

Financing Sub-National Development in Kenya

Harnessing Own Source Revenue for Enhanced Service Delivery in Kwale County.

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1.0. Legal and policy framework for own source revenue

Article 209 (3) of the constitution of Kenya 2010 indicates that counties are supposed to impose entertainment, property rates and any other tax authorised by an Act of Parliament. In the initial years of devolution, counties had not estimated their revenue collection well with some overestimating while others underestimating their potential. Revenue raising is one of the critical issues that counties must strategically investigate since it determines how budgets are financed. Own source revenue becomes essential for ensuring that counties keep afloat even as they await national-level disbursements in the form of equitable share, conditional grants, and development partners' financing.

In line with Article 209 of the Constitution of Kenya, Kwale County enacted two county Acts related to property rates and entertainment taxes. The Kwale County Rating Bill 2019 was developed to allow the county to impose taxes on lands and buildings in the county. Further, the county has the Kwale County Entertainment Tax Bill, 2019 which is an act to make provision for imposing taxes on taxes and other incidental matters connected to it. Kwale County has enacted annual Finance Acts which provides room for the county to impose taxes within the county's mandate. The finance act available online makes amendments to the following county-level acts related to revenue raising and they include.

Example

The Finance Act 2022 seeks to amend the Kwale County Business Licensing Act of 2017. The amendments increased the rate paid by transport companies and storage facilities.

Transport companies

- Independent transport (1 vehicle) operator from Ksh 4,500 to Ksh 8,000
- Small transport company (2-10 vehicles) from Ksh 8,000 to Ksh 18,000
- Medium transport company (10-30 vehicles) from Ksh 20,000 to Ksh 44,800

Cold storage facilities

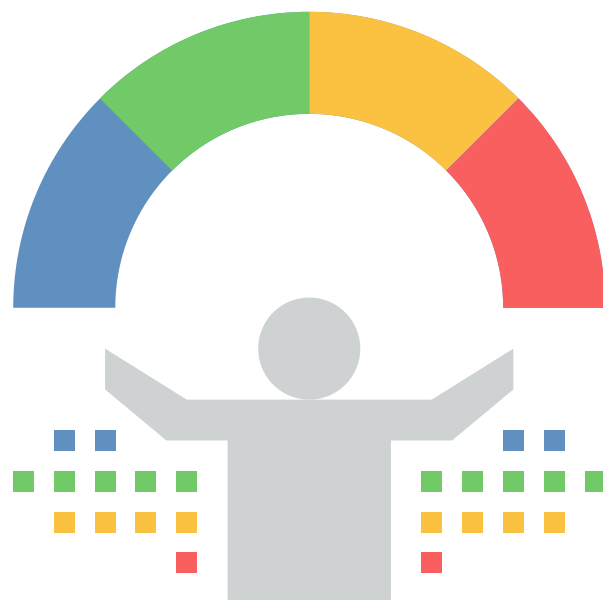
- Large Cold Storage Facility: from 300-500m² insulated walls, cold production equipment's from Kshs 40,000 to Ksh 80,000.
- Medium Cold Storage Facility: From 100-1,000m² Ksh 20,000 to Ksh 40,000
- Mega Storage Facility: Over 1000M², Go down Warehouse, Liquid Storage Tanks Complex Ksh 35,800 to Ksh 74,800

Other reviews included in the finance acts sought to amend the following acts the Kwale County Livestock Sales Yard Act, 2017, The Kwale County Outdoor Advertising Act, 2016, Kwale County Trade and Markets Act, 2017, Kwale County Access to Information Act, 2016, Kwale County Meat Control Act, 2016, Kwale County Animal Disease Control Act, 2016 Kwale County Quarrying Act 2016 and Kwale County Liquor Licensing Act.

