

**REPUBLIC OF KENYA**



**COUNTY GOVERNMENT OF KITUI**

**THE COUNTY ASSEMBLY**

.....

**FIRST ASSEMBLY- FOURTH SESSION**

.....

**SECTORAL COMMITTEE ON FINANCE AND PLANNING**

.....

**REPORT ON REVENUE COLLECTION IN KITUI COUNTY**

**Clerk's Chambers,  
Assembly Buildings,  
P.O Box 694-90200  
KITUI.**

**JULY, 2016**

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## **LIST OF ABBREVIATIONS/ACRONYMS**

- |         |   |
|---------|---|
| 1) CESS | “assess”                                    |
| 2) ICT  | Information Communication Technology        |
| 3) LIUD | Lands, Infrastructure and Urban Development |
| 4) S.O  | Standing Orders                             |
| 5) SBP  | Single Business Permits                     |

## **EXECUTIVE SUMMARY**

This report documents an inspection exercise on revenue collection status carried out by the Assembly Committee on Finance and Planning in Kitui County.

**Chapter one** of this report gives an Introduction/background to the exercise. This was a component of the Committee's annual work plan for the year 2015/2016. The main objective of the exercise was to examine the opportunities and constraints facing revenue mobilization in the county with a view to recommending solutions to the political and administrative limitations which the various revenue instruments face and tax compliance by the residents. **Chapter two** of the report highlights issues arising out of deliberations during meetings held with various stakeholders. **Chapter three** contains findings made by the Committee as follows:

- a) The county government of Kitui does not optimise revenue collection due to the following;
  - Inefficient tax administration system.
  - Rampant corruption
  - Tax evasion
  - Non-compliance on payment of revenue by residents.
  - Lack requisite competences by employees tasked with revenue collection.
  - Demotivated staff due to poor remuneration.

**Chapter four** highlights the recommendations based on the above observations as below:

- a) To achieve efficiency and optimize in revenue collection and management, the County government should come up with appropriate policies to streamline the administrative system. This should include modernizing its financial system to achieve the following;
  - Providing citizens with convenient and secure payment options for different services provided by the county.
  - Providing the county the ability to monitor revenue collection from several sources on real time basis
  - To minimize cash handling by revenue clerks with a view to curbing corruption.

Integrating e-government technology will increase efficiency as more clients will be able to access more services without necessarily going to government premises thus boosting revenue collection.

- b) The County Government should also implement stringent measures to enforce accountability by revenue collectors. This is considering fact that adoption of new technology alone will not be sufficient if the County Government does not recognize the need for skilled tax officials. Effective tax administration requires qualified tax personnel with requisite skills to maintain these systems and operate them to their fullest potential.
- c) Further, the County Government should address the problem of inexperienced and unqualified personnel by exposing them to training facilities and opportunities (continuous capacity building to enhance their ability and experience in revenue collection and accountability.
- d) The county government should ensure that taxpayers are fully consulted before any new taxes, levies and charges are introduced.

## **CHAPTER ONE**

### **Introduction**

#### **Honourable Speaker,**

On behalf of the Members of the Finance and Planning Committee and as required under Standing Order (S.O) No 19O (5), I take this opportunity to present to the House, the Committee's Report on the constraints facing revenue mobilization in Kitui County. The committee also examined the unexploited/neglected opportunities which both the national and county governments can tap leading to generation of enormous revenue proceeds that would benefit all Kenyans.

#### **Honourable Speaker,**

The Constitution of Kenya 2010 stipulates that several public services should be devolved to the County Governments. Ideally, these governments should finance their operations and/or functions. Since the establishment of the County Governments in Kenya in April, 2013, they have been depending largely on the National Treasury for financial support. This is against the backdrop of their agitation to have more government functions including security to be devolved. The County Governments get their revenue from taxation, permit fees, cess, license fees and other sources. However, their over-reliance on the National Government for funds to a point of calling for a national referendum to have their allocation increased implies that there exists a myriad of challenges in revenue collection at County level.

Because of poor own revenue performance, most counties Kitui not excluded end up with huge fiscal gaps.

The total amount of revenue of any county government will invariably depend upon the size of the county revenue base, the levels of tax rates adopted within the county governments, administrative efficiency, and the compliance rate. The taxes introduced should be appropriate and sufficient to finance to a greater percentage the expenditure needs of the county governments over time.

Effective running of devolved functions requires adequate resources. Currently the larger proportion of county government financial resources is sourced from the national government. This is attributed to the county governments' insufficient capacity to mobilize revenues within their jurisdictions. Further, an efficient national revenue collection system is the hub of every

public administration system and the cornerstone of sound fiscal management. It enables governments to finance budget deficits from domestic sources, thus dissuading recourse to off-shore sourcing.

