

Supporting Revenue Enhancement in Kiambu County, Kenya

I. Background

Kiambu is one of the 47 counties in Kenya. Located in the central region of Kenya, Kiambu neighbors Nairobi, Kajiado, Machakos and Nakuru Counties. It covers 2,543.5 Km² with a projected population of 2 million by the end of 2017. It leads amongst the rapidly urbanizing counties, with 7 out of its 9 major towns hosting over 100,000 people each. Property values in Kiambu County are amongst the highest in East Africa. As a result of rapid urbanization and high property values, residential estates, industries, and businesses are increasingly encroaching on agricultural lands.

Counties in Kenya are in their fourth year of existence and are struggling to deliver adequate public services as their institutions develop. Sustainable solutions to these socio-economic challenges cannot be achieved through duplication of past practices of local governments that were primarily dependent upon the National Government for the provision of services and funding. Instead, with the current decentralization process, the success of the counties will now be determined by their local actions. This highlights the critical role of revenue collection by county governments for purposes of service delivery and infrastructure development. Thus, there is a need to enhance the capacity of local governments so they can identify, exploit and efficiently utilize their human and natural resources and spur local economic development.

Increased demand for services and economic opportunities necessitates improvement of revenue generation. This has led county governments to innovatively seek solutions that address these challenges. In this regard, Kiambu county government sought advisory and technical support from a range of stakeholders including UN-Habitat. Its collaboration with UN-Habitat has continued to remarkably improve revenue collection and management.

II. Scoping and Assessment

In 2014, a joint county-UN Habitat revenue assessment was conducted. Findings of the assessment set forth the direction for subsequent technical support and a program for short and long term interventions.

Findings of the Scoping Mission

- The Kiambu County revenue potential is large, particularly through land value taxation, however it is largely untapped.
- The tax and fee structure in Kiambu was inverted such that the economically weakest stratum of the population was contributing the largest portion of the county revenues. Parking fees and market fees have also been the largest sources of revenues, where land taxes contribute almost the same as parking fees.
- There are a vast number of small fees that contribute minimally to the county's income yet require significant administrative resources.

- Sub counties had their own separate revenue management systems which complicated collection and monitoring.
- Revenue variations within sub-counties remained large even after standardization
- The workforce inherited from the previous local government structure often lack specialization.

Initial Scoping Mission Recommendations

The key areas of action:

- Improve and streamline the revenue management system to improve collections of the existing tax base.
- Initiate a program for local economic development and public asset management which would directly and indirectly expand the tax base.
- Increase public participation: for any intervention to attain the required acceptability level and conformity to the law, there must be a heightened public engagement.

Kiambu County government officials along with UN-Habitat team



III. Program of Action and Implementation

The program for revenue enhancement was led by a task force chaired by the Deputy Governor of Kiambu. It consisted of county government senior staff and consultants from UN-Habitat. In its full form, the program was designed as a four part approach: upgrading revenue management, simplifying the land tax valuation process, leveraging county assets and infrastructure financing.

1. Revenue Management

A key recommendation was to establish a dedicated office for revenue management. Centralized management of collections will enable proper monitoring and uniformity across the sub-counties. It is also critical to have a senior professional, serving as a director for this office, to manage the revenue collection process. This person's responsibilities include: an annual work plan, ongoing management, monitoring of collections, integration of ICT, staff development and the introduction of new technologies.

In addition to the director, it was also recommended for the county's revenue management office to include a number of other functions:

- A deputy director responsible for the preparation of a detailed annual work plans, managing the revenue collection and working with the other departments in the ministry of finance.
- A part time legal advisor in order to prepare the legal changes needed during the period of transition and advice on legislation needed at the county and sub-county level.
- An officer of enforcement who is responsible for ensuring the implementation of regulations, formulating policy recommendations and undertaking special collection campaigns.
- An officer of valuation and assessment responsible for updating the data base and undertaking valuation of properties, land and other taxable assets on an ongoing basis, ensuring a growing and an effective tax base.
- A training officer responsible for staff development.
- An ICT unit responsible for ensuring the optimal functioning of equipment's and ensures that available information has been upgraded.