2.0 Key summary findings

- The county's source revenue collection has been at an average of 75% of the estimated collections.
- The top five revenue streams are Cess, Land Rates, Hospital Fees, Parking Fees and Business Permits contribute to approximately 80% of the total county source revenue.
- The Finance Acts reviewed within the period seek to amend different county legislation however upon seeking some of the documents online they were unavailable.
- The Kwale County Assembly of Kwale was yet to approve the Kwale Health Improvement Financing Bill 2023 which was tabled at the Assembly after cabinet approval. This bill was to allow health facilities to retain revenue collected through out-of-pocket and insurance. There are plans, however, to adopt the facility improvement financing law and beginning of implementation in July in compliance with the national law.
- Kwale County implemented an automated revenue collection revenue system which was lauded by the National Treasury for being the best in the country and to be emulated by other counties.
- Revenue collection has affected budget credibility, the county has alluded to delayed and reduced funding has affected overall budget expenditure.

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3.0. Revenue shortfalls and its effect on service delivery.

3.1. Budget expenditure

The mean expenditure for the total county budget is 67% of the total allocated budget which shows issues of budget credibility. The controller of the budget has also pointed out issues related to budget expenditure. In FY 2019/20, there was low collection of own source revenue with a decrease of 19.2% compared to FY 2018/19. This low absorption was attributed to low billing and filing of NHIF claims, non-submission of returns for UHC and the effects of COVID-19 including the lockdown measures which led to reductions in the revenues for market fees, single business permits, land rates, plans approval, auction ring and parking fee. (OSR breakdown to confirm this).

The revenue collection in the FY 2020/21 was also low at only Kshs 250 million (68%) of the estimated 365 million. On the effects of revenue on budget expenditure, in FY 2018/19 and 2019/20, the controller of budget noted challenges in expenditure for the development budget. In the FY 2019/20 the county's allocation for development was Kshs 7.07 billion, the county spent Kshs 3.51 billion which is only 49.6% of the total budget. An almost similar trend was seen in the FY 2018/19 with the county spending only 42% of its total development budget. Pending bills have also been a factor affecting budget expenditures, in the FY 2022/23 the controller of budget reported that the county had unpaid bills totalling Kshs 268.18 million. The county had not settled the bills within the implementation period despite having Kshs 441.73 million in the county revenue fund. The implementation report also raises the issue of diversion of funds by the County Treasury which is a weak budget practice.



Caption: Kwale County Budget Champions during a public participation on finance Kwale Finance Bill, 2023, at pongwe -kikoneni ward.

“ The implementation report also raises the issue of diversion of funds by the County Treasury which is a weak budget practice.”

A response from the county treasury on the budget 'In the FY 2018/19 the county used to capture commitments in the budget in June as we pass our budget on 30th June, we have capture commitment for the ending Financial Year. The first supplementary helps the county to know the balance brought forward. Sometimes the county has a higher commitment in the books than the balance brought forward.'

Figure 1: Revenue Estimates and Actual Collections as reported in the CIDP 2023/2027