### **Honourable speaker,**

As we are all aware, revenue in form of taxation, excise duties, customs, licenses or other sources is very crucial in ensuring smooth execution of government operations. Taxation is one of the leading avenues of revenue collection by governments all over the world.

### **Composition of the committee**

The committee on Finance and Planning comprises of the following members:

- |     |                              |                    |
|-----|------------------------------|--------------------|
| 1)  | Hon. Jamhuri Mwango          | Chairperson        |
| 2)  | Hon. Dominic Kilonzo Kauthi  | Vice - Chairperson |
| 3)  | Hon. Stephen Kiluu Wambua    | Member             |
| 4)  | Hon. Boniface Maundu Katumbi | “                  |
| 5)  | Hon. Patrick Munyithya Mutua | “                  |
| 6)  | Hon. Joyce M. Mutemi         | “                  |
| 7)  | Hon. Titus Ndemwa            | “                  |
| 8)  | Hon. Jane Mueni Muli         | “                  |
| 9)  | Hon. Rhoda Wambua            | ”                  |
| 10) | Hon. Colleta Kimanzi         | “                  |
| 11) | Hon. Grogan Mbivi            | ”                  |

### **Mandate of the committee**

Standing Order No. 190 (1) establishes Sectoral Committees with specific mandate among others to study and review all county legislations and make reports and recommendations to the Assembly on the proposed legislations. Under this Standing Order, the Sectoral Committees on Finance and Planning Committee is tasked with the following mandate;

- a) Investigate, inquire into, and report on all matters relating to the mandate, management, activities, administration, operations and estimates of the assigned departments;
- b) Study the programme and policy objectives of departments and the effectiveness of the implementation;
- c) Study and review all county legislation referred to it;
- d) Study, access and analyse the relative success of the departments as measured by the results obtained as compared with their stated objectives;

- e) Investigate and inquire into all matters relating to the assigned departments as they may deem necessary, and as may be referred to them by the County Assembly;
- f) Make reports and recommendations to the County Assembly as often as possible, including recommendation of proposed legislation

### **Constitutional Provisions on County Own Revenue**

Article 209(3) of the constitutional of Kenya 2012 provides that a county may impose-

- (a) Property rates;
- (b) Entertainment taxes; and
- (c) Any other tax that it is authorized to impose by an act of parliament.

Article 209(4) provides that the national and county governments may impose charges for services they provide.

It is important to note that section 120(1) of the county government's act 2010 provides that a county government or any agency delivering services in the county shall adopt and implement tariffs and pricing policy for provision of public services. Section 120(2) further provides that a county government or agency delivering services through service delivery agreements, shall comply with the provisions of this section.

Section 120(3) further provides the guidelines for the tariff policy. Thus, there is need to develop policies and enact specific legislation in order to justify and legalize the pricing of fees and charges levied for services offered.

Article 209(5) of the constitution provides that the taxation and other revenue-raising powers of a county shall not be exercised in a way that prejudices national economic policies, economic activities across county boundaries or the national mobility of goods, services, capital or labour.

Passage of the County Finance Bill gives a legal backing /authority to County government to collect revenue. It also outlines the various taxes, fees, and charges for service and other revenue raising measures the county governments can engage in, some of which include Passage of the County Finance Bill gives a legal backing /authority to County government to collect revenue. It also outlines the various taxes, fees, and charges for service and other revenue raising measures the county governments can engage in, some of which include;

Site Value/ Land rates	Approval of Plan	Game parks/Nature reserve fees	Impounding / Clamping fees
Market fees	Office Rent	Private rental	Mortuary fees
Vehicle Parking fees	Cess receipts	Registration of groups	Slaughter fees
Single Business Permit	Stall Rent	Advertisement/ Signboard	Hire of hall
Kiosk rent	Nursery fees	Hides & Skin	Administrative fee
Plot rent	Stock Auction/Auction fees	Application of plots	Sale of Tenders
Hire of tractor	Conservancy fees& charges	Stadium hire	Burial fee

### **Terms of Reference**

The committee was expected to table for consideration a Report in the County Assembly that, inter-alia, contains recommendations for improving revenue collection in Kitui county.

## **CHAPTER TWO**

### **Public Meetings**

In exercising her duties, the committee held several meetings with key stakeholders including county finance officers, revenue collection clerks, county enforcement officers as well as traders to gather pertinent information. In engaging the stakeholders, the committee focused on cess collection points, checkpoints, stockyards and retail among others. The meetings were conducted to determine the general perceptions of traders and staffs on payment of taxes and other levies to the county government.

