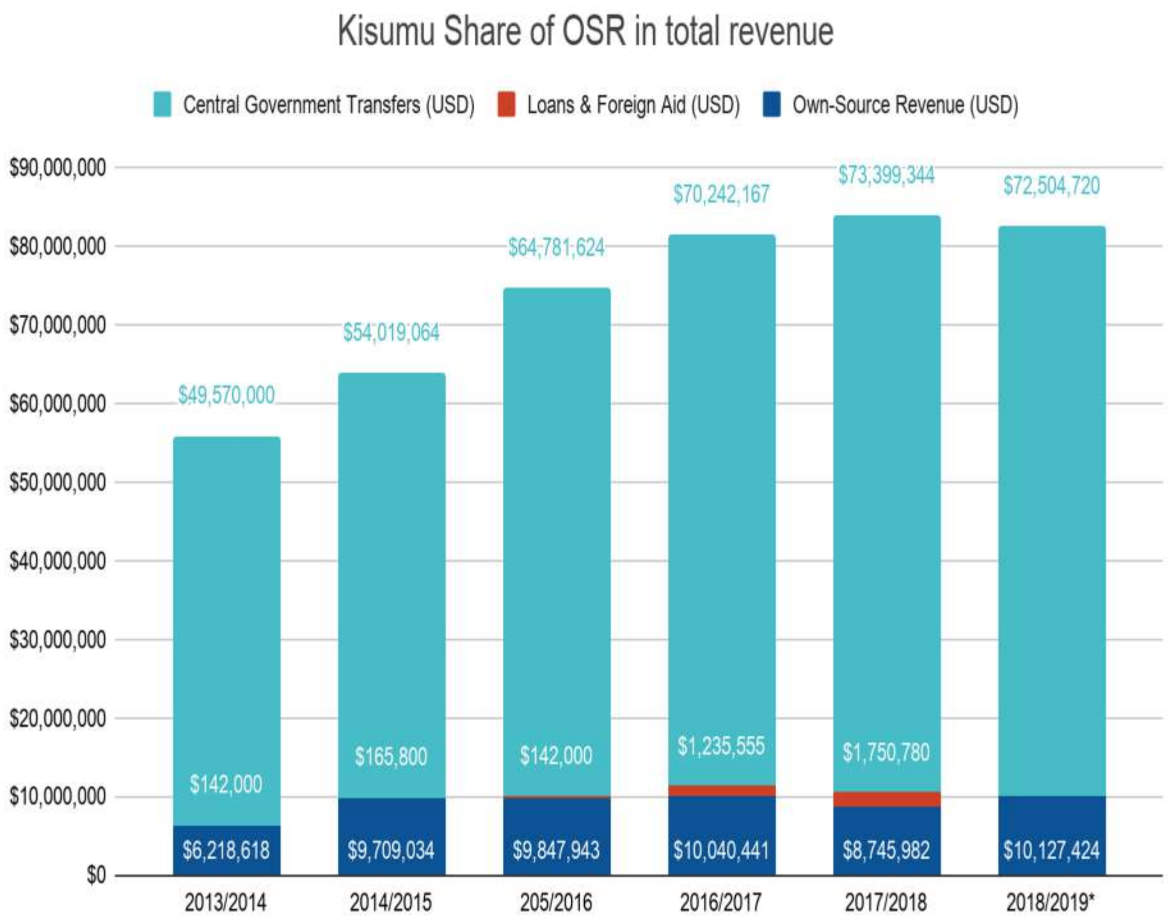
Takeaways

- **OSR Drop in 2013*:** Significant drop in OSR after devolution (needs verification)
- **Slight rebound post 2014:** OSR increased in 2015 by ~56% and then stabilized until 2018
- **Drop in 2018:** OSR decreased in by ~13% 2018 due to automation
- **OSR is stagnating:** OSR is plateauing around $10m post devolution

Source: Kisumu County Government Document, received in May of 2019 - original name