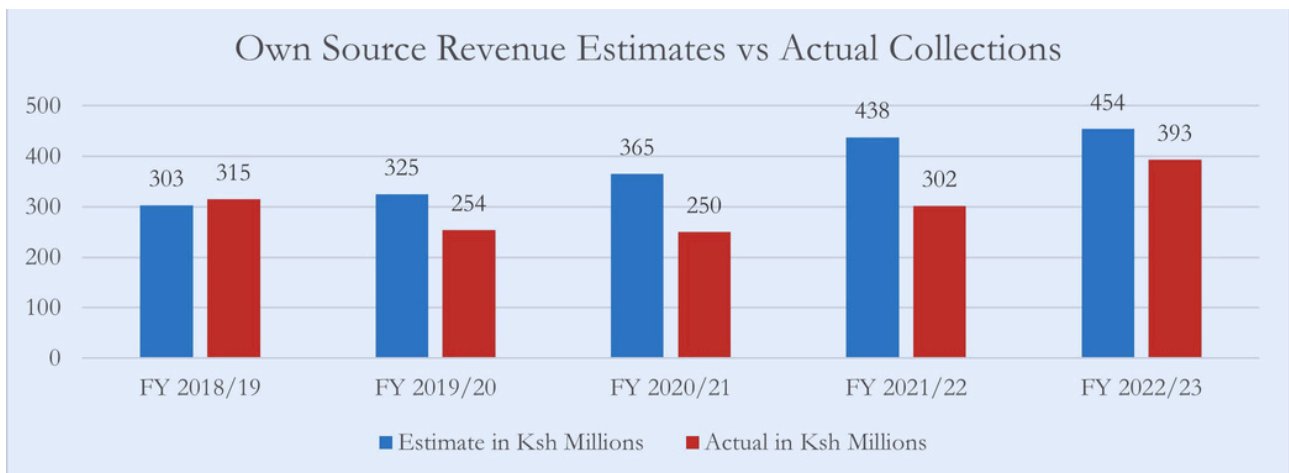
	Own Source Revenue		Equitable Share		Conditional Grants-GoK		Conditional Grants-Development Partners		Others specify	
	Estimate in Ksh Millions	Actual in Ksh Millions	Estimate in Ksh Millions	Actual in Ksh Millions	Estimate in Ksh Millions	Actual in Ksh Millions	Estimate in Ksh Millions	Actual in Ksh Millions	Estimate in Ksh Millions	Actual in Ksh Millions
FY 2018/19	303	315	7,536	7,536	455	245	905	282	2,316	2,316
FY 2019/20	325	254	7,786	7,786	428	296	983	695	2,685	2,685
FY 2020/21	365	250	7,786	7,786	422	300	920	708	2,689	2,669
FY 2021/22	438	302	8,266	7,604	348	0.00	1,085	439	2,556	2,536
FY 2022/23	454	393	8,266	8,266	383	0.00	1,527	819	1,343	268

Source: CIDP 2023/2027

3.2. Own source revenue

In the implementation period, there have been adjustments in the budget through supplementary budgets to suit changes in the budget as reported by the controller of the budget. The county surpassed its own source revenue target in the FY 2018/2019 at 104% of the estimated collection. In subsequent years the average collection has been at 75% of the estimated collection for the period 2019/20 to 2022/23 as shown in the graph below.

Figure 2: OSR estimates, and actual collections as reported in the Kwale Draft CIDP, 2023/2027



Source: CIDP 2023/2027

Figure 3: Estimated County Expenditures vs. actual Collection and OSR estimates and collections as reported in the COB reports for the period 2018/20 to 2022/23

Financial years	Total Expenditure 1 st Quarter (in Ksh billions)	Supplementary in quarter 4 (in Ksh billions)	Estimates in Quarter 4 (in Ksh billions)	Percentage of total expenditure	OSR estimates Quarter 1 COB reports (in Ksh millions)	Supplementary OSR as reported in quarter 4 (in Ksh millions)	Actual OSR in Quarter 4 COB reports (in Ksh millions)	Percentage of collections
2018/19	12.23	11.52	10.69	93	303.11	303.11	315.03	104
2019/20	9.22	13.25	11.03	83	325	325	254.45	78
2020/21	11.93	12.26	9.75	80	365.64	365.64	250.09	68
2021/22	12.39	12.77	10.97	86	315	438	302.69	69
2022/23	8.58	11.93	10.78	90	315	454.28	392.95	86

Source: OCOB reports, 2018/19-2022/23

In the County Budget Review and Outlook Paper, 2020 the document alludes to reduced funding as one of the risks that will affect budget expenditure. The CBROP anticipated a global downturn in the economy and its effect on the local economy. This was to affect the resources to be received by the county as equitable share and own source revenue collection. This anticipation of revenue shortfalls was to be mitigated through increased domestic resources as well as funding from development partners.

The county, however, does not provide information on the resources mobilised from development partners operating locally. CBROP 2023, alludes that the improvement in revenue collection comparing FY 2021/22 and 2022/23 resulted from the enactment of the Finance Bill and implementation of the revenue management systems.

4.0. Top five streams from the own source revenue

In the review period, the county's highest streams stem from Cess, Land Rates, Single Business Permits, Parking Fees, and Hospital Fees. These streams contribute to a mean of 80% of the total actual revenue realised for the period 2020/21 to 2022/23. These are the top five revenue streams as they have consistently between 2020/21 to 2022/23 yielded more for the county's source revenues. The table below shows the estimated collections and actuals from the top five streams.