In addition, the committee reviewed relevant literature to supplement the views gathered/available information from members of the public and county staffs. Such literature included the Finance Bill (2015/2016) and County Fiscal Strategy Paper (CFSP) to help in analysing the revenue projections.

The views were required to enable members of the Committee to make informed judgment on the matter. Thereafter, the committee went on a working retreat at Capital Inn Hotel in Mutomo to consolidate issues and compile the final report for presentation to the County Assembly for consideration.

**Acknowledgement**

The committee is grateful to the Office of the Speaker for the support granted in executing its mandate. The committee also extends its gratitude to the office of the clerk for facilitating the members while carrying out its duties and County officials who dutifully honoured their obligations and submitted relevant data/information to the Committee. Further, I wish to express my appreciation to the Honourable members of the committee who traded off their time to participate in the activities of the committee and whose dedication and fortitude saw the completion of this report. Finally, Mr. Speaker, the committee extends its appreciation to the committee clerk who has had to go beyond the normal call of duty on numerous occasions to ensure justice is done to this involving assignment. The commitment and devotion to duty of all those involved in this noble task made the work of the Committee and production of this report a success. We thank each one of them.

**Conclusion**

These findings, observations and recommendations, if taken into account and implemented, will enhance accountability, effectiveness, transparency, efficiency and prudent management of public resources in our county

**Honourable Speaker,**

On behalf of the Finance and Economic Planning, I now wish to table the report and urge the House to adopt it and the recommendations therein.

**SIGNED .....****DATE .....**

**HON. JAMHURI MWANGO, MCA**

**CHAIRMAN, FINANCE AND ECONOMIC PLANNING COMMITTEE**

**ADOPTION OF THE REPORT ON THE STATUS OF REVENUE  
COLLECTION IN KITUI COUNTY.**

We, members of the Finance and Economic Planning Committee have, pursuant to Standing Order 179, adopted this report and hereby affix our signatures to affirm our approval and confirm its accuracy, validity and authenticity:-

<b>Members</b>	<b>Signature</b>
1. Hon. Jamhuri Mwango-	.....
2. Hon Dominic Kauthi-	.....
3. Hon Stephen K. Wambua-	.....
4. Hon Boniface M. Katumbi-	.....
5. Hon Patrick M. Mutua-	.....
6. Hon Joyce M. Mutemi-	.....
7. Hon Titus Ndemwa	.....
8. Hon Jane M. Muli-	.....
9. Hon Rhoda Wambua-	.....
10. Hon Colletah Kimanzi-	.....
11. Hon Grogan Mbivi-	.....

**COMMITTEE FINDINGS AND RECOMMENDATIONS ON EXAMINATION  
OF THE OPPORTUNITIES AND CONSTRAINTS FACING REVENUE  
MOBILIZATION IN KITUI COUNTY**

**Specific Findings.**

**Honourable Speaker,**

Kitui County Government, just as in other counties, has not been meeting its tax targets and this has been a major concern for stakeholders. For instance during the 2013/2014 financial year , the county government projected to collect revenue to the tune of about Kshs 448,000,000 but only managed to collect a total of Kshs. 278,071,720 leaving a deficit of Kshs 169,928,280. This was 38% short of the targeted local revenue collection.

Major issues, which prevent the county government from realizing revenue targets, includes;

- 1) Corrupt tax administration employees who embezzle substantial amounts of the monies collected. The corruption risk erodes the tax yield and confidence in the tax system. Most of the revenue clerks/collectors were inherited by the county government from the defunct councils and comprise a fraudulent lot which had transferred their corrupt practices into the new system. The cartel is known to swindle a substantial amount of the monies collected owing to the fact that tax collection is still done manually through use of Local Authority Information Financial And Operations Management Systems (LAIFOMS) which encourages corruption
- 2) Further, it emerged that other tricksters, mainly county executives, have been conspiring to steal millions of shillings of revenue collections with impunity. In the end, the figure declared is less than the actual amount collected. Most tax payers avoid and evade tax as a result of the corrupt practices of tax officials which in turn affect revenue generated by the county;
- 3) Inefficient tax administration which is occasioned by lack requisite competences by the county employees tasked with revenue collection. The problem of inexperienced and unqualified personnel is aggravated by lack of training facilities and opportunities in the County and hiring of tax officials who lack understanding of the tax laws they are administering, and the concept of the concepts of accounting that are requisite to analyzing returns. This is partly responsible for the poor enforcement.
- 4) Inadequate personnel in terms of quantity and quality. The shortage of qualified tax personnel is partly responsible for the poor enforcement. The tax clerks who are not knowledgeable in tax practices. The category of staff is generally not adequately equipped to carry out the tax operations. It is observed that due to their low level of education, tax officials are not conversant with the tax laws and regulations. All these and other related practices are probably capable of having a demoralizing effect on the taxpayers who may evade tax.

