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

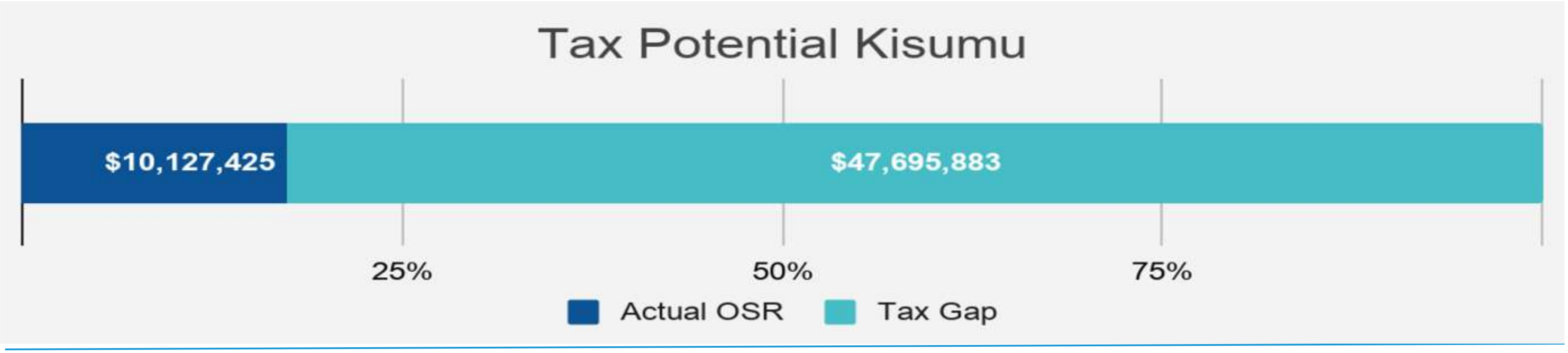
Context

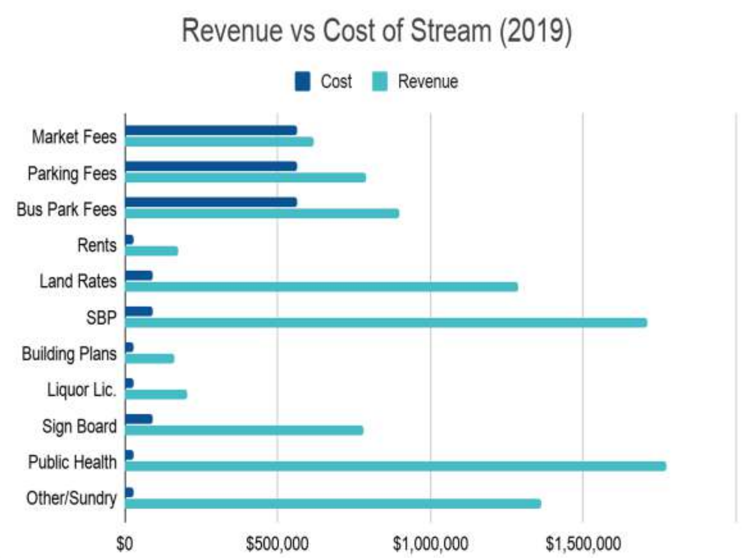
- **There is pressure on the County Government of Kisumu to increase its own source revenue** (OSR) due to high dependence on national government transfers stagnating OSR and growing public expenditure needs
- **This Rapid Own Source Revenue Analysis (ROSRA) has the aim of supporting Kisumu County Government 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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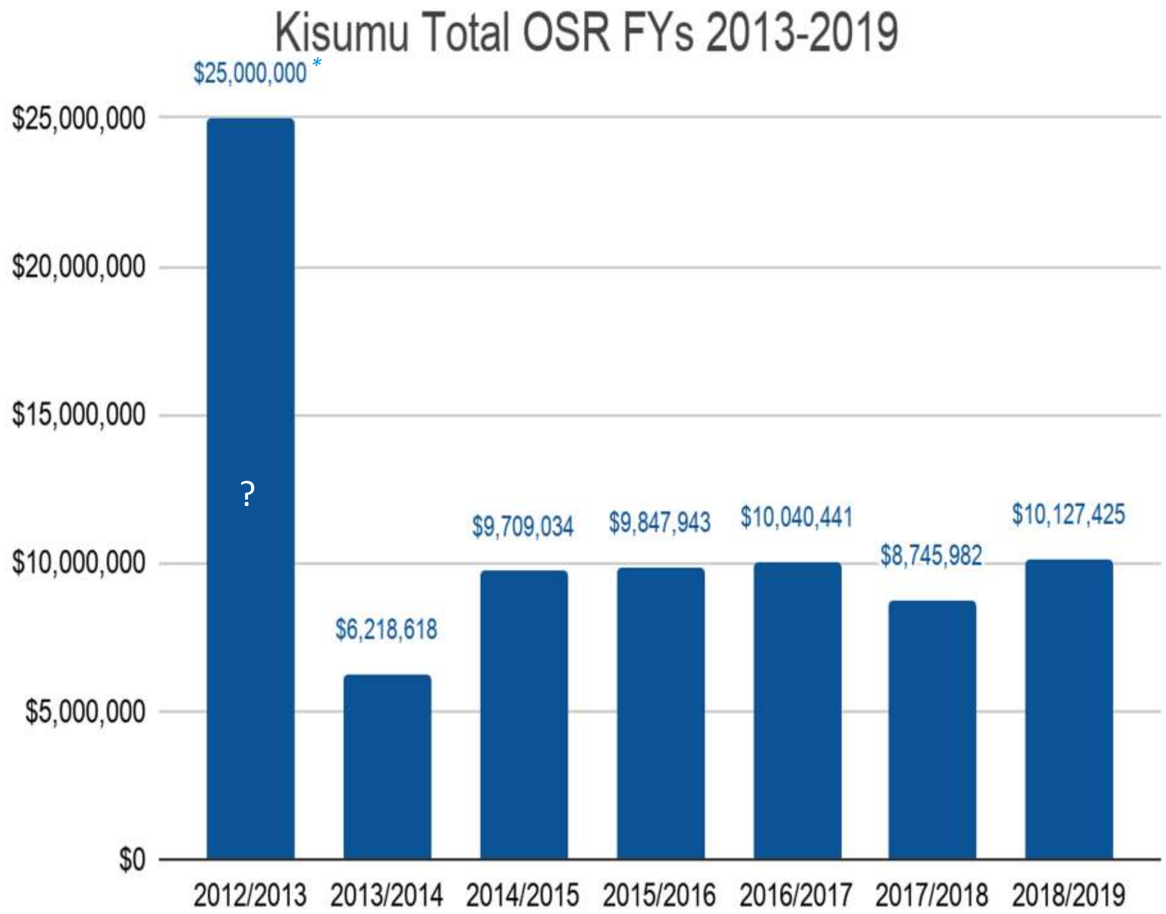
Kisumu's OSR dropped after devolution, then stabilized at ~$10M