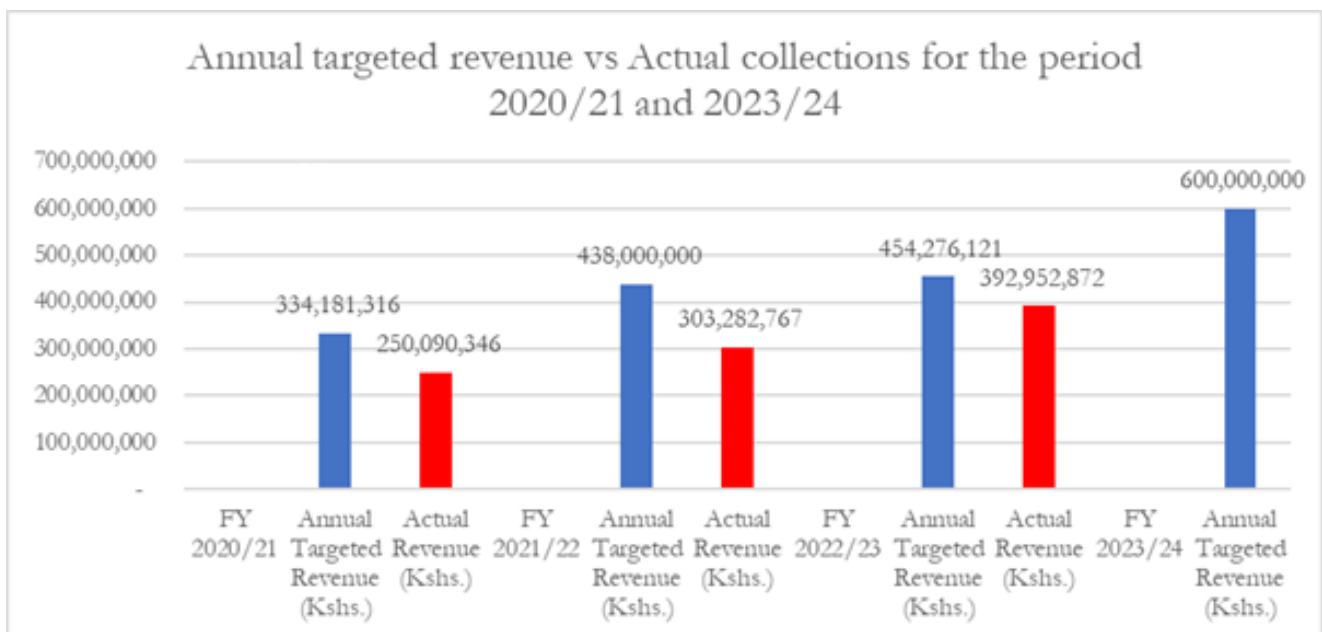
Figure 4: Top five revenue streams as reported in the county budget implementation reports for the FY 2020/21, 2021/22 and 2022/23.

Revenue Stream	Annual Targeted Revenue (Kshs.)	Actual Revenue (Kshs.)	Annual Targeted Revenue (Kshs.)	Actual Revenue (Kshs.)	Annual Targeted Revenue (Kshs.)	Actual Revenue (Kshs.)
	2020/21	2020/21	2021/22	2021/22	2022/23	2022/23
Cess	25,074,400	24,009,090	28,470,000	23,521,348	27,950,000	27,962,289
Land/Poll Rate	47,077,497	43,623,097	53,500,000	36,746,046	63,252,800	62,870,893
Single/Business Permits	60,826,416	57,529,955	64,504,455	64,661,964	66,986,900	64,556,865
Parking Fees	15,400,000	13,945,037	15,000,000	14,942,610	17,600,000	17,674,012
Hospital Fees	132,080,533	60,001,982	87,403,625	95,262,934	154,500,000	154,566,417
Total top five revenues	280,458,846	199,109,161	248,878,080	235,134,902	330,289,700	327,630,476
Percentage of estimated OSR vs Actual	84	80	57	78	73	83
Total OSR	334,181,316	250,090,346	438,000,000	303,282,767	454,276,121	392,952,872

4.1. Own source revenue projections for the FY 2023/24

In the FY 2023/24 the county increased the targeted revenue collection by Ksh 207 million. The expectation is to raise revenue from NHIF collection with an estimated allocation of Ksh 200 million and Ksh 65 million from health centers through Linda Mama reimbursements.