- 5) Tax evasion and default the problem may not only stem from the lack of voluntary compliance by tax payers but also from the fact that not all the taxes collected reach the public treasury. This is stealing by some tax officials as distinct from alleged bribes given to them. The raiding of tax defaulters by the local government tax clerks and employees has become a nest of corruption for some tax officials. A tax defaulter who does not want to appear in court negotiates and buys his freedom from arrest on payment of an agreed fee which goes entirely into the pocket of the corrupt clerk. This generalization must not be misconstrued because there are honest clerks, but the percentage of the dishonest ones is higher when compared with the honest ones.
- 6) Non-compliance on payment of taxes. A good percentage of Kitui residents are not tax compliance, especially those drawn from the informal sector. It is argued that the non-compliance is occasioned by lack of requisite knowledge of the tax law by taxpayers, different interpretation of tax law by taxpayers, among other factors. In addition some residents perceive some of the levies as exorbitant (double taxation) leading to tax evasion and avoidance.
- 7) Local residents generally disapprove of the necessity of taxation to support local service provision. This particularly is occasioned by the poor service delivery, specifically on sanitation, cleanliness, construction, rural access roads, provision of water etc. For instance, the committee gathered that there has been resistance by small scale traders to pay taxes. For instance Boda Boda riders' view paying of taxes as harassment by the county government. They complained that the levies are too high citing the Kshs 500 charged annually as too high compared to what they earn per day.
- 8) There is tax evasion by charcoal dealers also some of whom use fake licenses and escape routes to dodge cess points. This is rampant in Mwingi region particularly Ukasi and Mutuang'ombe areas.
- 9) Local taxation is still a major constraint on small scale investments/formalization of the small and micro enterprises (SME). In particular, multiple taxes, including fees and charges, make it difficult to enter new businesses and markets. Levies are perceived as exorbitant, often charged upfront irrespective of the size and type of business.
- 10) The Revenue collectors are a neglected lot. This is especially so with those stationed in the field. They are rarely paid their allowances. For instance, the committee discovered that those, they were lastly paid their dues in March 2016. This had grossly demotivated them leading to poor performance and corruption. They also work under pathetic environment. For example in some of the markets visited, the committee found that there were no shades to protect them from scorching sun. Their movement is also hampered due to lack of enough vehicles.
- 11) Surrendering of revenue is done on weekly basis which encourages misappropriation considering most collection centres have no safes where the proceeds could be kept

- 12) Most cess points in Mwingi were not manned by police as required exposing the entities to possible raids by robbers on a mission to get away with the cash collected.
- 13) The perpetual insecurity along the common border with Tana River county impacts negatively on revenue collection. For instance hampers livestock which is a major source of revenue income in the county.
- 14) The ban on issuance of licenses/permits for sand harvesting and transportation of charcoal (charcoal trade) has contributed to low collection of cess from sand and charcoal dealers.
- 15) Lack of sufficient transportation. The revenue department is served by old and unreliable vehicles. This hinders optimization of revenue collection as the revenue clerks are unable to cover all the market centres given the vast geographical nature of the county.
- 16) Existence of escape routes which unscrupulous traders use to avoid paying taxes at cess points. This challenge is rampant in the entire county.
- 17) The court battle pitting the business fraternity and the county government which culminated in suspension of the Single Business Permits (SBP) resulted in non-collection of revenue during the period
- 18) Inability by revenue clerks to carry out frequent inspections at business premises and other revenue collection outlets to enforce compliance. This is occasioned by budgetary constraints which is a perpetual challenge. Budget constraints limiting the frequency of inspection and also lowers staff morale.
- 19) Lack of an effective enforcement unit which results in the low revenue collection.
- 20) Poor infrastructure in the various markets and stock yards in the county. This affects revenue collection as some traders use backdoor /panya routes to access selling points and leave without paying taxes.
- 21) Lack of training and refreshment courses for the revenue clerks to develop better understanding on tax laws.
- 22) Lack of data bank to facilitate setting of revenue targets. There is no data bank hence setting of revenue target is hard
- 23) All the devolved functions have not taken serious the role of collection as it is not their core mandate
- 24) Lack of political goodwill and the interference thereof remains a big challenge in collection of revenue where interested parties use those in power to intimidate the revenue clerks especially at cess points.
- 25) Lack of coordination within the responsible units for technical advice which in turn leads to lack of chain of command in administration of tax collection. The committee established that tax administration was affected by varying orders from different departments namely the Ministry of finance, the ministry of trade, ICT and Cooperatives and town administrations leading to a breakdown in communication between the traders and the county government.
- 26) Filthiness at some market centres. For instance traders at Kalundu had refused to pay taxes due to poor sanitation at the facility.