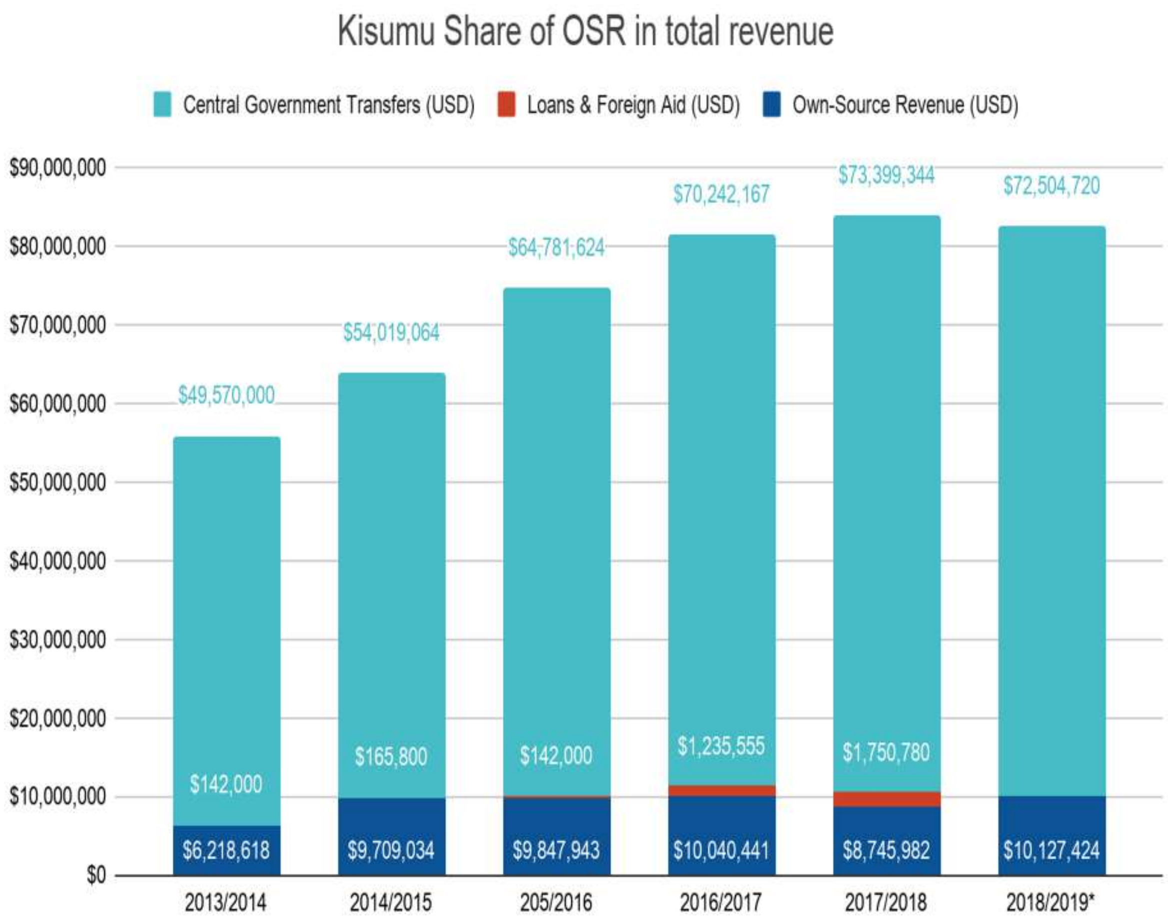
Takeaways

- **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

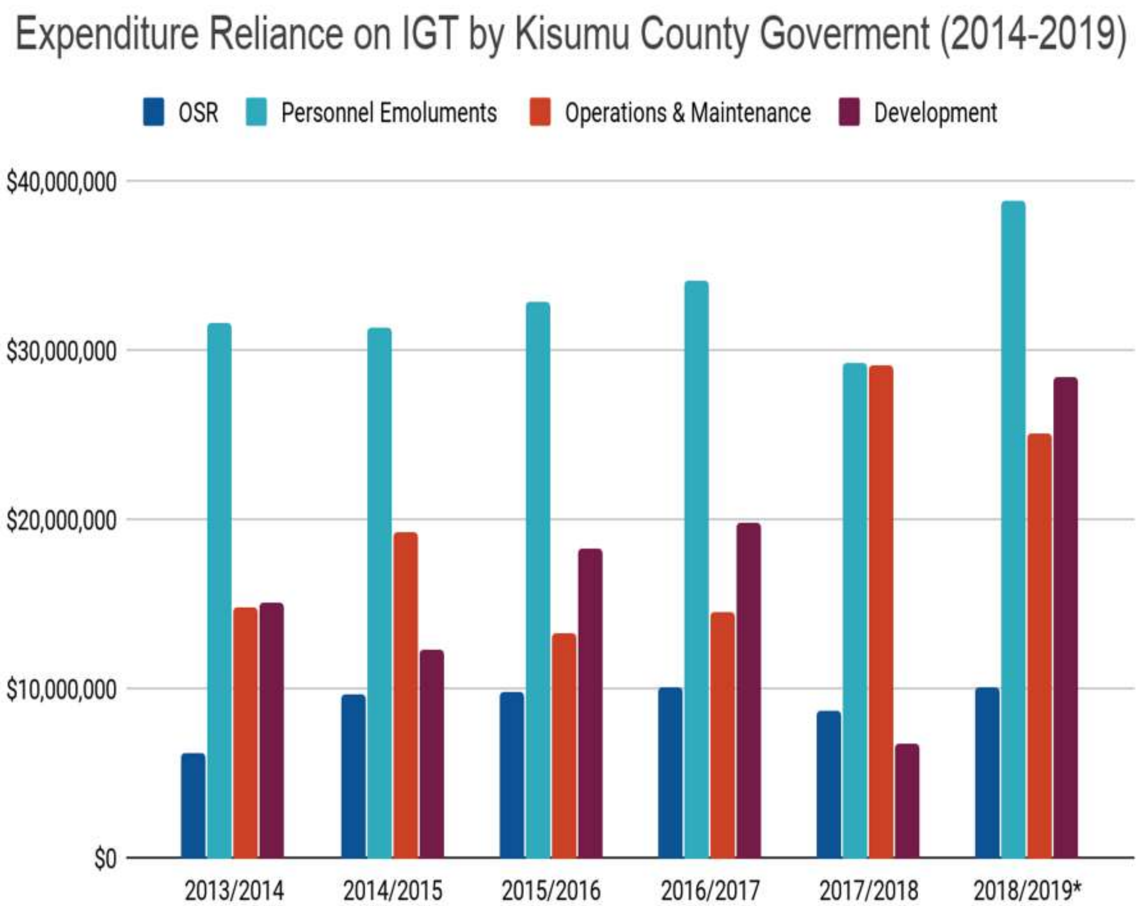


Takeaways

- **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

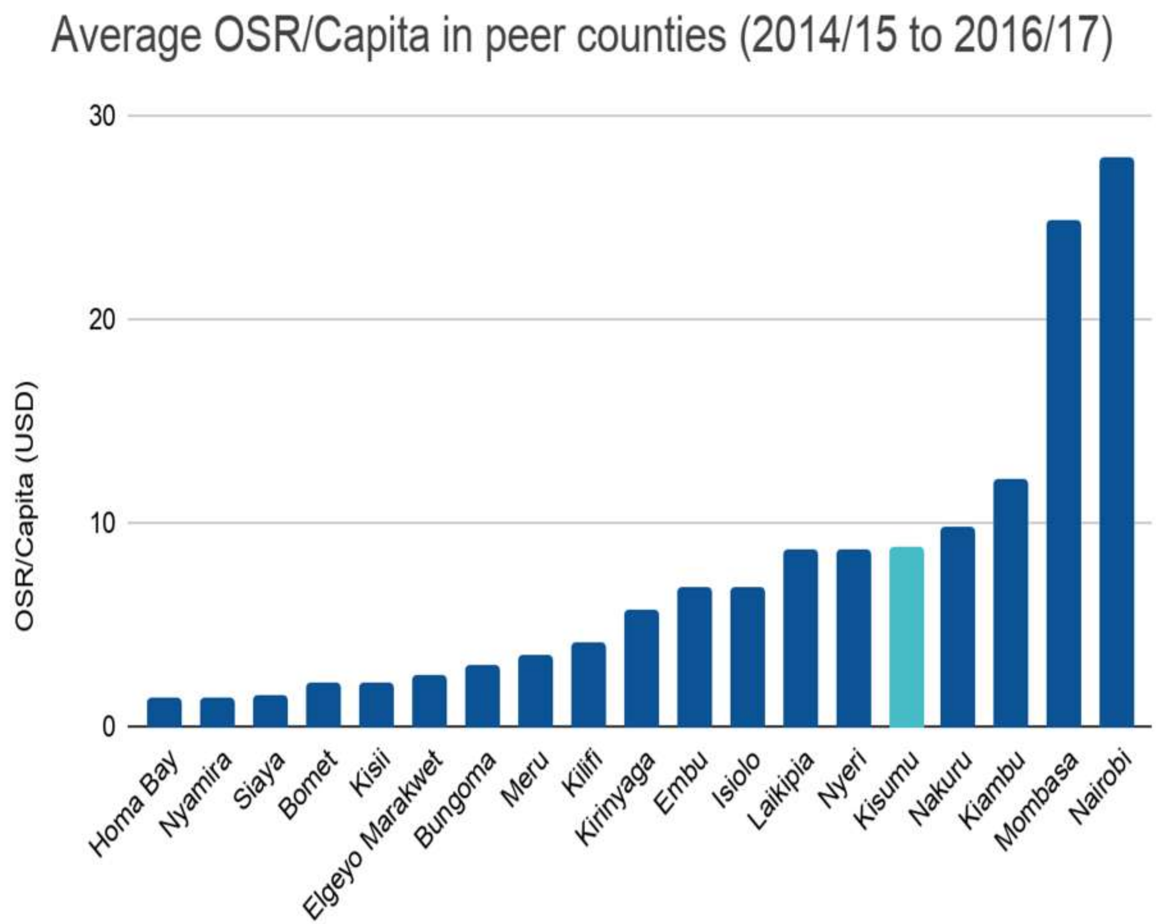


Takeaways

- **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

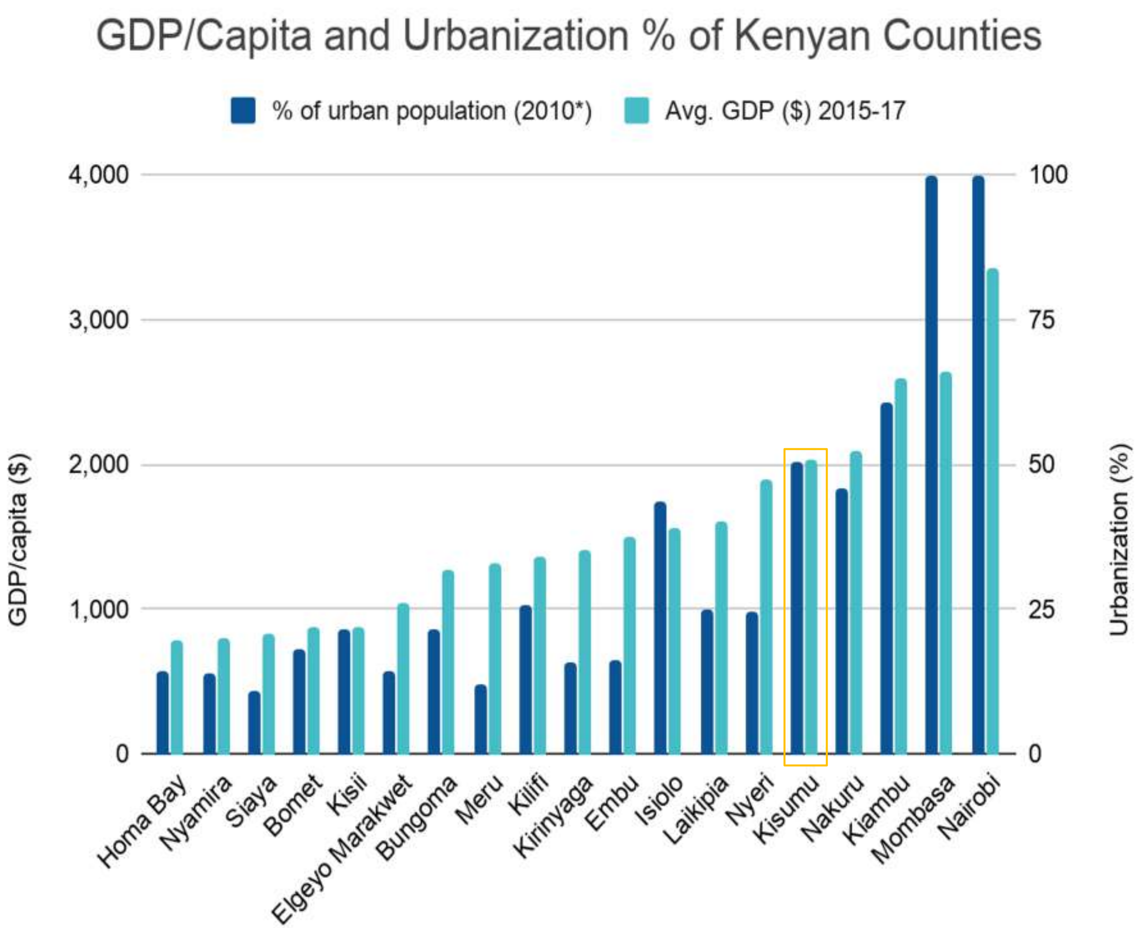


Takeaways

- **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 30% of OSR/capita of Nairobi County

Source: GCP Report

Kisumu is expected to have a high OSR given its GDP/capita and urbanization rate

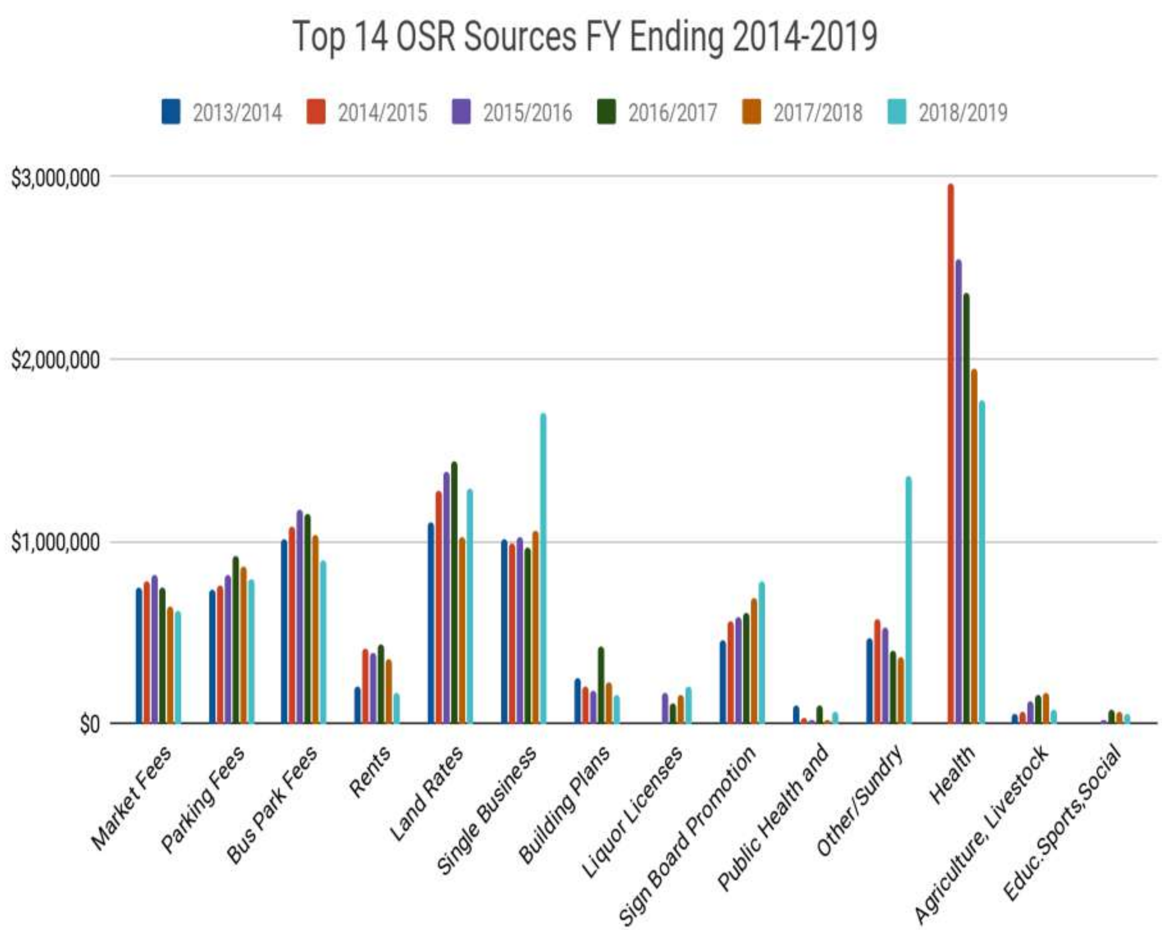


Takeaways

- **High expected OSR/capita:** OSR tends to correlate strongly with GDP/capita and urbanization rate
- **High GDP/Capita:** Kisumu has the 5th highest average GDP/capita amongst Kenyan counties at $2029/capita in the years 2015-2017
- **High Urbanization:** Kisumu is one of the most urbanized Counties at around 50% urbanization*

**Urbanization figures are sourced from: World Bank (2012) Devolution without Disruption*

Most revenue streams have grown slowly or remained unchanged except Health and unstructured revenues, which declined

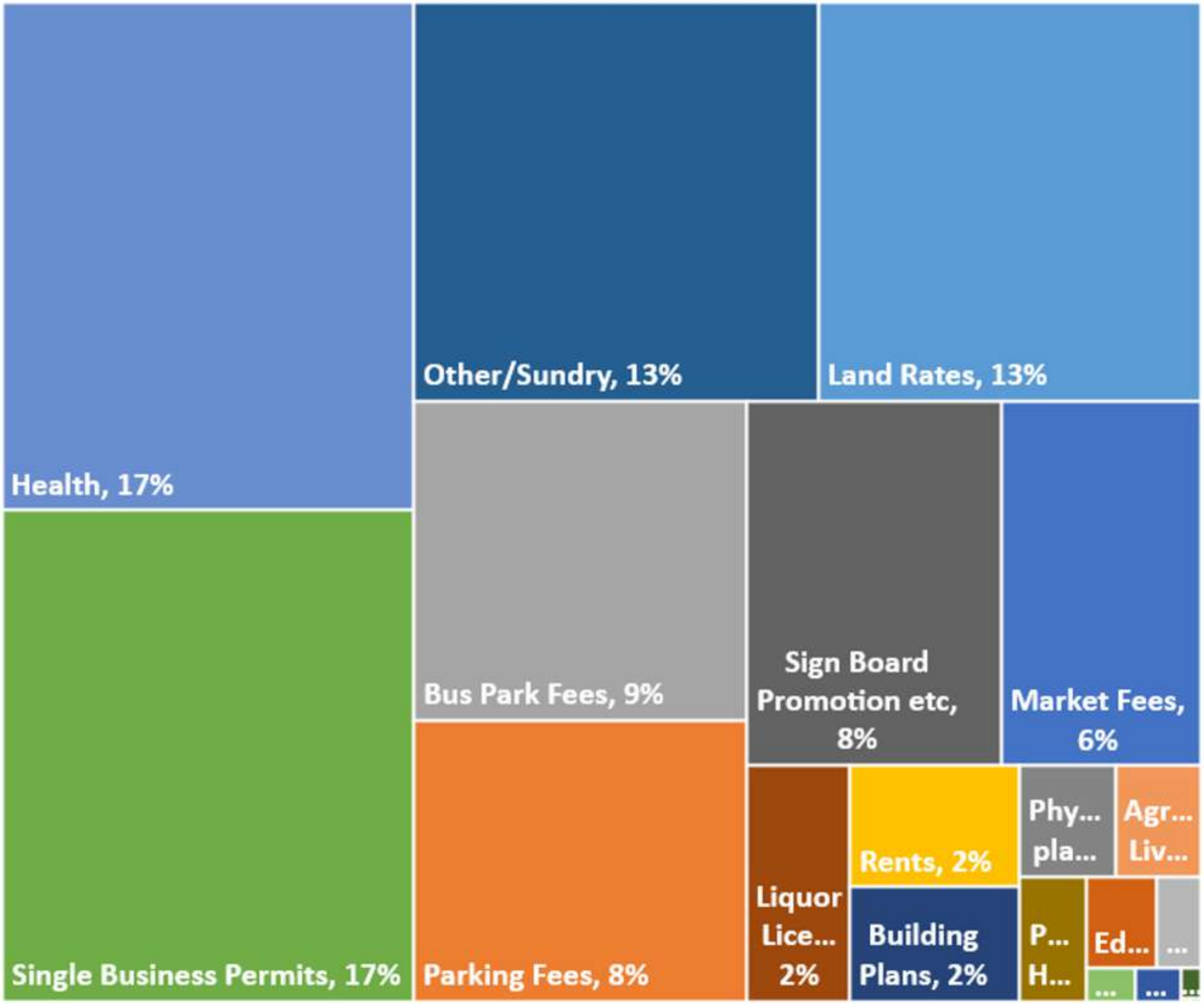


Takeaways

- **Significant health decline:** by -$1,188,341 from 2015-2019, likely due to spending at source, elaborated on later in presentation
- **Small land rate revenues** Land rates revenue rose from 2014-2017 but declined from 2018 with slight recovery 2019.
- **Single Business Permit increase:** increase in revenue in 2018/19 by almost 75% also due to CAL
- **Unstructured revenues have declined:** Bus park, parking and market fees have all decreased since 2016

Source: budget reports 2014-2019 as provided by KCG

Unstructured Revenue streams are an overly significant part of OSR



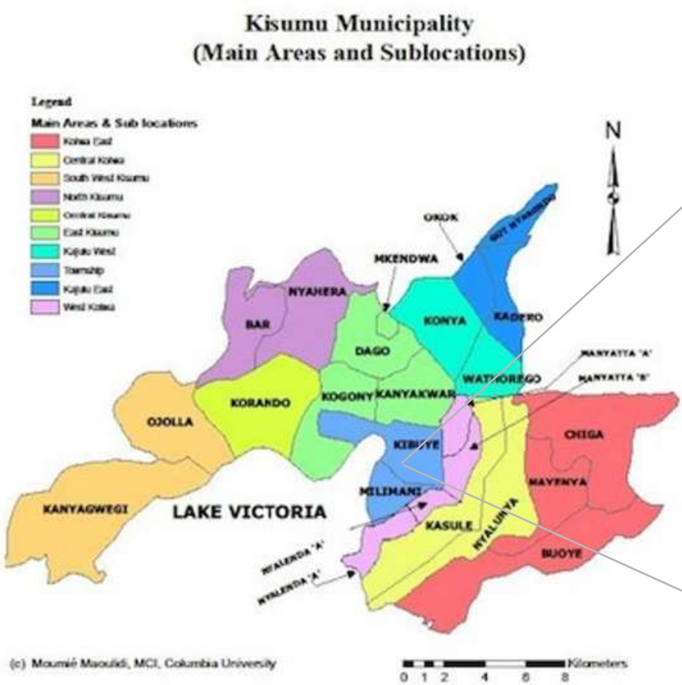
Takeaways

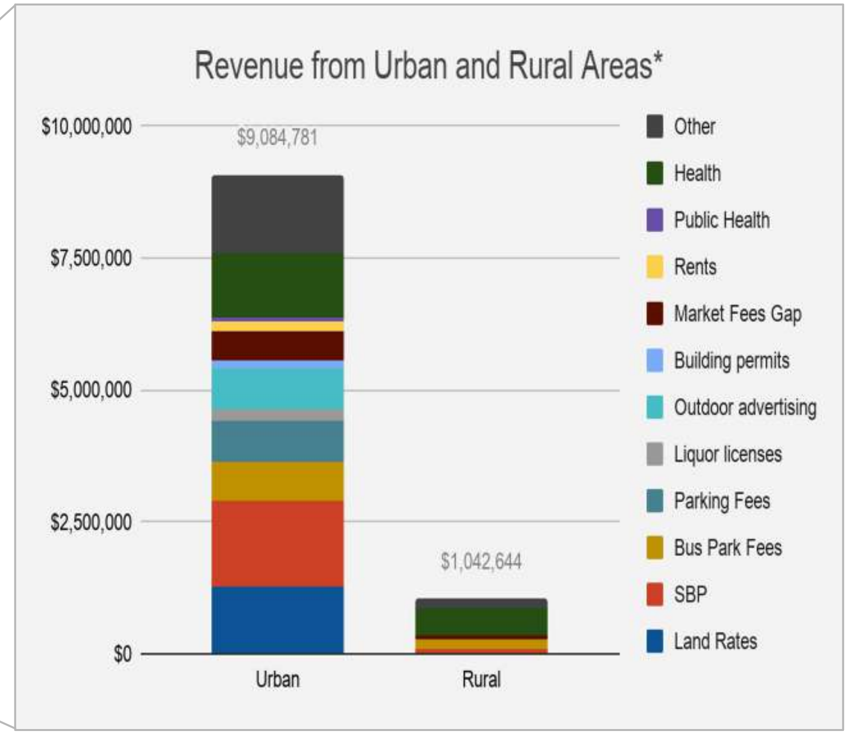
- **The top 5 revenue streams** provided 69% of total OSR, which is below the desired 80%*
- **The bottom 10 revenue streams** provided 4% of total OSR and are thus candidates for removal
- **Health is the largest revenue:** generating 17%, more than land rates which is expected to be the biggest
- **Too high unstructured revenues:** Bus park, parking and market fees generate over 20% of OSR
- **Numerous streams:** A total of 21 revenue categories are used