** Based on discussions with government officials, no official data to back this up was found*

Kisumu continues to be highly dependent on central gov. transfers

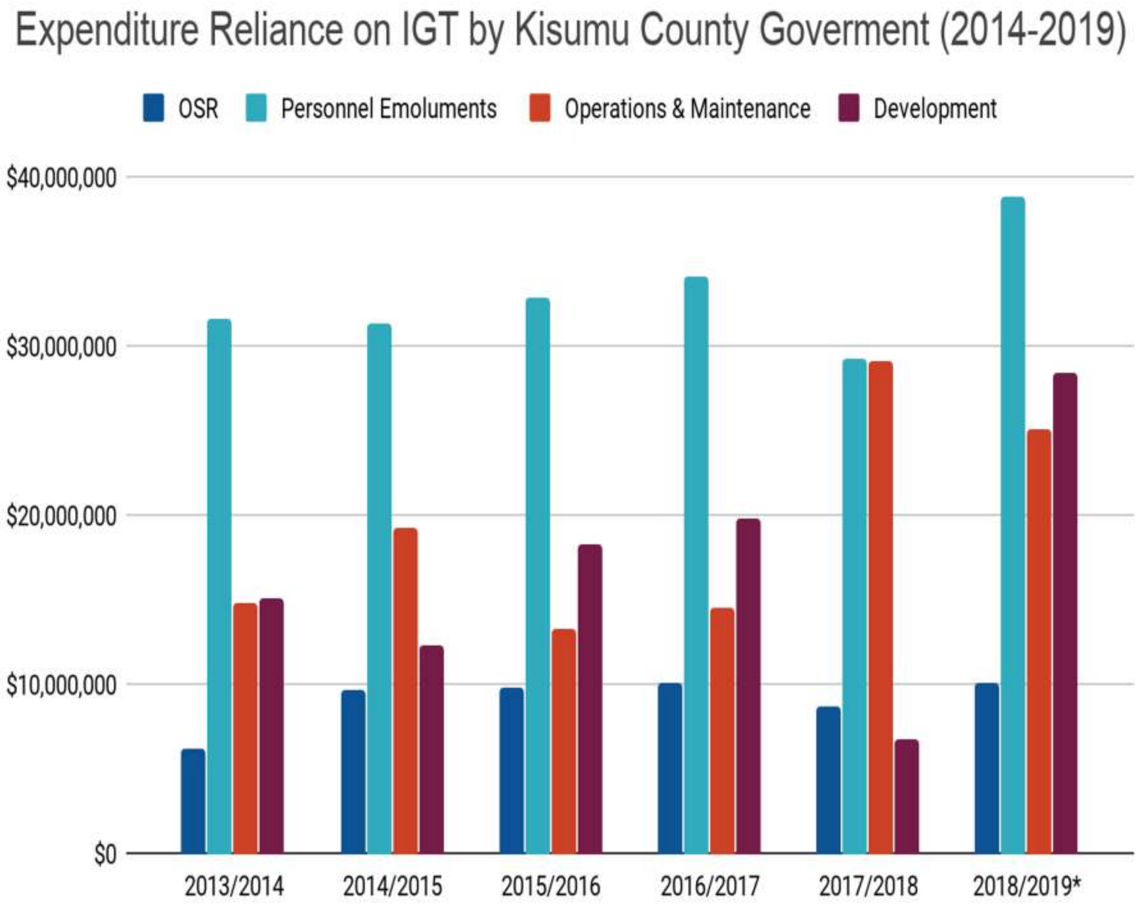


Takeaways

- **Steady growth of budget:** The budget has increased from 2015 to 2018 by around 25%
- **Increase in transfers:** The increase in budget was essentially covered by central government transfers
- **Increased dependence:** The overall dependence on central gov. funding has increased from around 80% to 86%

Source: yearly budgets, and resource envelope as provided by KCG

Kisumu's OSR doesn't cover either of 3 main budget components

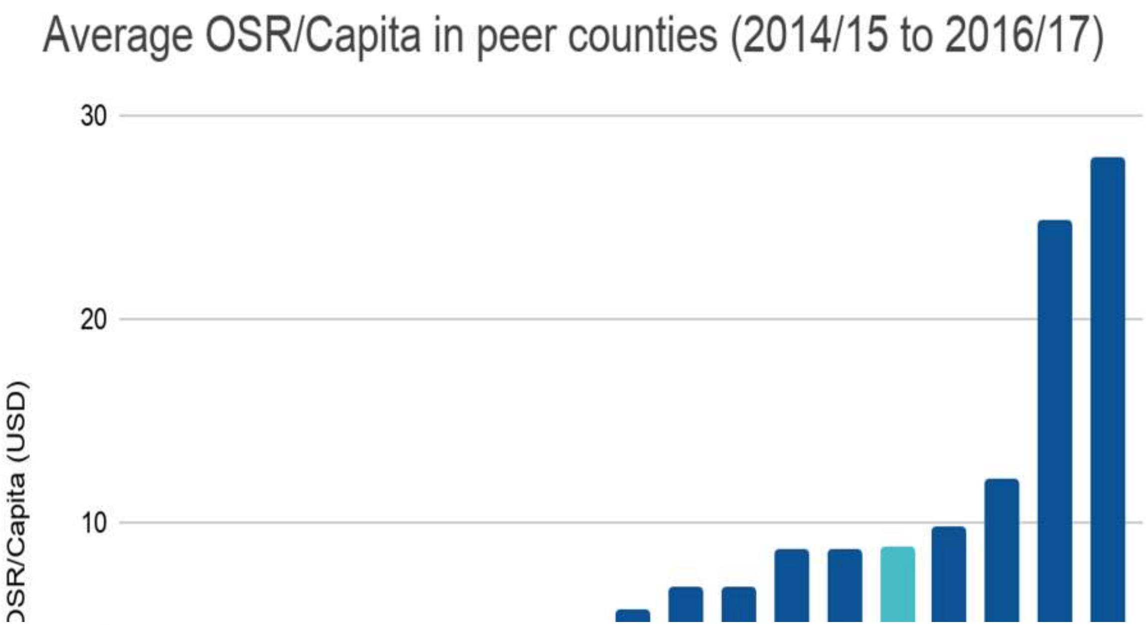


Takeaways

- **Fails to cover recurrent expenditure:** In 2019 OSR was only able to cover 26% of personnel emoluments or 40% of operations
- **Development expense below legal threshold:** County spends less than 30% of budget on development (capital expenditure)
- **Overspending**: Personal & Ops/ maintenance should be capped at 33% and 32% respectively, yet both exceed the limit

*Source: various budget summaries, *2019 is based off budget estimates*

Kisumu collects more OSR/capita than most of its Kenyan peers



Takeaways

- **OSR/Capita:** Kisumu has the 5th highest OSR/capita of Kenyan counties, collecting around $9 per year per citizen
- **Well below Nairobi:** Kisumu collects around