- 27) Delay in exploitation of the mining potential which has had adverse effect in the economic take off of the county. For instance the planned mining of coal in Mui basin block C&D is expected to earn revenue to the county which would be invested in the key sectors to fast track economic growth for the county. Compensation negotiation, land adjudication, surveying, titling as well as other litigation issues that result in delay in start of operations may occasion huge loss of revenue to the county, thereby derailing the projected economic growth.

## **CHAPTER THREE**

### **Committee Recommendations**

The Committee recommends the following;

- 1) To achieve efficiency in revenue collection and optimize on management, the County government should;
  - a) Integrate e-government technology and payment to enhance revenue collection. The inculcation of Information and Communication Technologies (ICTs) is paramount in optimizing revenue collection. Modernization of the financial system through automation will ensure all the taxes collected is surrendered immediacy to curb corruption.
  - b) Come up with advanced and successful tax policies, which will assist in enhancing revenue collection in the county.
- 2) Fast-track the modernization of its financial systems/acquisition of an integrated platform/automated revenue management system with the objective of;
  - Providing citizens with convenient and secure payment options for different services provided by the county
  - Providing the county the ability to monitor revenue collection from several sources on real time basis
  - To minimize cash handling by revenue collectors to curb corruption.
  - The county government should strengthen internal controls on local revenue management to avoid pilferage.
- 3) The county government should adopt reform measures sought to revamp and strengthen revenue administration, enhance voluntary compliance, expand the tax base and address corruption-induced revenue leakage. Notable among these are the :
  - The creation of local revenue authority in a bid to protect revenue collection systems from political interference
  - The adoption of Value Added Tax systems to escape tax evasion-ridden associated with sales taxes
  - Simplifying taxpayer registration, filing and payment, audit, collection enforcement, and appeals.
- 4) In the modern era of technology, effective tax administration requires qualified tax personnel with requisite skills to maintain these systems and operate them to their fullest potential. Thus, the County Government

should make a conscious effort to enhance the effectiveness of revenue officers of the county government. This should be done through continuous training, provision of greater motivation for the personnel and provision of better working environment for an enhanced productivity;

- 5) Further adequate machinery should be put in place and strengthened for better tax administration. The level of the deterrent punishment should also be made stricter and there should be continuous education for the citizens on the importance of tax payment and the problems attached to non-performance of their civil obligations;
- 6) In addition, as part of the overall strategy to put in place for a better tax administration in Kitui county, the county government should consider entering into public-private partnership. It is clear that private companies which perform outsourcing function undertake core tax administration activities which are necessary and functioning properly than those performed in-house by tax officials of the committee;
- 7) To further encourage effective tax administration, a simplified income tax assessment form and a tax table should be introduced to assist people in determining their own tax liability. Mini tax offices should be established in all the major markets to effect and simplify the collection of tax by tax collectors.
- 8) More importantly, the county government should partner with collecting Banks which will enable an individual tax payer to conveniently assess himself. In addition to liaising with collecting banks, the database for tax administration at the local government areas should be computerized to ensure that the system of information storage, processing and retrieval is efficient. Tax clearance certificate should also be presented where an individual wants to transact business with government agencies.
- 9) There is need to reduce incidences of tax evasion and avoidance on one hand and enhance voluntary tax compliance on the other hand. It should be noted that though closely related, tax evasion and tax avoidance should be treated as distinct activities; the former constituting a crime while the later does not. Tax evasion is deliberate violation of tax law through tax underpayment while tax avoidance is reducing tax liability within the confines of law, for instance, by simply moving from the formal to the informal sector. The tragedy is that while tax avoidance is not a crime, it remains a major source of revenue hemorrhage.
- 10) The committee further recommends that the county government should make effort on integrating of e-government technology and payment to enhance revenue collection. The inculcation of information and communication technologies (ICTs) would be paramount in ensuring optimal revenue collection.
- 11) The county government on her part should make good use of the revenue generated to better the areas in which they operate. When government does her part, the citizens will not default in the payment of tax which at the end will affect the overall tax system;