Notes: Sundry is 13% due to uncategorised revenue sources titled "Paybill" and "Direct payment to KCRA"

** The literature suggests that top 5 revenue streams should generally generate around 80% of the Revenue - see McCluskey, William (2019) Report on Four Cities in Ethiopia.*

Kisumu county is positioned to leverage OSR from Urban Areas



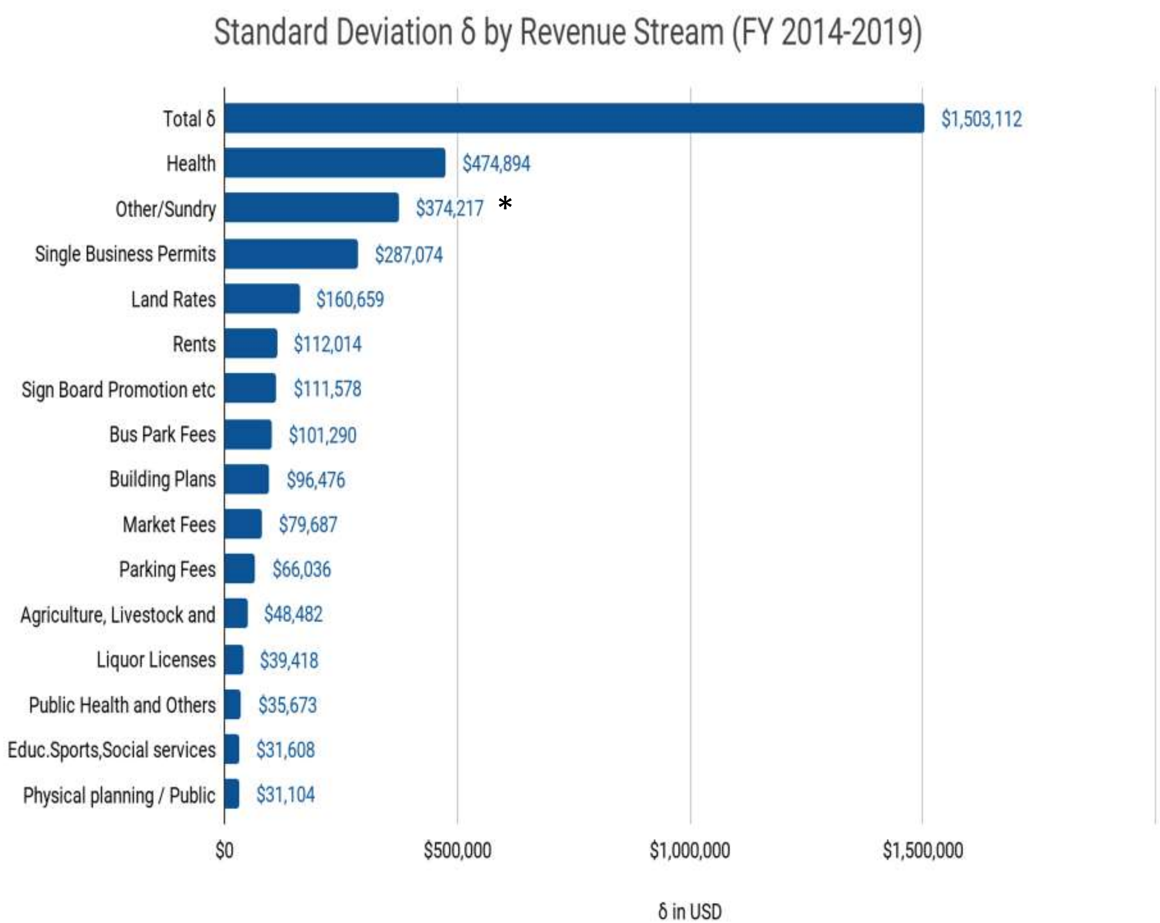


Takeaways

- An estimated 90% of Revenue in Kisumu county is generated in urban areas and principally Kisumu City, Kibuye and Milimani
- It is not surprising to see the majority of revenue being generated in Kisumu City, as this is the economic heart of the country, and also where close to 50% of the population resides

**This figure stems from interviews with County Officials in April of 2019 and UN-HABITAT estimates*

The OSR variation is $1.5M or around 14% of total OSR

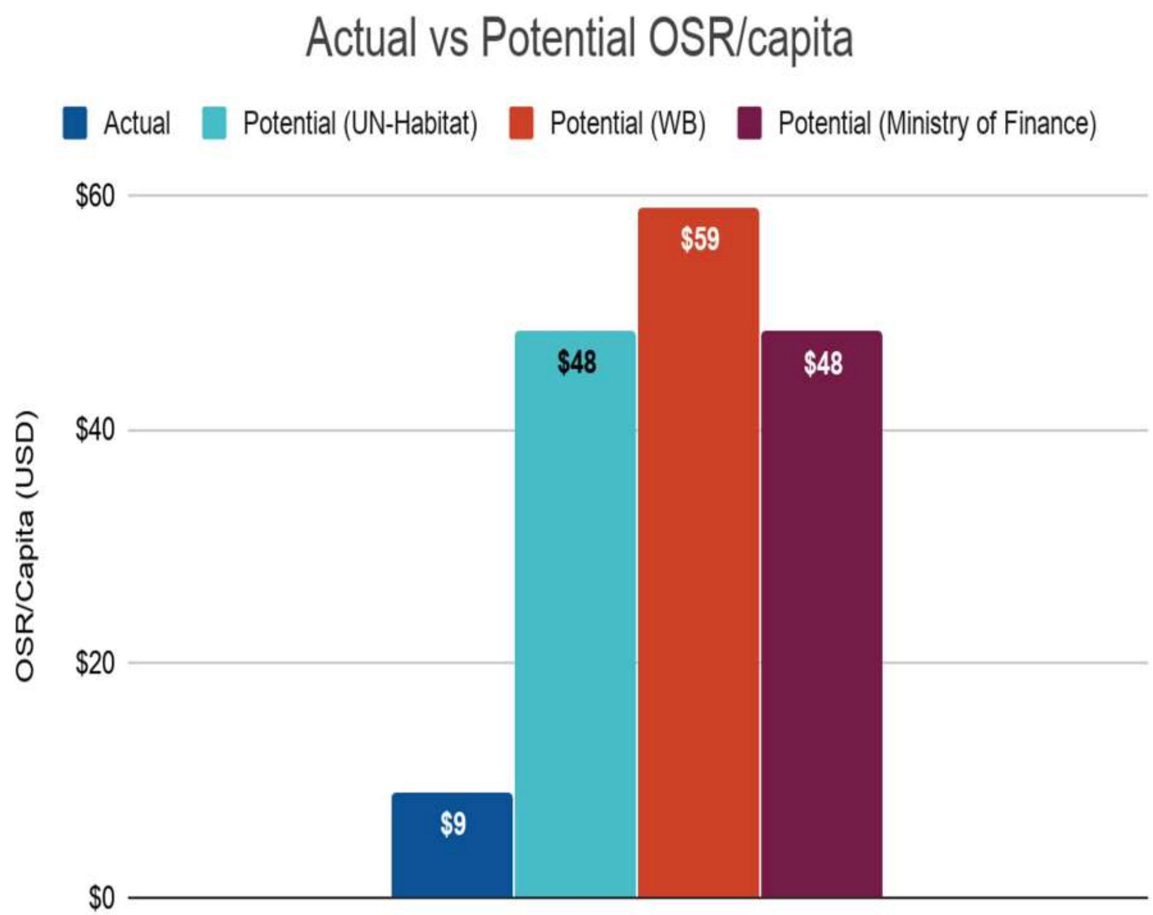


Takeaways

- **High risk exposure:** The county is exposed to a potential 14% change in OSR increasing dependence on transfers and hampering ability to budget
- **Unusual variation by stable streams:** Health and Trade Licences showcase the highest variance although they are typically stable. Indicative of collection problems. SBP is normally stable but CAL has affected this number

**The variability of Others/Sundry is due to the fact that some revenue that has been paid to the government account has not been categorized due to IT challenges. It can therefore not be fully analysed here*

Most estimates see Kisumu’s OSR/capita to be well below potential



Takeaways

- **OSR is below potential:** methodologies differ slightly but estimates suggest OSR could be 6 - 7x larger. Given the key economic indicators, e.g. GDP/capita one would expect Kisumu to collect much more in OSR/capita

Definitions

- **Actual OSR**: how much is being collected in OSR per year per capita
- **Potential OSR**: the maximum amount that can be raised in taxes without changing the structural conditions of the economy

**For UN-Habitat Methodology and Ministry of Finance OSR/potential see Appendix*

*** WB estimate was taken from “The Revenue Potential: How Kenya’s County Governments Could Close Their Financing Gap”*

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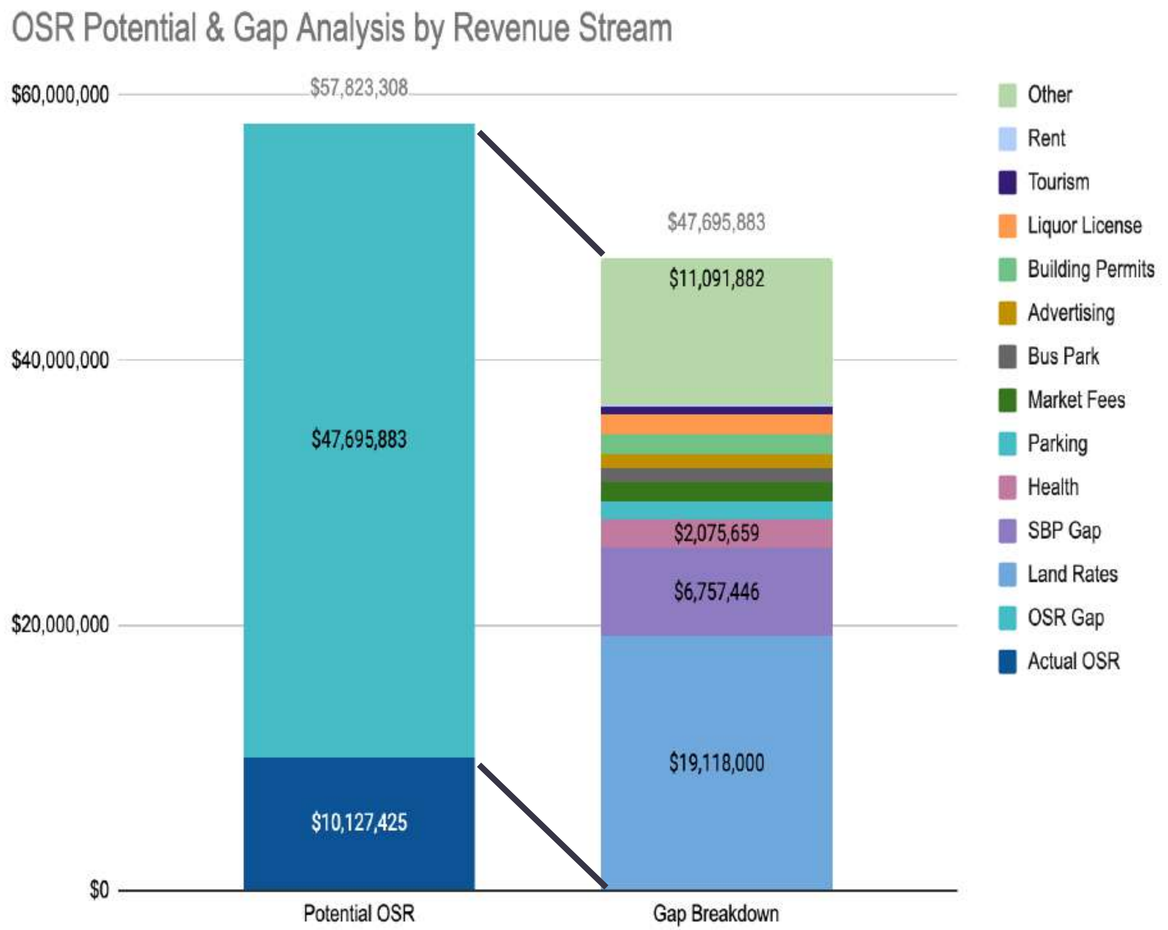
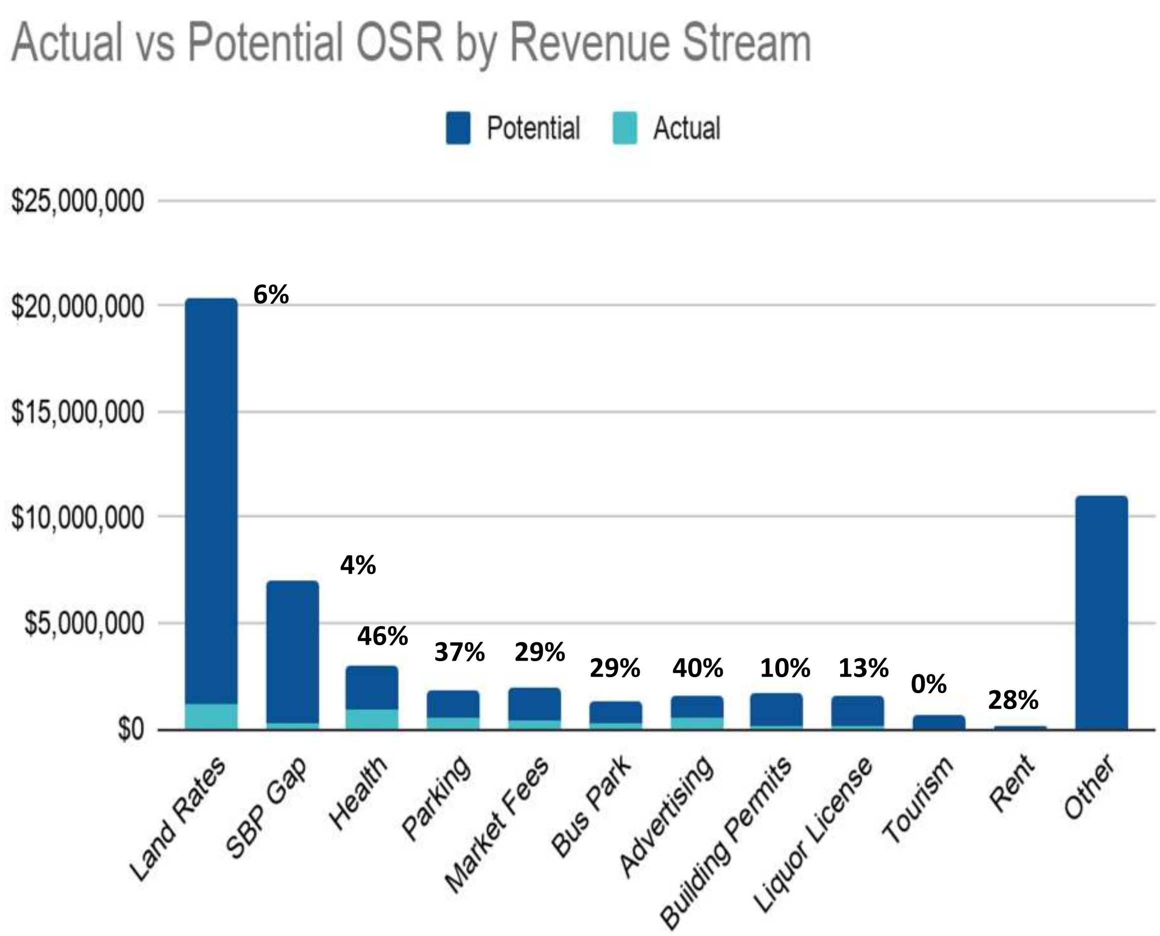
OSR Potential & Gap Analysis by Revenue Stream



Why is it important to analyze the Revenue Gap?