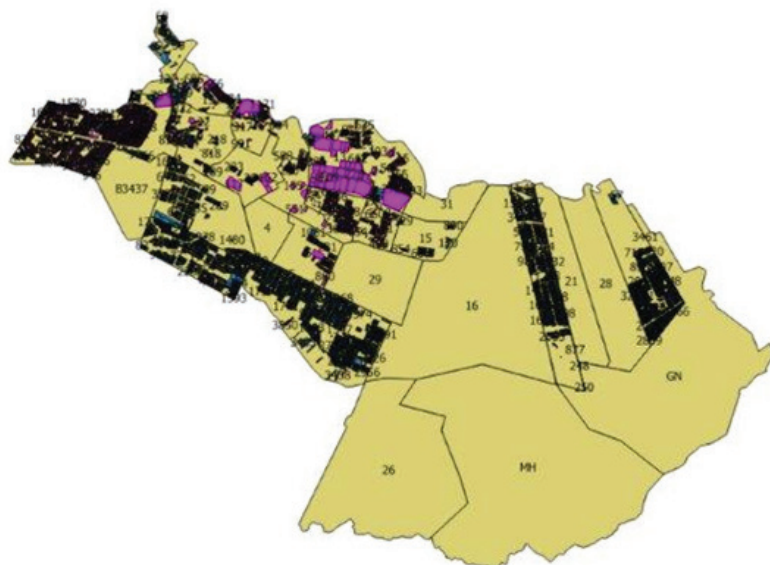
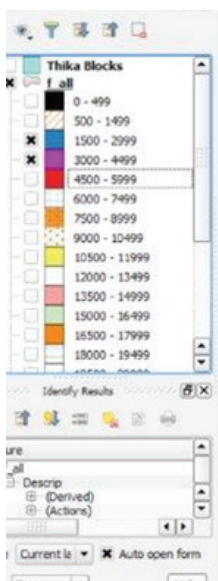
Because taxes are a form of compulsory payment, the county government is faced with a variety of challenges. Lack of payment can be a function of – forgetfulness, illness, lack of funds, evasion, resistance and others. The system of enforcement thus needs a scale of sanctions and flexibility to deal with these different situations. This needs to be done systematically and consistently in order to avoid a backlog of payments.

The success on revenue collection is also dependent upon the professional staff of the sub-counties. They need to operate in accordance with the county's objectives and procedures. These staff require both technical and management skills necessary to ensure their ability to meet the revenue collection standards. To improve on this critical area, a process of evaluation and review needs to be introduced as a part of the county's human resource management.

2. Simplifying the Land Tax Valuation Process – Zonation

Due to rapid urbanization, the value of land in Kiambu County has risen significantly in the last few years. However, the collections of land based taxes are still extremely low. This might be because the process of assessing land value for taxation is very costly and cumbersome. On the basis of the county's analysis and best practices from around the world, UN-Habitat, recommended the introduction of "zonation" based land rating. Subsequent simulations conducted indicate a high revenue potential of la taxation in Kiambu, which could cover over 50% of the current expenditures. Implementation requires adjusting the county's legislation in order to expand the mechanisms for valuation and make zonation explicit. Administrative reforms, as well as automation, which were recommended, have been partially adopted, and have been a key factor in having a positive impact on revenue collection.

An image of the proposed digital Zones of Thika Town



12 bands of land values were proposed, which are groupings of properties with similar land value. The bands were used as a basis to set the value of land for taxation purposes. This is expected to effectively reduce appeals stemming from a potentially higher tax rate than actual land value. It is also expected to facilitate the processes of assessing land value for taxation purposes.

3. Infrastructure and Asset development

Sustainable growth in a local economy is dependent upon the provision of adequate infrastructure. However, many governments charged with such responsibilities cannot provide the interim funding necessary for the construction or the maintenance of good quality infrastructure. In the case of Kiambu, the county faces the challenge of a population increase at the rate of over 100,000 people per annum over the next 5+ years, with 50% settling in urban areas. This population growth translates into KES 5,500,000,000 infrastructure needs per year. This necessitates introducing new legal, organizational, and financial mechanisms for infrastructure development.

In this regard, introducing a development levy/fee payable to the county government by private developers emerged top amongst available and sustainable options. These payments can go either towards the expansion and upgrading of central systems (water/sewage treatment) or towards integrated neighborhood treatment systems. Payment of such levy can be set as a precondition for approving applied construction permits. This will need to be anchored in the new legislation that will make the authority of the county government more explicit and delineate the procedures for ensuring the use of funds purely for the purpose of infrastructure development.

UN-Habitat has provided the technical assistance necessary to implement this proposal and helped prepare a draft bill for the county's approval, which is currently in the process of legislation.