- 12) The county government should create competitive terms for their staff in order to attract skilled and competitive employees. More so, County Governments should organize workshops and seminars as part of in-house training with the aim of imparting skills in their workforce.
- 13) The county government should implement measures to improve the accountability of revenue collectors. This will discourage stealing of the money collected.
- 14) Taxes payable to County Governments should be distinct from the ones payable to the National Government. This will reduce tax evasion, non-compliance and also Double Taxation of Citizens.
- 15) The issuance of permits for sand harvesting and charcoal trade should properly be regulate to avoid total loss of revenue.
- 16) The revenue department should be allocated additional vehicles to boost the mobility of revenue collectors.
- 17) The County government should undertake continuous improvement of infrastructure in all the markets and stock yards to curb tax evasion by unscrupulous traders.
- 18) Revenue clerks and enforcement officers should be empowered through trainings.
- 19) Enforcement team attached to revenue department should report to the sub county finance officer for effectiveness in discharging their duties.
- 20) Traders should be well educated on the need to pay taxes when due.
- 21) It's very necessary for meetings to be held with different stakeholders before implementation of the Finance Act so as to avoid resistance
- 22) The department of revenue should improve on Data bank and mapping.
- 23) A comprehensive review of legislation to ensure revenue collection is backed by sufficient laws
- 24) The taxes introduced should be appropriate and sufficient to finance to a greater percentage the expenditure needs of the county governments over time.
- 25) The county government should institute stringent measures to improve accountability by revenue clerks

### **Short Term Recommendations**

These are recommendations that can take effect a simple administrative changes or even an executive decree at the county levels. These recommendations do not require heavy investment in terms of time or even resources.

#### 1) Timely Enactment of The County Finance Bill

The County Finance Bill must be enacted in time, because through it, county governments are able to not only map out new and potential revenue streams but also exercise their power to levy various taxes, fees and charges. A delay in its enactment has its ramifications in revenue collection.

#### 2) Capacity Building & Enhanced Revenue Administration

A major challenge facing Kitui County in revenue administration is poor or lack of capacity coupled with a revenue administration framework that does not support accountability. In order to address this challenge, it is necessary

that the county government invests in technology through automation of the revenue collection and administration process. Automation will eliminate leakages and contribute toward achievement of the set revenue targets. It is pleasing to note that most counties are already in the process of automating the revenue collection process, this should however be expedited. Besides automation, revenue administrators and collectors need to be facilitated through regular capacity building on new and emerging trends in order to keep abreast with the new ways and systems as well as international standards. It is also important to invest in their mobility through motorbikes and or automobile in order for them move swiftly through a greater area of deployment. This way, fewer revenue collectors will be required translating in to less administration cost. Ultimately, there must be a consistent effort to explore new revenue sources as well as ensure a proper and integrated revenue management that guarantees the collection of all potential revenue in a manner that is efficient, effective and accountable.

### **Long Term Recommendations**

These recommendations will require consensus as well as legislative review and amendments, which must follow due process.

#### 1) Establishment of a County Revenue Authority

In order to encourage professionalism in revenue administration, improve revenue performance, encourage compliance and arrest tax evasion, the county governments should consider establishing a county revenue authorities separate from the county treasury but with similar functions to those of the Kenya revenue authority but limited to the county revenue raising power as prescribed under Article 209(3) Some of this functions may include;

- To administer and to enforce written laws or specified provisions of written laws pertaining to assessment, collection and accounting for all county revenues in accordance with these laws.
- Advise the county government on matters pertaining to the administration or and the collection of revenue.
- Enhance efficiency and effectiveness of tax administration by eliminating Bureaucracy, Procurement, Promotion, Training and Discipline.
- Eliminate tax evasion by simplifying and streamlining procedures and improving tax payer service and education thereby increasing the rate of compliance.
- Promote professionalism and eradicate corruption amongst county revenue employee by paying adequate salaries that enables the institution to attract and retain competent professionals of integrity and sound ethical morals.
- Improve county revenue performance by eventually eliminating the perennial budget deficits by creating organizational structures that maximize revenue collection.
- Ensure protection of local Industries and facilitate economic growth through effective administration of tax laws relating to trade.

## CHAPTER FOUR

### **Opportunities for Boosting Revenue Collection in Kitui County.**

Kitui County has huge potential for revenue mobilization, which has remained unexploited. However, the good news is that major developments likely to impact positively on the economy of the County and greatly boost revenue collection are in the offing.

As we are all aware, this region is endowed with a vast array of minerals, which certainly will usher economic transformation once they start being exploited. The variety of the minerals include coal, limestone, graphite, gypsum, vermiculate, sand and gemstones. Mining of Coal deposits at Mui Basin, which runs from parts of Kitui East (blocks A and B) to Mwingi Central (blocks C and D), is among the national flagship projects geared towards realization of Kenya Vision 2030.

Out of these blocks, concession has been done in block C and according to the Ministry of Environment, Energy, and Mining Investments, block C has an estimated 400,000 million metric tonnes of coal that can be exploited for nearly 50 years. These deposits alone have an estimated value of Sh3.4 trillion at current market rates, while the value of the reserves in Blocks A, B and D is yet to be determined.