It provides a direct measurement of the degree to which an administration is effective in maximizing OSR. The tax gap is thus a crucial component of results based management for an administration. Factors contributing to the gap can be identified without necessarily estimating the size of the gap. Breaking the gap down by revenue stream provides insights on the issues of each stream and the strategy which should be pursued for revenue maximization

The percentage of actual to potential revenue is highest for land rates and Business Permits (SBP)



Takeaways

- **No stream is at potential**: All of the major revenue streams are below potential
- **Land rates and SBP are furthest from potential**: Only 6% and 4% of SBP are being collected. Comparatively e.g. 37 of potential in parking fees is being collected
- **Methodology**: A combination of Ministry of Finance and UN-Habitat calculations were used to measure potential see Appendix for more info

Note: The methodology for estimating the potential per revenue stream is outlined in the Appendix

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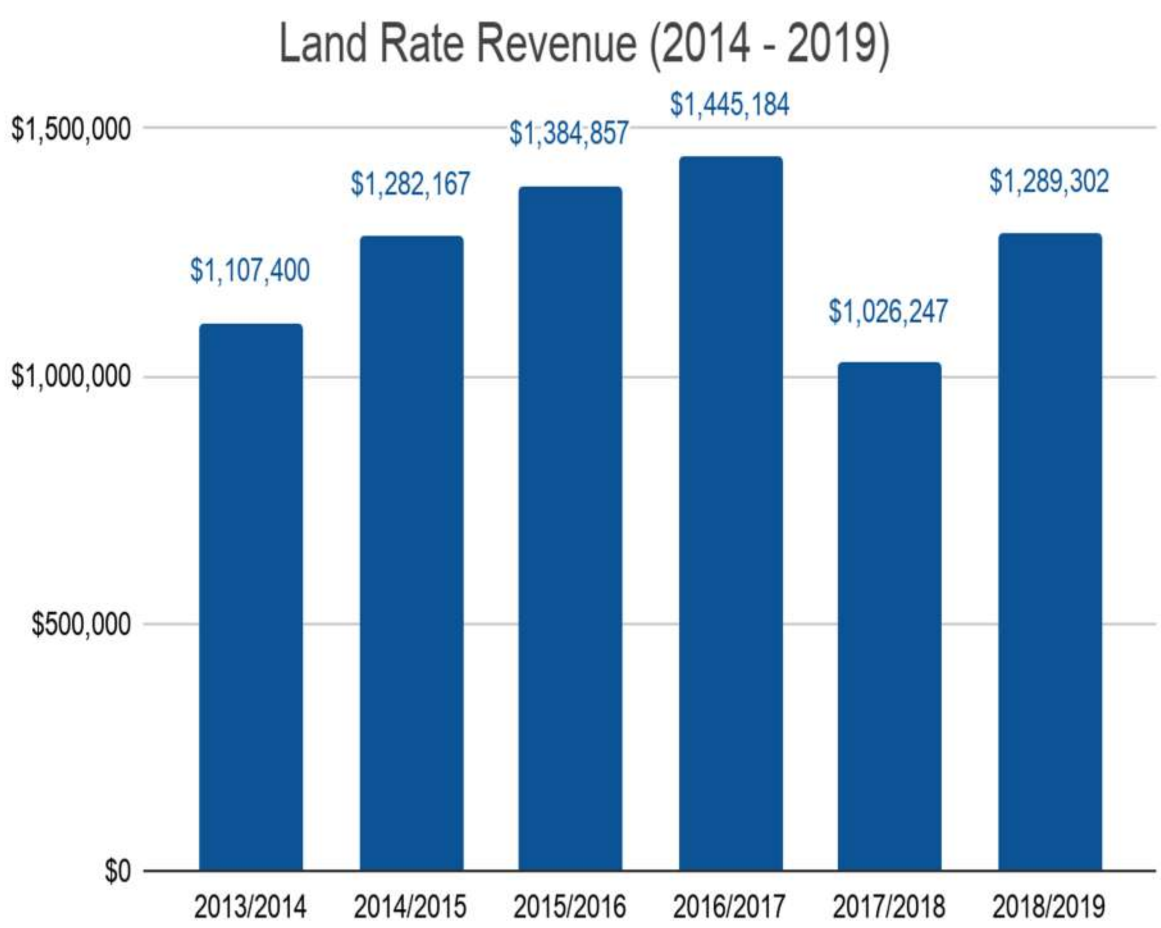
Land rate revenues have not grown significantly since 2014



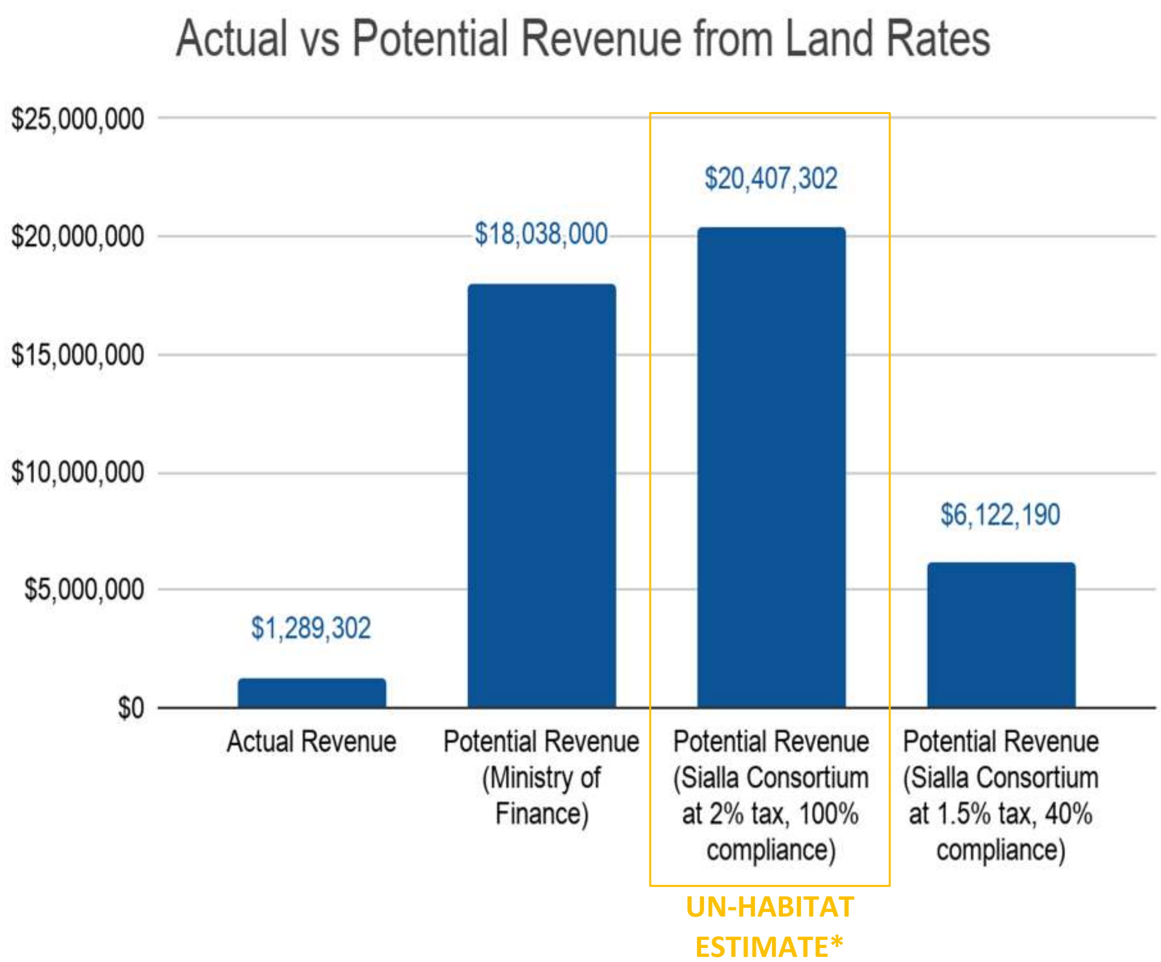
Why Land Revenue should have grown

- GCP/capita growth
- Improved public services
- Improved admin practices

Takeaways

- **There is a problem:** Land rate revenue has not grown since 2013/2014 despite significant development and value growth. This indicates that there is a problem

Land rate revenue is a fraction of what it could be

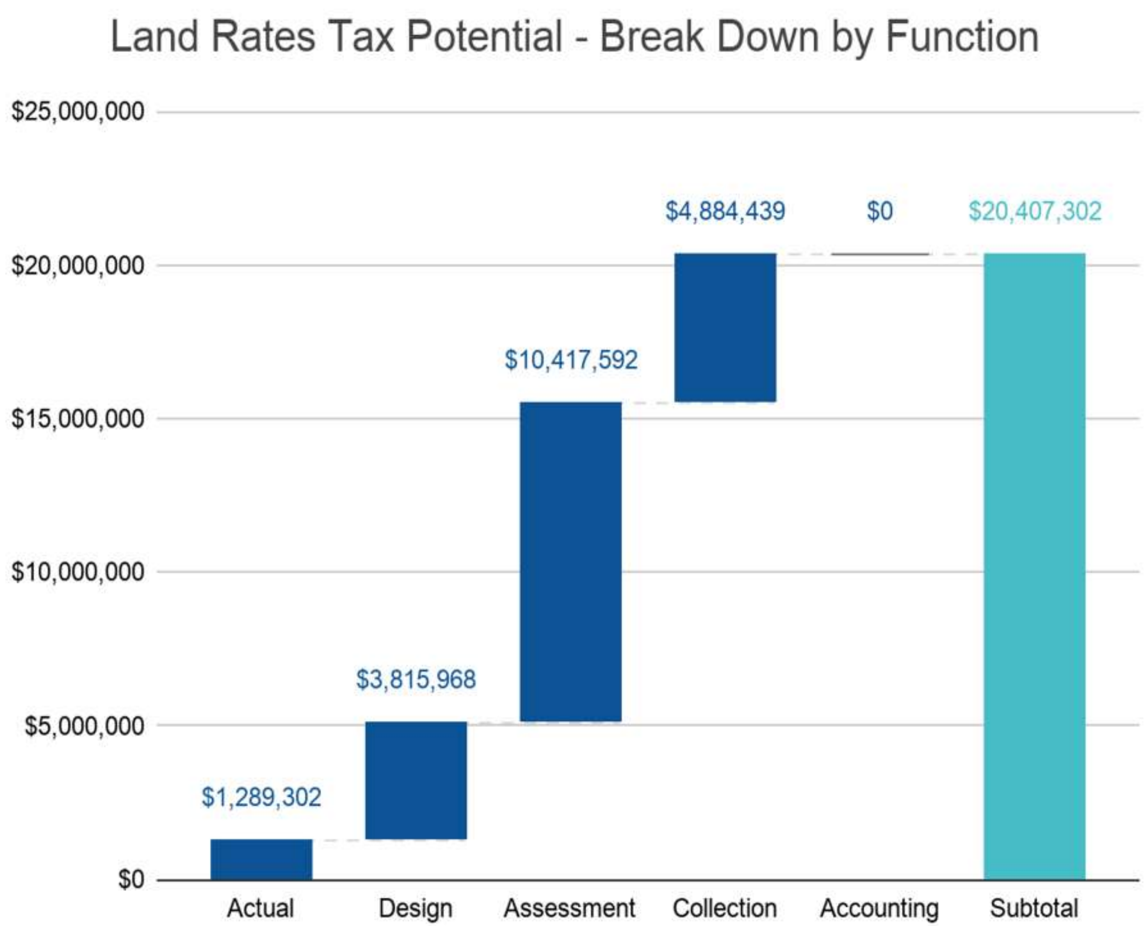


Takeaways

- **Well below potential:** Based on the latest valuation roll (to be officially released end of 2019) Kisumu county has not even began scratching the surface of its land rates revenue potential
- **At 2% tax rate and 100% compliance revenue would be $20M**
- Even at 40% compliance, the new valuation roll could increase land rate revenue 5 fold

**2% is used here for the estimate of tax potential based on experience of UN-Habitat of what is feasible to charge for local governments similar to that of Kisumu*

Land Rate Gap Breakdown (½)



Definitions

- **Design Gap:** this is the gap which results from not charging the appropriate legal rates or exemptions
- **Assessment Gap:** effect of charging the taxpayer less than what she should pay
- **Collection Gap:** effect of not collecting the amount which is owed due to non-compliance and theft
- **Accounting Gap:** effect of not registering collected amounts properly, although they have been paid for

Land Rate Gap Breakdown (2/2)

Design Gap	Assessment Gap	Collection Gap: Compliance Gap	Collection Gap: Corruption Gap
$3.8M	$10.4M	$4.1M	$0.8M

Design Gap

- **Low Tax Rate:** 1.5% of property value is charged vs 4% legal maximum. With new valuation roll, the price/landowner would then be $742, which is too high, so we use 2% as possible rate or $371 tax per year per landowner

Assessment Gap

- **Old Data:** Valuation roll is from 2008 and covers 25284 of 55000 parcels and values land at $127M of around $1B according to new valuation roll
- **Faulty Data:** The LAIFORMs system is not updated when changes occur in Department of Lands, also some wrong data, e.g total registered land area is 326K km2

Compliance Gap

- **Enforcement:** Lack of officers. Focus on unstructured taxes. Only 2 city enforcers for land rates. 68% compliance rate and 70% have arrears
- **Sensitization:** Minimal sensitization efforts. Difficulty locating taxpayers, LAIFORMS does not include GIS coordinates making it difficult to locate taxpayers
- **Low Voluntary Tax Compliance:** Bad perception of government/tax system. Especially with high-income taxpayers who threaten using "political connections" and cumbersome payment process
- **Legislation:** Weak legislation, no legal precedent/court cases

Corruption Gap

- **Bribes:** Enforcers/collectors accept payments in return for tolerating non-compliance
- **Data Abuse:** The data in LAIFORMs has been changed following evidence of bribes from taxpayers*

** based on interview evidence from the 30th of August, Collection Africa Limited, Kisumu*

The Assessment Gap will be partially addressed by the new valuation roll although improved collections are also needed

	Status-quo	New Valuation	HABITAT EST
Registered Parcels	25284	55000	55000
Average Parcel Value	$5,028	$18,552	$18,552
Total Value	$127,136,818	$1,020,365,082	$1,020,365,082
Land Rate	1.5%	1.5%	1.5%
Compliance Rate	68%	40%	18%
Total Revenue	**$1,289,302**	**$6,122,102**	**$2,754,986**
Average Rate paid per landowner	$51	$189	$50
		Sialla Estimate	Likely Outcome

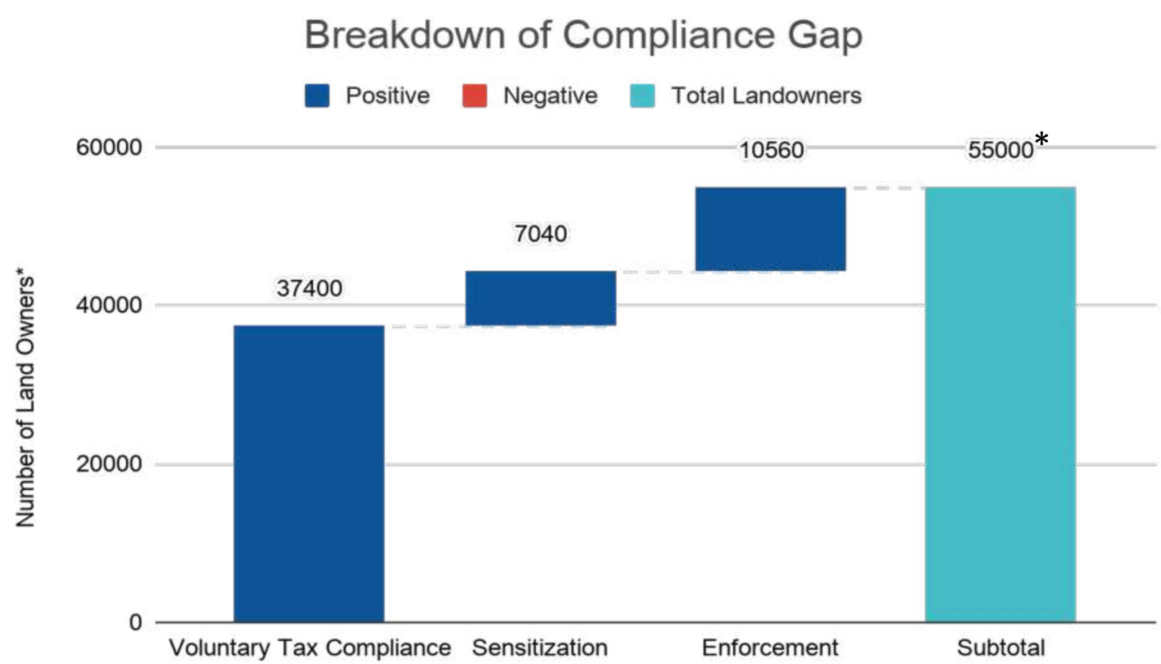
Explanation

The valuation roll greatly increases the values of the properties which will require landowners to pay more taxes. In fact, it will increase average tax liability from $51 to $189 almost a 4 fold increase. In consequence it is likely the actual compliance will decrease. Indeed if we assume people will still pay the same as before compliance could go down to 18% from current 68%