Figure 5: Annual Targeted revenue Vs Actual collections for the period 2020/21 and 2023/24



4.0. Revenue Automation.

Kwale County operates an automated revenue system which was initiated a few years ago and was lauded by the National Treasury as the best system supporting compliance referred to as Kwale E-pay. Several counties within Kenya have been to Kwale to benchmark and learn about this revenue system. The system is designed to offer services even in low internet connectivity areas which also prevents fraud that can appear when working offline.

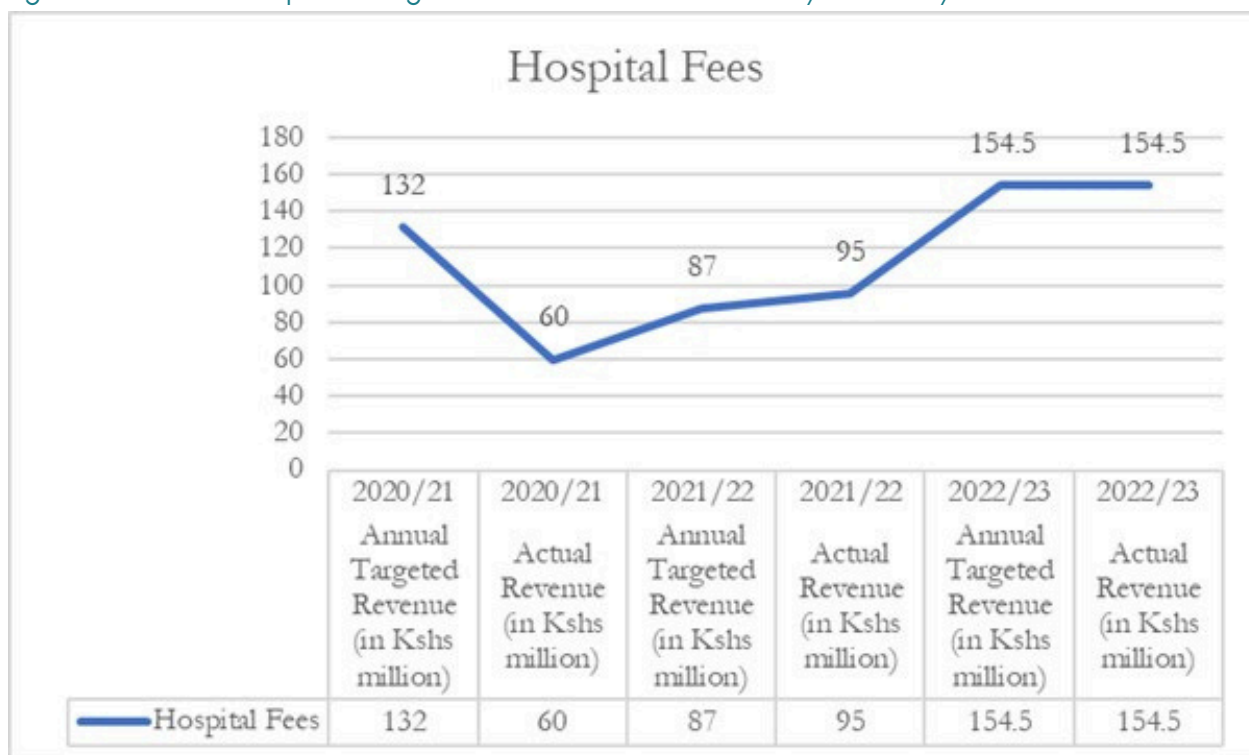
5.0. Retention of revenue by hospitals.