Two critical issues have arisen in the course of introducing development fees. Although private developers have expressed support for this initiative, they have indicated the need for a mechanism to ensure that revenues collected will be used strictly for infrastructure development in the area from which funds were collected. Secondly, financial institutions that also express a willingness to provide interim financing, want to see how the return on their funds are guaranteed. These two factors led to the decision to establish a Sustainable Urban Infrastructure Fund (SUIF). In effect, this will function as a revolving fund for infrastructure development in Kiambu. This fund is designed to be a special purpose vehicle fund that will facilitate the financing of infrastructure development. It does so by guaranteeing interim investment funds against bank guarantees provided by private developers as part of the conditions for receiving building permits. This fund will operate with full transparency and is to be overseen by a public board. Part of development fees will be used to replenish funds used to develop infrastructure and the other to recoup investments.

Kiambu County Revenue Staff demonstrating to a UN-Habitat Evaluator how the revenue automation works



4. Asset development

Given the extent of Kiambu County's land, property and institutional assets, the potential for leveraging them into significant levers for local economic development and improving revenue generation is self-evident. The county has already undertaken a preliminary mapping of its assets. Among the recommendations of the mapping is the task of establishing and registering ownership. This is a critical first step in being able to leverage Kiambu's land assets.

Some initial projects may well be within the scope of the county's existing financial capacity. In other cases, it might be more feasible to enter into a joint venture where by the county uses its land value as equity for undertaking a venture with a private partner. This would need to be structured in such a way where the county receives a good return on its land value "investment" while achieving both its social/economic improvement goals and its revenue enhancement goals.

In parallel to developing specific ventures aimed at leveraging the county's assets, into sources of significant revenue generation, it is critical to set up an organizational-legal framework to undertake these ventures as soon as the opportunities present themselves. Establishing a County Assets Development and Management Company, for example, is very much within the county's legal jurisdiction. Primarily, the function of a County Assets Management and Development Company would be to transform public assets into economic ventures through various types of partnerships and financing mechanisms. This entity can also function as the vehicle for promoting public – private initiatives for infrastructure development.



Here too, UN-Habitat has a critical role to play in providing the professional and legal know how to establish a local government development company – a precedent for Kenya.

IV. Outcomes

Bringing about lasting changes to improve the county's revenue base and collections is a multi-year undertaking. The results of new institutional and legislative mechanisms will only be truly seen in the coming years. It is, however, possible to present a number of outcomes, some of which are milestones on the road to the generation of future income, and some which already reflect the change.

- The county initiated a major improvement of its ICT and data management capacity.
- A new dedicated revenue management department was established and began operation.
- In the first year after implementation, incomes from taxes and fees have doubled.
- The analysis of land tax values indicates a potential of covering over 50% of the county's expenditures (simulations were run on the existing tax base).
- In order to capture the potential of land taxation, the county has introduced legislation to establish "tax-zones" which will greatly simplify the procedure and reduce management costs for setting land tax rates. Pilot digitized maps have been produced and the first zones will be implemented in the coming fiscal year.
- The development of local infrastructure (water, sewage, drainage, roads, and more) is to be funded from the introduction of development fees to be paid as a precondition for receiving a building permit. Draft legislation has been approved and will be introduced for legislation in the coming months. First pilot projects are already underway.
- The county has introduced an electronic building permit approval process that will serve as the basis for ensuring that all standards are met and that

V. Next steps

Kiambu County and UN-Habitat still have a considerable number of critical tasks to complete. The legal mechanisms that underpin the policies for revenue enhancement need to move from the phase of drafts to full legislation by the county's assembly. Legislation then needs to be operationalized. The two legal entities, the revolving fund and the development company, also need to be established and begin operation. A comprehensive infrastructure plan needs to be completed as a precondition for setting development fees. And pilot projects need to be completed and transformed into county wide programs and procedures.

VI. Lessons Learned and Challenges

1. Although most county officials are well aware that the revenue collections are not reaching their potential, the extent of the untapped potential is far greater than recognized.
2. The land valuation and registration process is extremely complex and has been a major obstacle for increasing land tax revenues. The use of zonation and tax value bands is fundamentally an administrative change that can be operationalized through county level legislation
3. The lack of infrastructure construction is a major obstacle for sustainable urban development. Although not all infrastructure components are the responsibility of county governments, there are significant financial resources already being invested by private developers that can be extended and channeled into public infrastructure development. This requires creating the legal, organizational, and financing mechanisms dedicated to this task.
4. Short term improvements are a critical element in a successful program which can be built upon ongoing county initiative that makes use of UN-Habitats inputs. These, however, cannot replace a multi-year program that includes legislative, organizational, and financial institutional changes.
5. UN-Habitat has a critical role in providing the expertise needed to promote revenue enhancement for the development of infrastructure, particularly through capturing land value. However, it can only be accomplished through the partnership and full collaboration of local government staff. Although, UN-Habitat can provide legitimacy to such programs, the success depends on the political leadership and their aspirations.

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