Takeaways

- **New role:** the valuation roll is likely to increase revenues
- **The roll is not the only fix:** The valuation roll alone cannot close the total tax potential of land rates, compliance needs to be boosted
- **Rate choice is likely appropriate:** even if the land rate is kept at 1.5% the avg. rates charged to landowners will increase and thereby further worsen compliance rates
- **Build the base then expand rates:** if the land rate was elevated to the legal maximum of 4% this would likely lead to a sharp drop in revenue

The compliance gap requires action on all fronts



Explanation

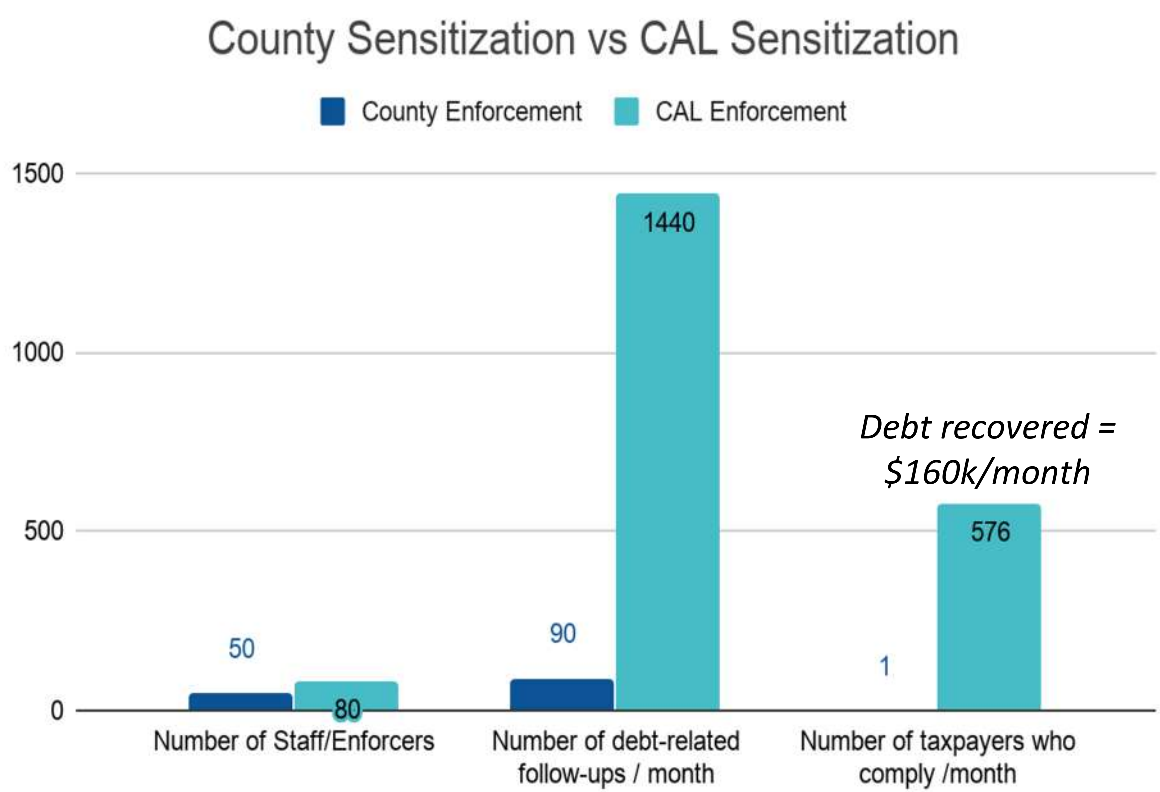
- **Enforcement:** virtually no one pays upon enforcement, as no cases taken to court, weak legislation
- **Voluntary Tax Compliance:** from land register 68% of people pay
- **Sensitization:** CAL, 40% of sensitized pay

Definitions

- **Voluntary Tax Compliance:** this reflects the proportion/number of taxpayers who comply with their tax obligations voluntarily without further reminders
- **Sensitization:** this refers to the contacting of taxpayers who have not yet paid and informing them of their non-payment and why compliance is important
- **Enforcement**: when taxpayers are directly threatened/treated with legal consequences

**UN-Habitat was not able to secure the exact figure from the valuation roll. It is based on an estimate of existing landowners.*

Compliance can be addressed by changing the sensitization approach



Disclaimer: We were not able to ascertain the number of taxpayers that complied upon additional sensitization by city enforcers. We were told that they only pursued commercial rather than private property, as payment likelihood was higher

Takeaways

- **CAL as a model for KCG:** the success of Collection Africa show how collection can be improved
- **Culture of 'not my fault':** the conditions blamed for poor compliance (legal framework, perception of government, etc.) have not stopped CAL from improving collections
- **Need to strategize:** There is a need to re-think the current enforcement approach of the government

**Kisumu County Government Interview, August of 2019*

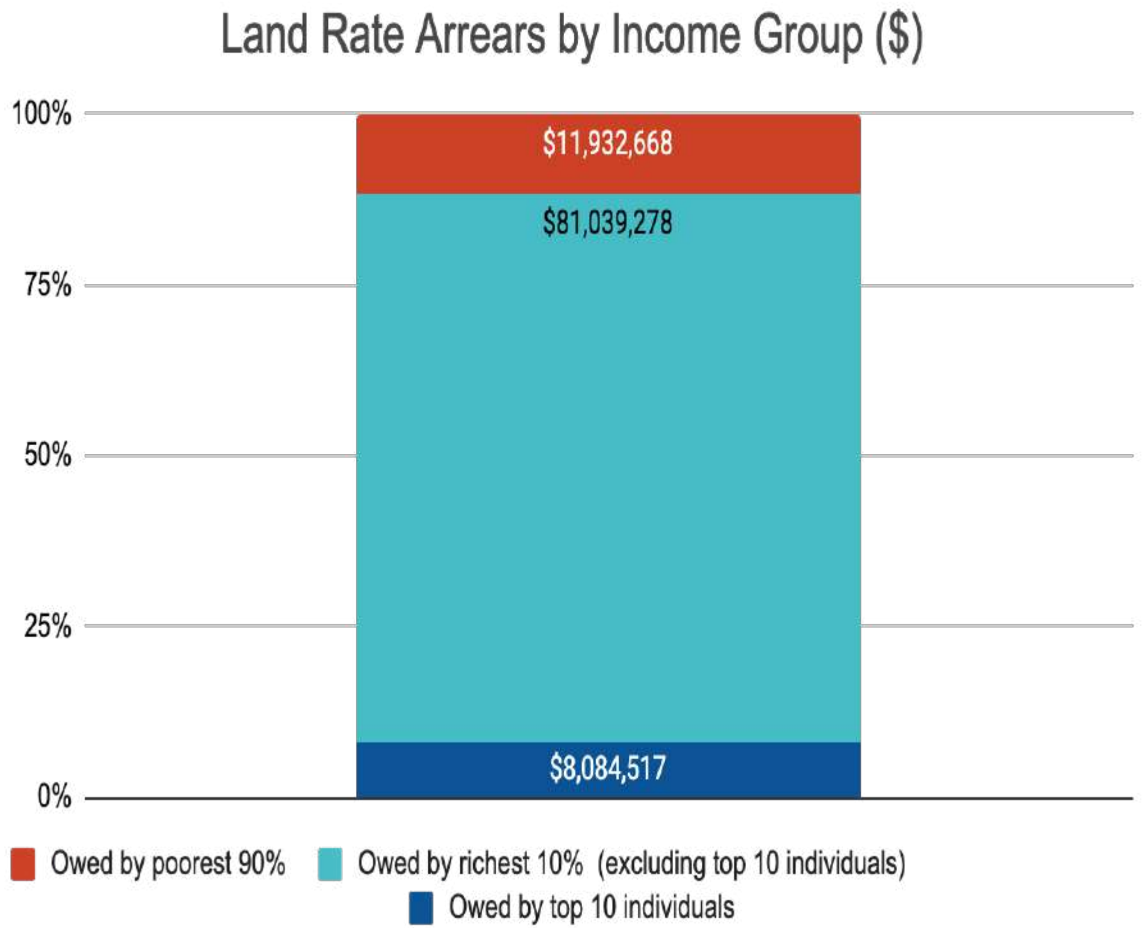
Although CAL is not cheap, it can increase revenue more than it costs, if it is allowed to do its work

	Status-quo	CAL Contract (3 months)	CAL Contract (year 1)	CAL Contract (year 2)
Registered Parcels	25284	25284	25284	55000
Average Parcel Value	$5,028	$5,028	$5,028	$18,552
Total Value	$127,136,818	$127,136,818	$127,136,818	$1,020,365,082
Land Rate	1.5%	1.5%	1.5%	1.5%
Average Rate per landowner	$75	$75	$75	$278
Compliance Rate	40%	68%	68%	40%
Debt Collection Rate	0%	0.48%	1.94%	4.24%
Total Debt	$101,035,633	$100,555,249	$99,114,097	$101,035,633
Number of Yearly debt sensitizations	90	4320	17280	38500
Sensitization Success Rate	0	40%	40%	40%
Avg. Size of Yearly Debt Repayment	0	$278	$278	$278
Debt recovered	$0	$480,384	$1,921,536	$4,281,200
Total Revenue	**$1,289,302**	**$1,776,796**	**$3,255,585**	**$6,122,190**
Costs				
Digitization	$379,260	$379,260	$379,260	$445,740
Revenue Mapping	$140,467	$140,467	$140,467	$165,089
Other	$6,000	$6,000	$6,000	$6,000
Debt Collection	$110,880	$152,804	$279,980	$526,508
Total	$636,607	$678,531	$805,707	$1,143,337
Profit	**0**	**-$198,147**	**$1,115,829**	**$3,137,863**
Ratio $ Earned vs Spent	**0**	**$0.71**	**$2.38**	**$3.74**

Takeaways

- **CAL can increase revenue:** CAL's approach has increased debt collection
- **Use what you pay for:** CAL is not for free and if it is not allowed to do its work the nature of the contract will result in CAL costing more than it generates
- **CAL is expensive:** the contract with CAL is problematic in terms of its debt collection component which will continue to grow as revenues grow (since it is based on a 8% of total revenue)

Addressing the collection gap will require finding a way to increase compliance of high-net individuals



Takeaways

- **Unequal debt distribution:** High-income individuals (top 10% of the population) own around 90% of the debt
- **Significant gains from a focus on high net worth:** even just getting top 10 individuals to pay their arrears would bring in ~$8m (nearly equivalent of yearly OSR)
- **"I don't have to pay I'm too important":** Compliance is lowest in high-net individuals and should become a particular focus of the tax administration

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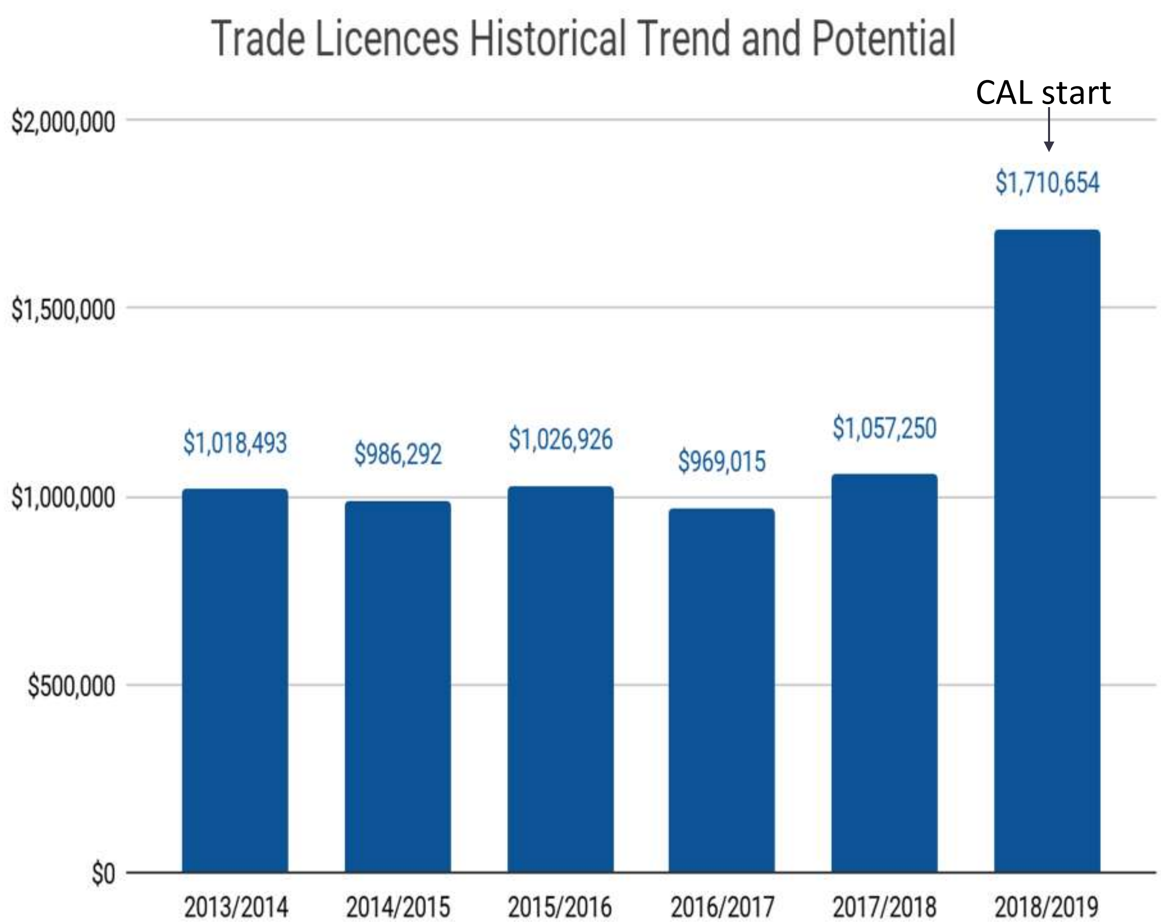
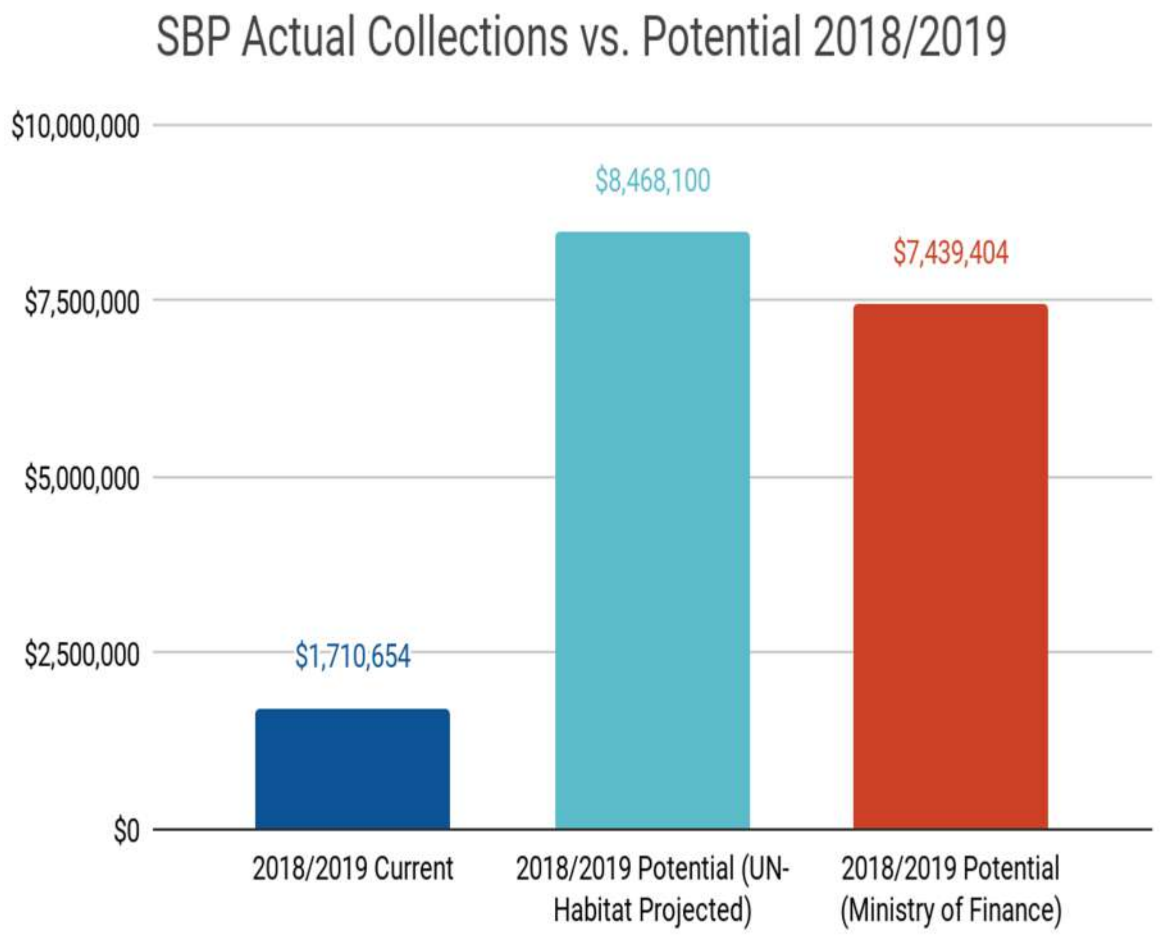
Trade Licences appear to benefit from increased enforcement via CAL