The government of Kenya has signed an agreement with Fenxi Mining Company, a Chinese firm to start mining of coal in zones C and D. This agreement also envisages other infrastructural projects to the zone that will spur economic growth for the county including a T-junction of the Mombasa- Nairobi standard gauge railway at Kibwezi, roads and a 12 inch water pipe.

The construction of the recently launched Standard Gauge Railway (SGR) from Mombasa to Nairobi is another development likely to have a transformative impact on Kitui County. The design includes a T-Junction to connect Mui coal basin through the southern part of the county which is endowed with mineral deposits like limestone, iron ore and gemstones.

The Lamu Port Southern Sudan Ethiopia Transport (LAPSSET) corridor is also another mega project that is being implemented by the national government that will greatly impact on the economic growth of Kitui County. This project which is planned to have a highway, a railway and a pipeline passes to the north of the county, and could provide a major economic opportunity for the county such as the export of livestock to the Middle East. It is anticipated that the Kibwezi-Mutomo-Kitui-Mwingi-Usueni road will be tarmac by the national government to unlock the potential of the County.

Major cement companies including Athi River Mining (ARM) Limited, East Africa Portland Cement Company and the Dangote Group from Nigeria have expressed interest in exploiting the limestone reserves in Mutomo, Kyuso and Mutito where exploration is on-going. In addition, the County has a vast array of unexplored industrial minerals including gypsum, iron, mica, silver, copper and gemstones (sapphire, garnets, amethyst and ruby). Strategies need to be

developed in order to ensure that the County and its residents derive maximum value from its mineral deposits. Exploitation of the various minerals will greatly boost revenue collection. There is also potential for sand and ballast mining in the County. For this to be of economic value to the County, it should be done in a regulated manner by having policies and acts as well as the right equipment and competitive marketing avenues.

The undeveloped tourism sector is also another area, which can be exploited to boost revenue collection. The main attractions in the Kitui County include Nzambani Rock, Ikoo Valley, Ngomeni Rock Catchment and Conservancy, Tsavo East National Park in Mutomo, and National Reserves namely South Kitui, Kora and Mwingi. Other potential tourism products, whose potential is yet to be explored include:

- a) annual county events such as a County marathon which has the effect of attracting crowds from within and outside the county;
- b) possibility of reviving the Akamba wood carving industry; exploring home stays in traditional villages as a product; exploring the art of snake venom harvesting in the Mutomo hill snake park; sports tourism owing to a wonderful terrain in the County; sport fishing from the dams and potential for thriving of filming industry because of great scenery among others.

However, the committee noted that the delay in exploitation of the mining potential had adverse effect in the economic take off of the county. The planned mining of coal in Mui basin block C&D is expected to earn revenue to the county which would be invested in the key sectors to fast track economic growth for the county.

The passage and implementation of the Natural Resources (Benefit Sharing) Bill 2014, by the senate will ensure mineral-rich counties, especially Turkana which has oil and Kitui which has coal, will control billions of shillings in revenue. The Bill has allocated 32 per cent of royalties to the counties where exploitation is taking place, effectively making devolved units with minerals potential economic powerhouses. According to the Bill, 12.8 per cent of royalties and fees will be utilised for local community projects while the rest will be, at the discretion of the Governor, utilised in the entire county.

### **Recommendations**

- 1) The county government should work closely with the national government to fast-track compensation negotiation, land adjudication, surveying, titling as well as other litigation issues that result in delay in start of operations which have continued to occasion huge loss of revenue to the county, thereby derailing the projected economic growth.
- 2) The county government should invest in the development of the tourism sector to boost revenue collection. Priority should be given to Aggressive marketing of the existing tourist attractions to boost revenue collection.

- 3) Considering that revenue essential for development, there is need for the county government to encourage the formation of vibrant industrial parks that could spur revenue growth.

### **Revenue Sources and their Challenges**

The following are the revenue sources and the challenges facing revenue collection from the same

#### 1. CESS

It is the fees that is charged on the export of goods and animals from one county to another.

Challenges facing cess collection in Kitui County

- a) There is lack of sufficient legislation to support cess collection like sand and administration laws.

Suggested solutions

- I. Establish more barriers to minimize tax evasion
- II. Have a patrol and inspection vehicle dedicated to cess collection
- III. A comprehensive review of legislation to ensure cess collection is backed by sufficient laws.

#### 2. LEASES AND RENTAL CHARGES

These are charged on land and other infrastructure leased or rented to the people.