The National Assembly approved the Facility Improvement Financing Act 2023 which allows 100% retention of resources at collecting facilities. Level V and Level IV collect more revenue as compared to Level II and Level III majorly because these primary level facilities are subsidised through DANIDA user foregone funds. Kwale County is in the initial phase of implementing the FIF as indicated in the County Fiscal Strategy Paper 2024/25 that 'Kwale County is in the process of domesticating the Facility Improvement Financing Act 2023 to be in line with the county government structures. This will offer an alternative resources mobilization strategy for the administration of facilities and delivery of quality health services.' (Pg.9 CFSP, 2024/25).

This process has led to a collaborative meeting between the health and treasury departments to review the national law and its actual implementation. The plans within the county are to ensure the health department has enough responsible personnel to assist in the collection of revenue. The Department of health has 55 revenue clerks seconded from the treasury department who support facilities in collecting revenues from the national insurer (NHIF) and out-of-pocket payments.

Most of these revenue clerks are found in the hospitals since most services are paid for at this level while the rest are stationed at the subcounty level to assist high Level II and Level III facilities to collect and report their collections (majorly being from Linda Mama Claims and NHIF due to high deliveries being conducted at these levels). The health reforms in the country will discourage the by-passing of Level II and III facilities to decongest Level IV and V. These primary health facilities will also be able to benefit from the Primary Healthcare Fund that is to be funded through the national exchequer. The table below shows the trend in revenue collections in the health department.

Figure 6: Own source percentage Revenue Growth trend 2018/19 -2022/23



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6.0. Key Recommendations

1. Kwale County has the potential to increase revenue from the current collection of approximately Kshs 315 million to a higher collection. For example, collections from hospital fees which are at Kshs 103 million could increase through strategies that include registration of more people to Social Health Insurance as well as putting focus on prepaid schemes to reduce out-of-pocket expenditure and identification of facility needs through costed work plans which also sets revenue targets by departments within hospitals for revenue collection.
2. Implementing policies that minimize revenue loss, for example, avoidance of hospital waivers and in the very needy cases encouraging the families to take up social health insurance for the patient to avoid a future loss of revenue.
3. The Department of ICT should ensure there is a repository for publishing the county-related acts that are amended by the Finance Acts for ease of referencing by the public.
4. The revenue department could cascade revenue targets to top-down (vertically) but also departments should set horizontal revenue generation strategies with clear targets based on the potential to collect.
5. Transparency and ease of revenue generation mechanisms enhance citizen responsibility to collect revenue. The county should by law involve citizens in the preparation of the finance bill/acts. These conversations should be emphasised during public participation forums to enhance the literacy of the county residents on the sources of revenue for the county and its relation to the priorities and services to be provided.
6. Develop affordable prepaid healthcare packages tailored to different income groups.
7. Set clear revenue targets for each department within hospitals and monitor their performance regularly.
8. Implement strict follow-up procedures for outstanding payments and consider hiring a professional collection agency if necessary.

7. 0. References

1. Constitution of Kenya 2010
2. County Fiscal Strategy Paper 2024/25
3. County Budget Review and Outlook Paper 2020 and 2023
4. County Integrated Development Plan 2023/2027
5. Finance Acts 2021 and 2022
6. Kwale County Livestock Sales Yard Act, 2017
7. The Kwale County Outdoor Advertising Act, 2016
8. Kwale County Trade and Markets Act, 2017
9. Kwale County Access to Information Act, 2016
10. Kwale County Meat Control Act, 2016
11. Kwale County Animal Disease Control Act, 2016
12. Kwale County Quarrying Act 2016
13. Kwale County Liquor Licensing Act
14. Kwale County Rating Bill 2019
15. Kwale County Entertainment Tax Bill, 2019

For more information:

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The Coast Regional Budget Hub is a platform for Public Finance Management (PFM) practitioners that brings together regional voices for collective efforts and synergy to enhance public budgets and services across the Coast Region of Kenya. The 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.

The Coast Regional Hub builds communities' collective capacity to engage effectively and mobilises participation in the county, regional, and national budget-making processes. The CRBH achieves this through continuous capacity building of budget champions and communities in budget processes, research, and budget analysis for evidence-based advocacy engagement and stakeholder network-building. The Hub has over 15 budget facilitators and over 300 budget champions across the Coast.