Takeaways

- **CAL gains:** recent growth in 2018/2019 of 61% can be linked to introduction of Collections Africa Limited
- **Increased Ease of payment:** e-platform for online payment makes it easier and convenient for more businesses to comply to payments
- **A new hope?** This increase suggests that the plateau of OSR may be due to ‘business as usual’ approaches

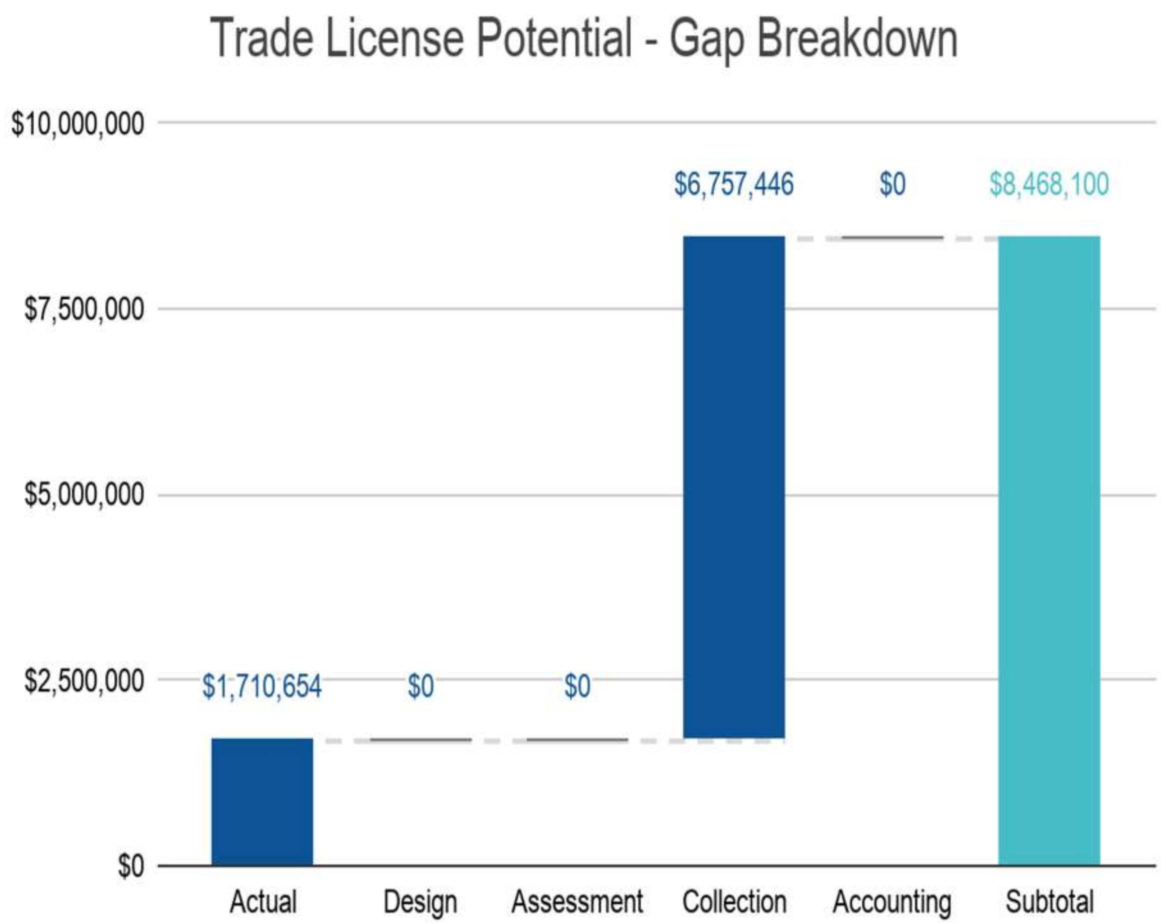
Trade licence revenue is well below potential



Takeaways

- **Revenue is below potential:** this view is also supported by estimates from the Ministry of Finance
- **Not surprising given registration rates:** the current LAIFORMS Business register accounts for **18,383** businesses. CAL outlined more likely **90,000** potential businesses in Kisumu county

Failure to meet trade licence potential is due to collection challenge



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Trade licences face challenges of collection

Collection Gap

Design Gap

$0

- **Rate Charged:** averaged per business is $94, this appears to be fine ✓
- **Revised finance act:** removed fees that had relevance i.e. 506 large eating house
- **Lack of Charging:** of legally mandated and relevant fees during sample timeframe i.e. **120** Kiosk light or temporary construction less than 5 square feet*

Assessment Gap

$0

- **Lack of Registration:** The LAIFORMs System has **18,383** businesses of an estimated **90,000** (20%), but not an assessment problem a) businesses can still be found b) it is easy to know what they owe ✓
- **Registration Difficulty:** no on the spot registration

Compliance Gap

$5.4M

- **Sensitization:** Just 13 collection officers. This means 6923 visits/person/year (to achieve 100% visitation). When people are sensitized 90% pay. No automated system reminder
- **Enforcement**: There is a lack of enforcement officers and vehicles so distant businesses are not approached. When businesses are threatened via social bonds enforcement 90% pay
- **Low Voluntary Tax Compliance**: Bad perception of government/tax system. High income refuse to pay and cumbersome payment process
- **Legislation**: Weak legislation, no legal precedent/court case

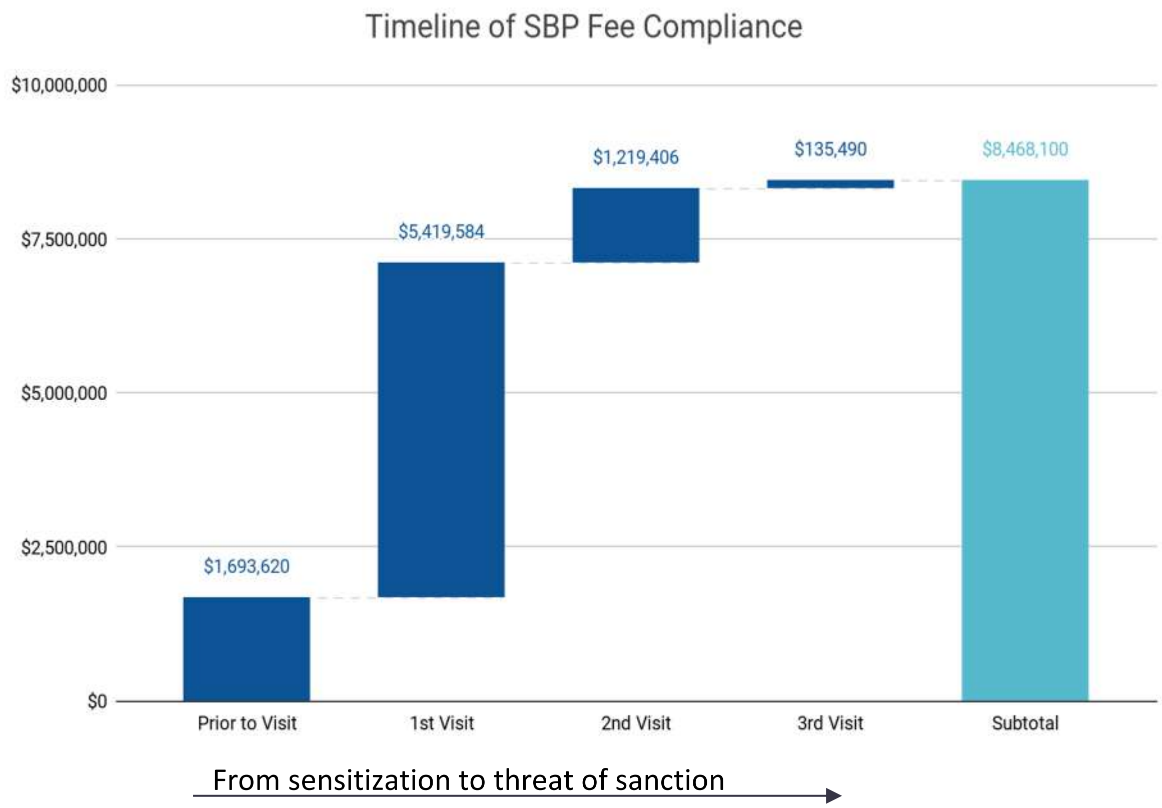
Corruption Gap

$1.3M

- **Corruption:** enforcers/collectors accept payments in return for tolerating non-compliance
- **Poor Hardest Hit:** Lack of charging for **120 Kiosk Light [..]** and other informal sector businesses during the observed time frame suggests this may be where corruption lies

**Based on sample by Kisumu County of collection of SBP over quarter FY*

SBP can be increased by reminding citizens of their duties, without escalating enforcement threats



Explanation: during the first visit the taxpayer will simply be informed of his outstanding arrears, why the tax is important and what his options are. With the second and third visit the repercussions will be clearly stated. In the third visit an ultimatum is provided

Takeaways

- **Most people pay on first visit:** On the first visit 80% of those non-compliant pay
- **Almost everyone has paid after 2 visits:** on second visit 90% of non-compliant paid
- **Automation of follow-up needed:** to visit the potential 90,000 businesses it would take ~340 visitations per business day which is infeasible
- **Improvements in registration will help**: if more business are registered, collection will be easier

**Based on interviews with CAL*

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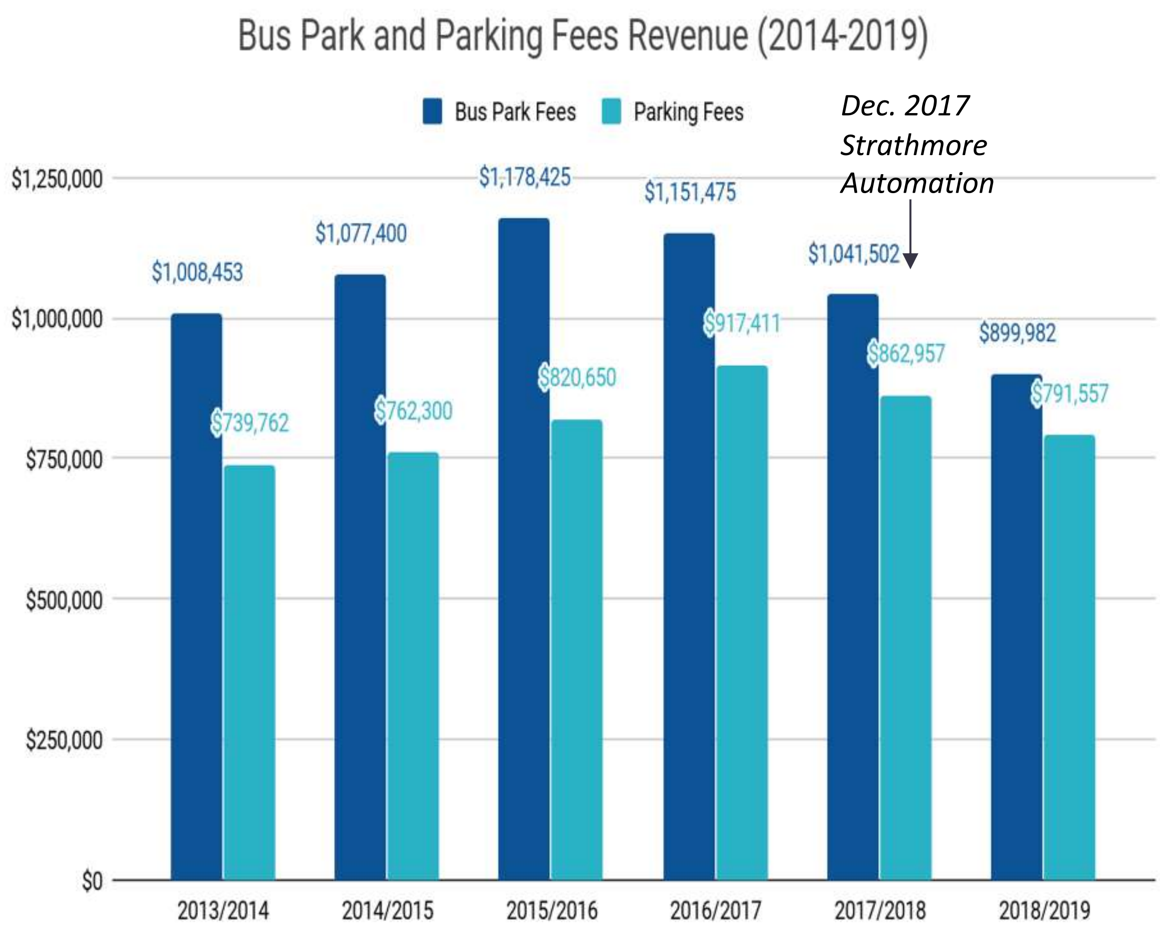
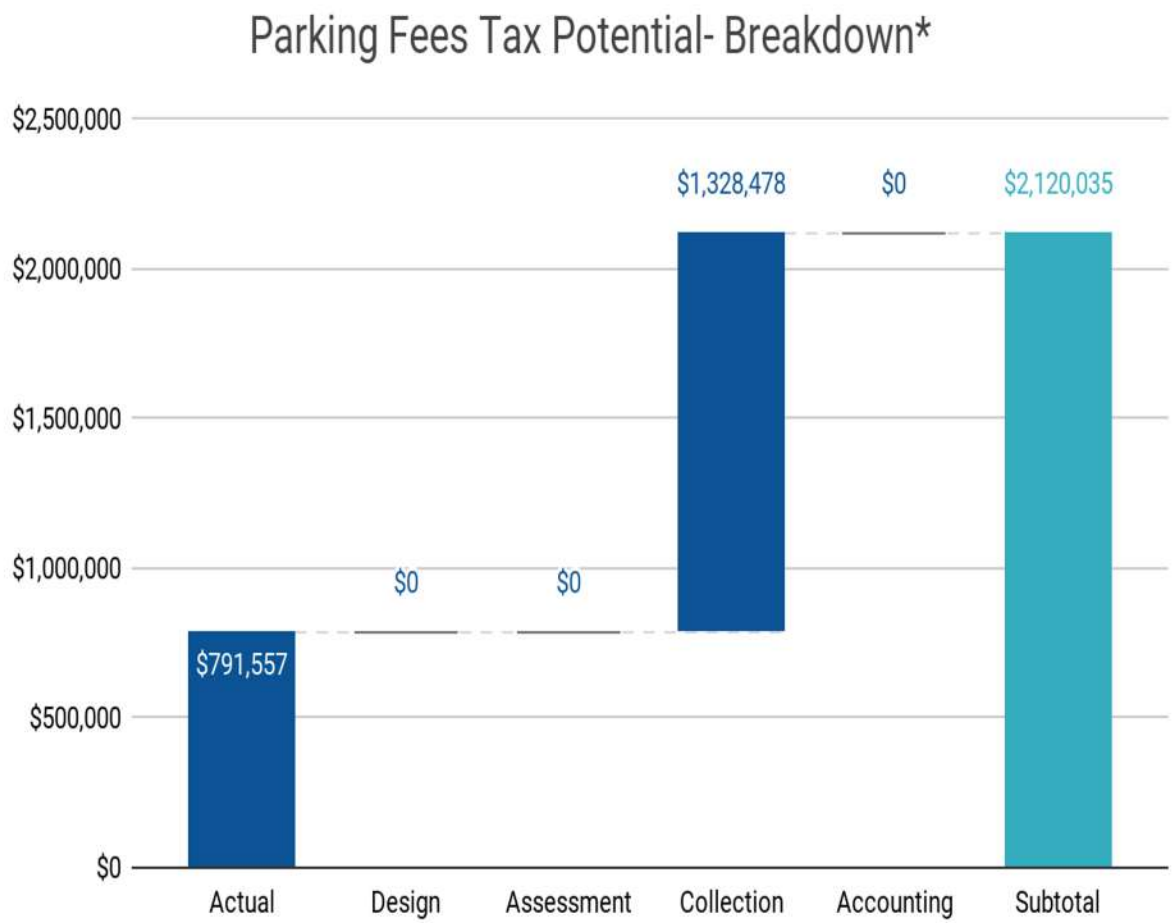
Parking and Bus Park Fees have been decreasing since automation