Challenges

- a) The properties are awarded on the basis of political affiliations
- b) There is no data base for all property owned by the county government hence it is not easy to administer because tenants/leases are not known.
- c) Tenants /leases are allowed to sublet the property making it difficult to administer the property
- d) The property is not continuously maintained to acceptable standards leading to devaluation of the property.
- e) There is no legislation guiding the leasing/renting of the county government property

Suggested solution

- I. Review all allocations and have a proper guideline on future allocation of the county government property.
- II. Prepare a data bank for all county government property revaluation be done for all county government land and property to determine the true value of such property/land.

- III. Continuous and proper maintenance of all county property to make them more attractive.
- IV. Develop legislation on county property.

### 3. USER FEES

User fees are revenues generated by health facilities from cost sharing and insurance claims.

#### Challenges

- a) Most hospitals do not have the administrative capacity to maximize the revenue collection. There is shortage of revenue staff.
- b) Some patients abscond from paying their bills.
- c) There is no county legislation governing the collection of user fee for health facilities.
- d) Interference from politicians and senior county government officials when they demand their patients to be waived the bills.
- e) When some basic items like drugs and non- pharmaceuticals are out of stock, patients are required to purchase them from private chemists hence loss of potential revenue to the health facilities.

#### Suggested solutions

- I. A law governing the collection and administration of user fee should be developed.
- II. Clear guideline on waivers and exemptions should be developed and strictly adhered to.
- III. The county government through hospital management should ensure that basic supplies are available to all health facilities.
- IV. The county government should facilitate health facilities with the necessary revenue staff.
- V. Monitoring and inspection of revenue collected by the health facilities.

### 4. PROPERTY RATES

These are fees that are charged on freehold land whether developed or not. The fee is charged annually.

The rates chargeable are determined according to the size, valuation and location of the property. They are charged according to the prescribed rates by ministry of lands.

#### Challenges

- a) There is no clear property development plan.
- b) There is frequent change of plans by the ministry of lands

- c) Lack of co-ordination among the relevant ministries for example there is proper co-ordination between ministry of land and the revenue collection section
- d) The properties are not valued to determine their true values.
- e) There are a lot of court cases regarding land hence property rates cannot be collected because ownership is disputed.
- f) There is not policy to collect property rates from government department/agencies.
- g) No county legislation to govern the collection of land rates.
- h) Many emerging towns within the county do not have property development plans hence property rates cannot be collected from such towns

### Suggested solution

- I. Digitization of plots through GPRS
- II. Coordination between revenue section and ministry of land to make sure all chargeable properties are known by revenue section
- III. Development of a property rates Act for the county.
- IV. A master plan for planning of towns should be developed
- V. Valuation of properties should be done annually to determine their true values

### FINES AND PENALTIES

These are the extra charges for default of payment of normal fees and charges, they are levied to discourage evasion and late payment of fees/charges.

### Challenges

- a) There are no guidelines for the enforcement of collection of fines/penalties.
- b) No mechanism to impose instant penalties and fines on defaulters
- c) Lack of county attorney or prosecutor
- d) No legislation to enforce the collection of fines and penalties.

### Suggested solutions

- I. Develop a county legislation to address the collection of penalties and fines
- II. Have a county attorney in place

### MINISTRY OF LIUD

#### Ways of enhancing revenue collection

- a) Formation of a committee to be approving all development applications within the county.
- b) Intensive field /site inspection to ensure that all development are paid for(enforcement)
- c) Implementing the finance Act 2014/2015
- d) Elimination of corruption

- e) Sensitization clinics/creation of awareness of need to seek approval for all development activities.
- f) BOQ preparation to cost 2.5% of the contract price
- g) Contracts management for all projects to cost 6% of the contract sum.
- h) Architectural designs/cost 3.5% of contract sum.
- i) Civil/structural, electrical and mechanical design to cost 1.5% (each) contract.
- j) Ensure all rates are paid before any transaction /development.
- k) License to be issued for properties after payment of all rates.
- l) Improve transport for survey department to enhance the opening of access road and solving disputes which are main source of revenue.
- m) To undertake survey in all major market centers in the county. This will result to payment of survey fees by plot owners.

## MINISTRY OF TOURISM

### Strategies for enhancing revenue

- a) Employment of forty game scouts in the reserves which will keep security and increase the confidence of tourists visiting the reserves.
- b) Continuous development of the tourism products in the county.
- c) Opening up of the cultural center, construction of modern climbing structure and museum at Nzambani Eco-tourism Centre (NEC).
- d) Automation of gate collection especially at Adamson revenue collection gate in Mwingi game reserve.
- e) Intensive marketing for Kitui county tourism products especially through organization of miss tourism-Kitui county events.
- f) Collaboration with community groups in developing tourism products.
- g) Promotion of public private partnerships and incentives to investors in potential areas to develop hospitality facilities.