Explanation

- **Change of system:** in FY18/19 the system was automated
- **Lack of POS:** only 100 POS devices were introduced for 500 collectors (for all unstructured)
- **Removal of tools:** manual receipts were no longer accepted disabling 4/5 collectors
- **Citizens couldn't comply:** not all customers had phones to pay via m-pesa, and even those who paid could fake m-pesa payment receipts

Parking fees faces a collection problem with evidence of corruption



Definitions

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- **Assessment Gap:** effect of charging the taxpayer less than what she should pay
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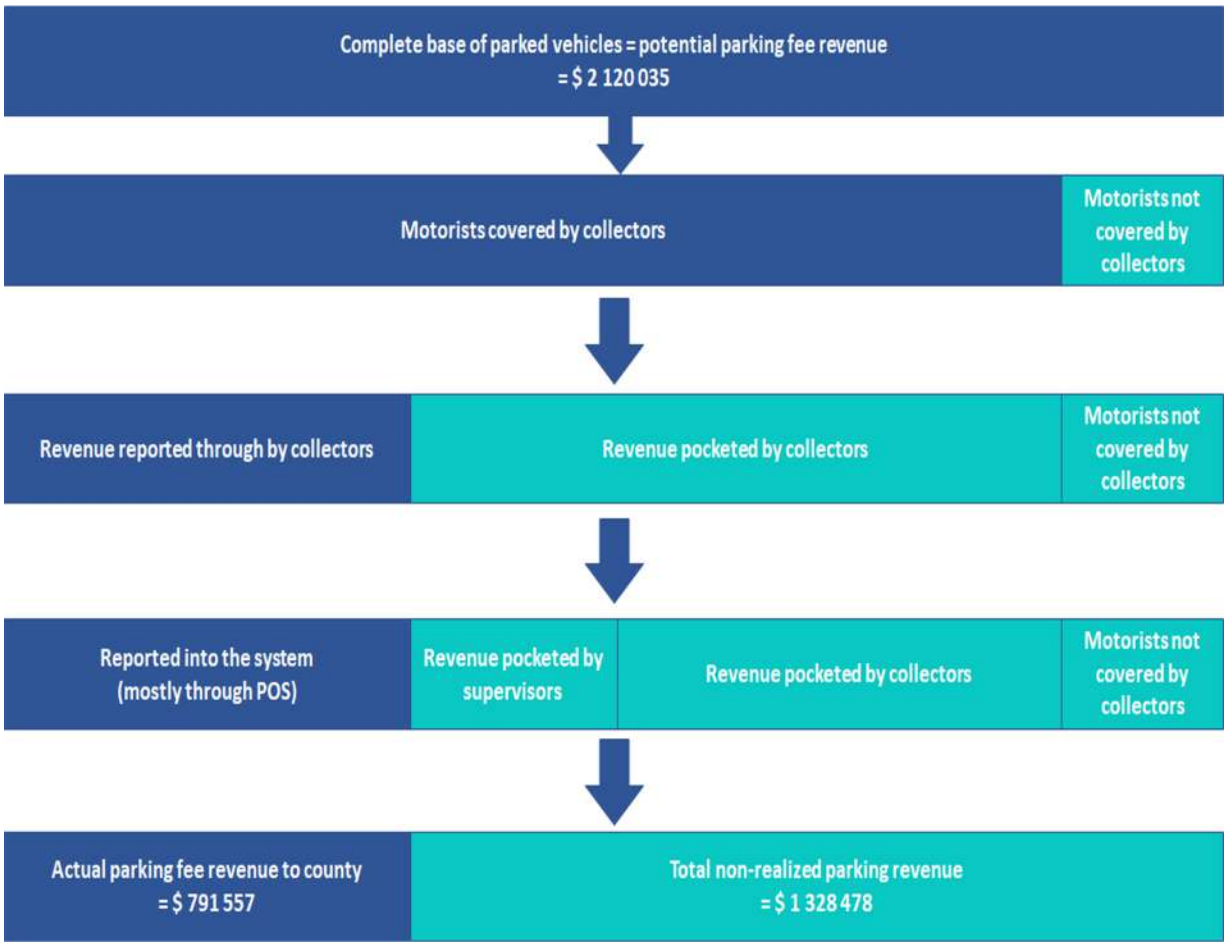
** Boda fees have been excluded from this estimate*

There are a number of significant leakages for parking fees

Parking Fee Revenue System Leakage

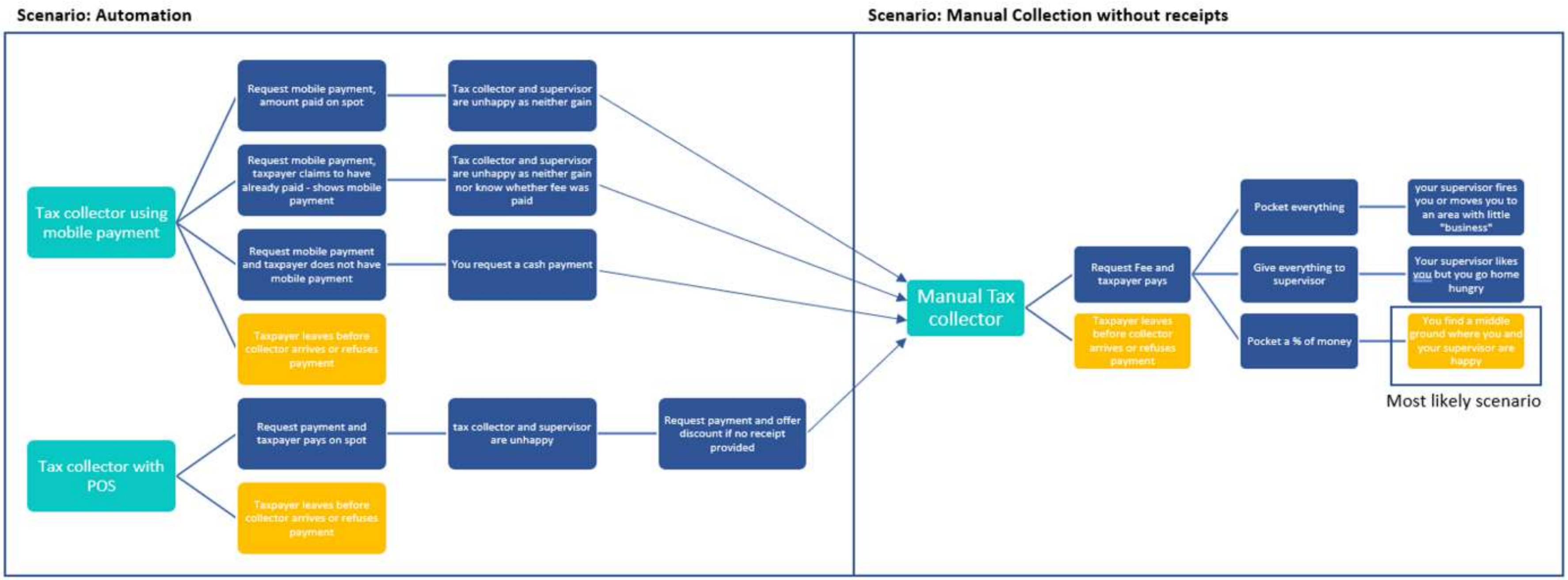


Explanation

- **Dual problem:** It is a combination of non-compliance and theft from collectors
- **No control of tax collectors:** only 1/5 collectors has a POS device and cannot issue manual receipts, USSD system is unreliable as messages can be faked - result collectors collect at will - no accountability
- **Evidence of corruption:** collectors have been working without pay and contracts for months, POS devices not placed on roads with most potential, incentives for theft in the collection process are high as supervisors also expect payments from their collectors*

**Based on interviews carried out with collectors in August of 2019*

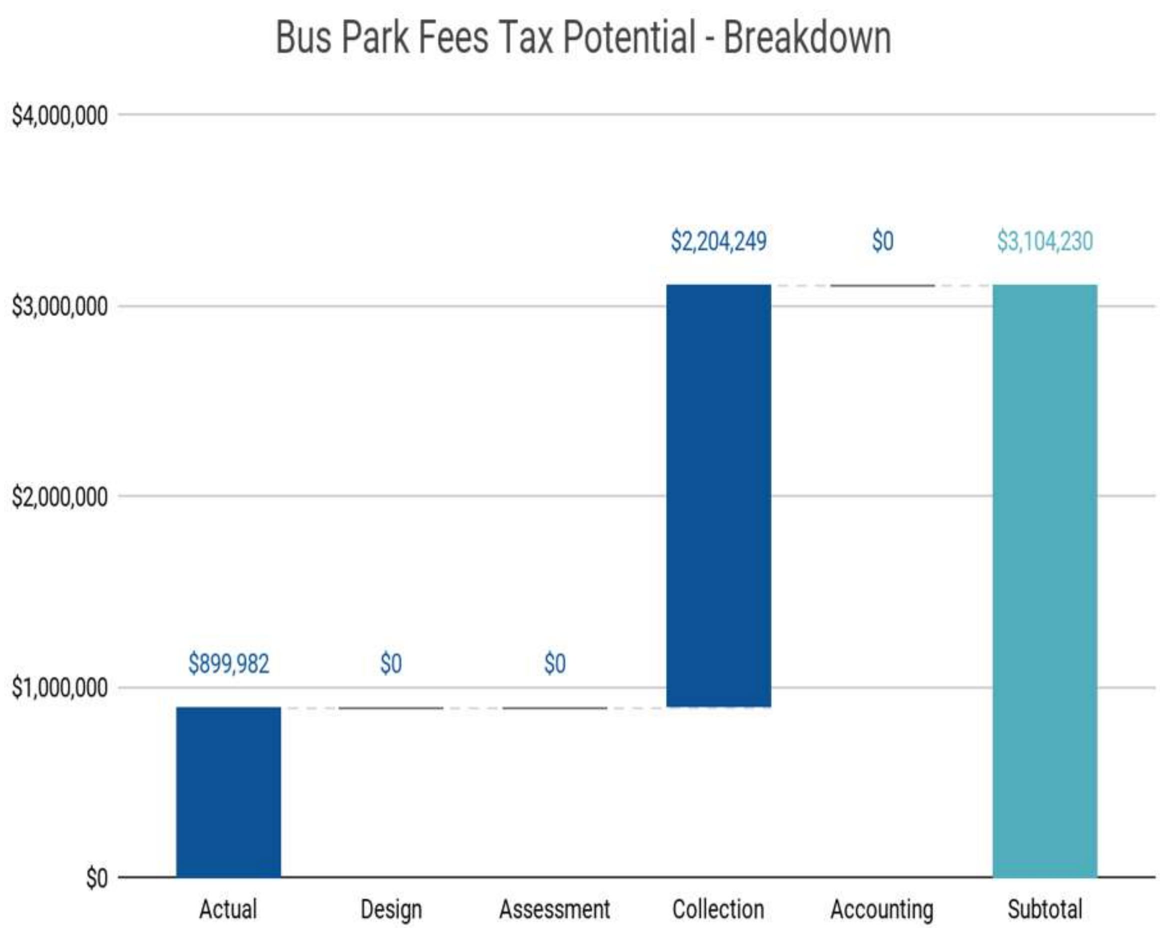
Automation has not worked because it still ends up functioning like a manual tax collection system with little control over collectors



Takeaways

- Automation of payments has not resolved corruption within the collection process.
- The incentives of the collector system are such that they do not want automation to work as it would close down loopholes
- For the current collector system employing contracted collectors (some working without a contract) is not particularly discomforting, given that contracted individuals are generally easier to manipulate

Bus Park fees face collection challenges



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Bus Parks Problem Chart

Loss due to digitization challenges

Digitization challenges: Implementation of the full automation policy presents challenges in collection such as; insufficient devices, faulty devices,, lack of phones by the matatu operators, and few payment options.

Loss due to collectors

Collectors pocketing an amount: This is incentivized due an insufficiency of POS devices, and other digitization challenges. Collectors result to manual receipts where they pocket some of the amount collected before forwarding the rest as county revenues.

Loss due to gang involvement

Gangs: They notoriously control bus parks. Their involvement in revenue collection processes choke county tax collection efforts. Gangs create revenue competition resulting in loss of revenue to the gangs.

Loss due to non-enforcement

Lack of enforcement: Matatus are meant to pay entry fees to the bus parks. Payment is, however, not done due to a lack of enforcement and follow up, and lack of use of penalty system in case of default of payment.

Actual amount collected

Amount collected is just 46% of the potential

Potential amount that is not collected:

$2,204,249

+

Actual amount collected:

$899,982

Sub-Total: *$3,104,230*

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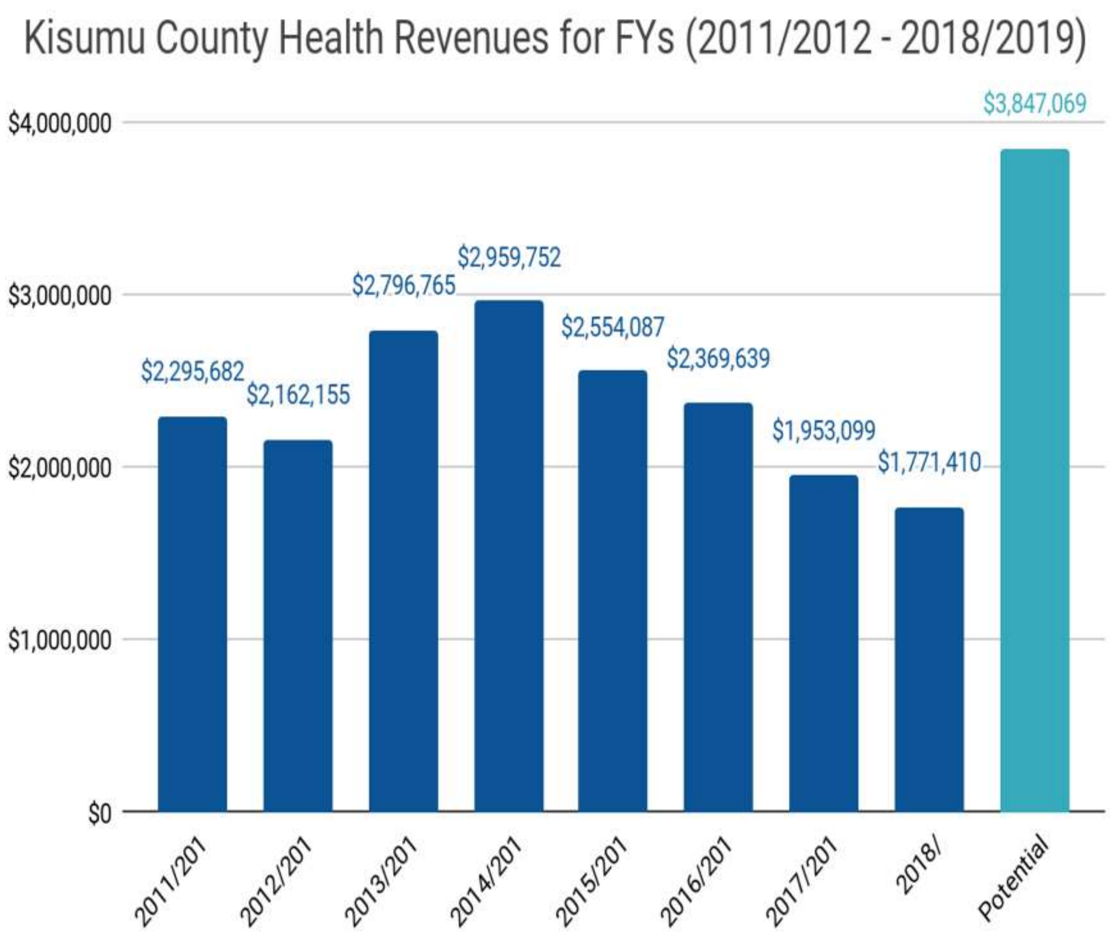
Kisumu Health revenue has been declining



Takeaways

- **Worrying decline:** since 2015 to 2019 the health revenues have declined by 1,188,342 USD
- **External causes:** the decline in revenue could be attributed to several internal factors under control of the revenue system (see next slide) but is also partially a result of external factors e.g. changes in capacity at health facilities, designated free services, universal health coverage (UHC) and distance from health facilities), low utilisation rates of formal facilities

**Whilst we are aware that there are problems beyond SAS, our initial investigation only covers accounting issues for health. Further investigation is needed by the KCG*

The decrease in Health is most likely an accounting problem but further investigation is needed

Design Gap	Assessment Gap	Collection Gap	Accounting Gap
$?	**$?**	**$?**	**Possibly $2.1M**

Design Gap

- **Complex Fees:** variety of fees and easy to charge wrongly
- **Potential Need For Clarity:** regarding exemptions (Finance bill fee 52)
- This needs to be explored further

Assessment Gap

- **Assessment is Clear**: generally not much of a problem since it is clear who should pay and how much for a given intervention
- This needs to be explored further

Collection Gap

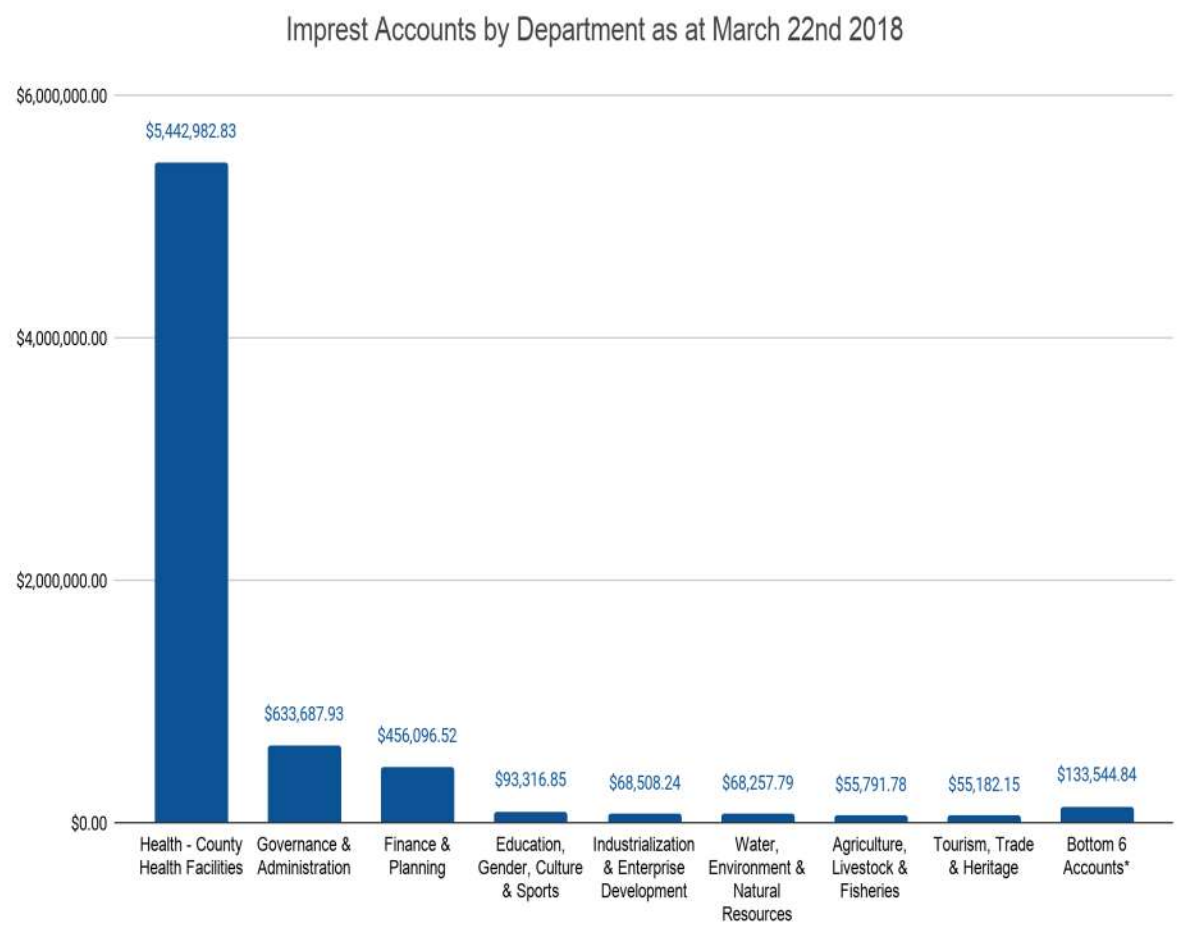
- **Corruption May be Present** given the corruption found within other streams, it would be reasonable to think that it exists here as well.
- This needs to be explored further

Accounting Gap

- **Spending at Source**: Total revenues presented at the end of FYs, are less than the total amounts registered as collected at health facilities. Health care budget absorbed 100% on recurrent expenditure putting strain on the budget
- **Lack of Uniform Systems:** not all hospitals are using digital systems, thus financial reports cannot be easily accessed outside of the hospital

**Next steps would be to investigate other potential leakages. Currently they were beyond the scope of the RFA*

Imprest accounts in Health facilities suggests spending at source issues

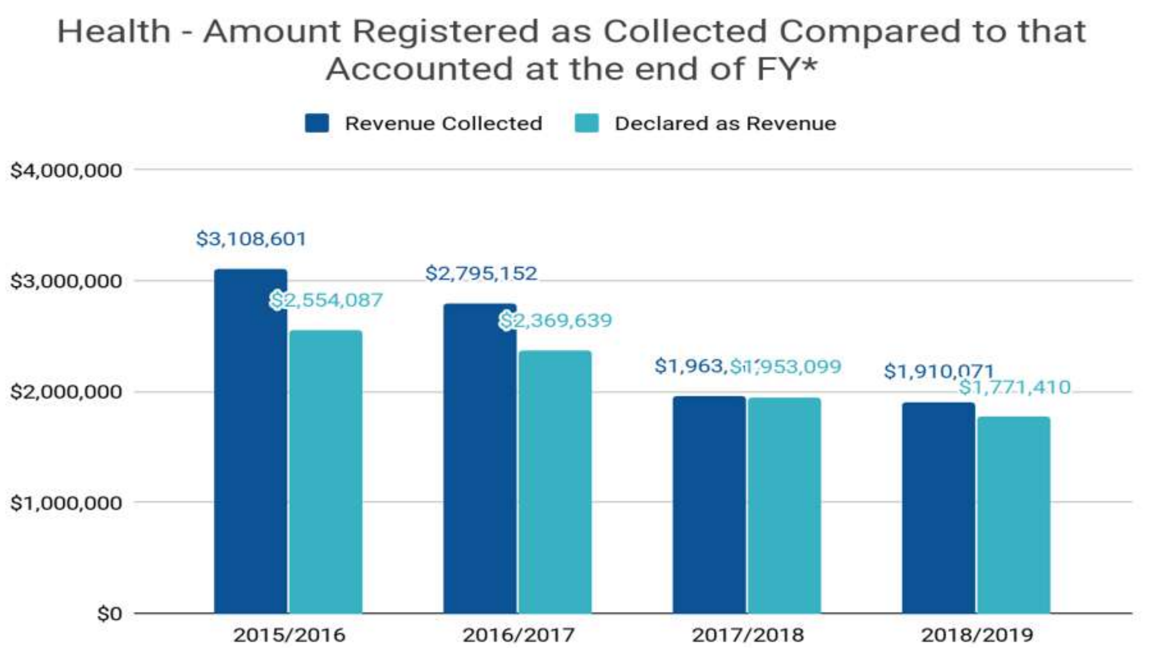


Why are imprests so high?

- **Delays in disbursement** of money from the county government cause hospitals
- **Tight budget constraints** which leave little room for lags in financing the activities of the hospitals
- **Administrative ease:** it is easier to spend at source then account for all revenues and expenditures
- **Enforcements against spending at source is uncommon:** there is an implicit tolerance of spending at source to prevent hospitals from experiencing cash flow issues with potentially fatal results for patients*

Source: KCG document "Outstanding Impreset at March 2018"
** Based on interview with County Officials from the Health Department in August of 2019*

There is some evidence of spending at source and misaccounting



Why is spending at source a problem?

- **Bad governance:** A high imprest account invites misuse/theft and makes it difficult to fully understand hospital revenues, needs, and assess their performance
- **Reduces potential intergovernmental transfers:** since transfers are proportional to the amount of own source revenue collected
- **The Finance Bill prohibits it**

Takeaways

- **Accounting issues:** Total revenues presented at the end of FYs, are less than the total amounts registered as collected at health facilities. The difference presents evidence of spending at source.
- **The 2019 gap is likely much larger**: the amount for 2019 is expected to much higher because the data used for collection is missing for 3 months. If government officials do not sanction spending at source and this also provides hospitals with more flexibility, why would they not do it?

*Source: datta from collection amounts from Health accounts vs. amount of revenue for that FY

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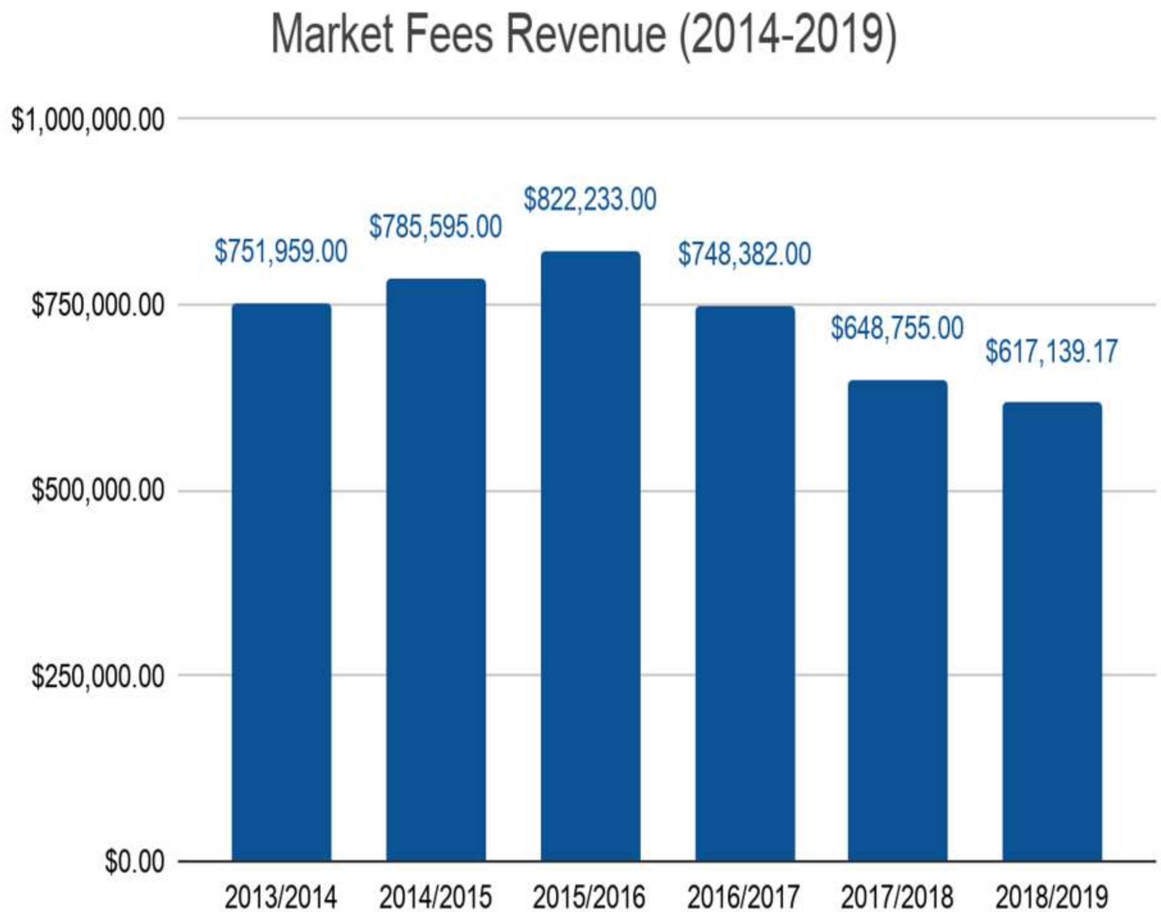
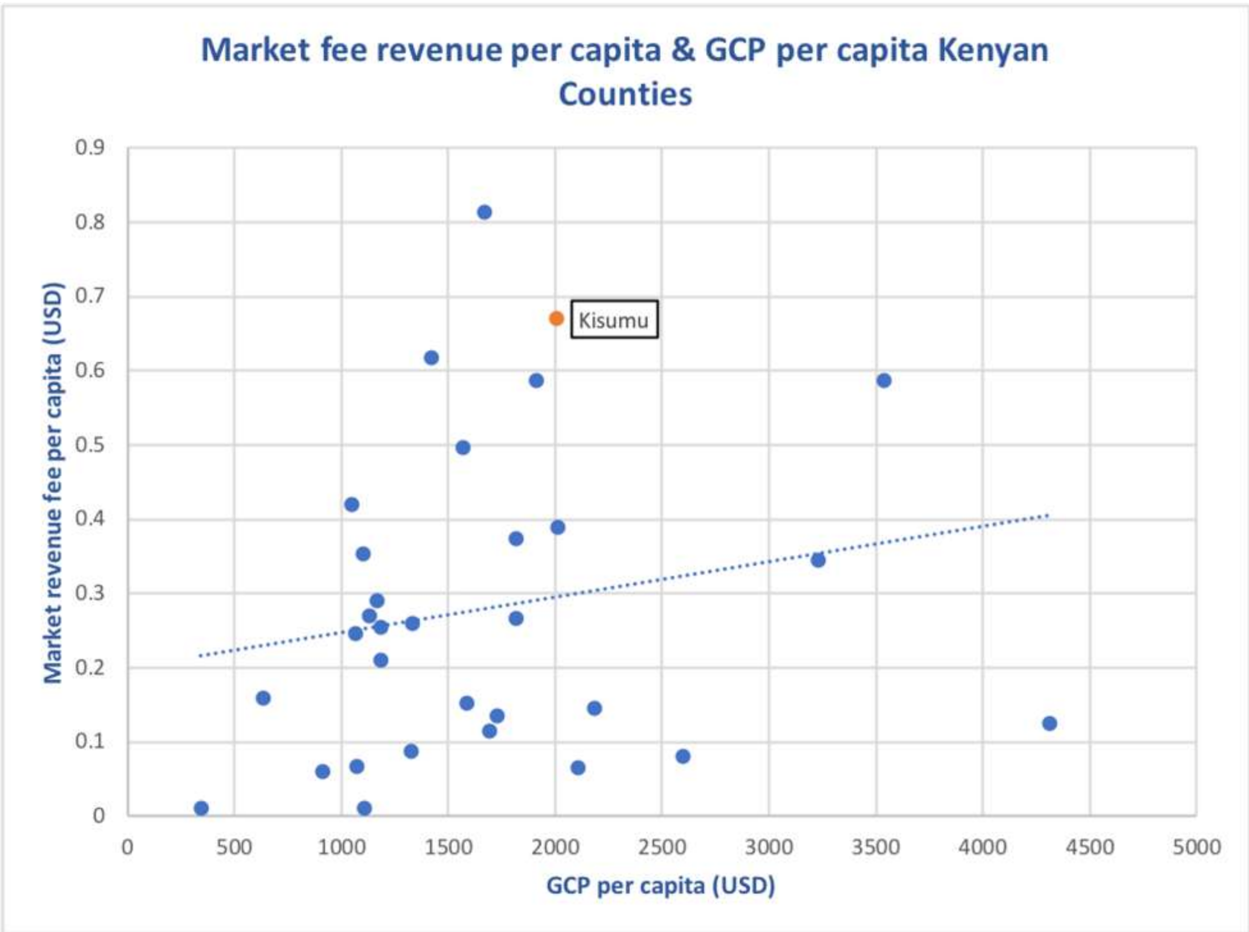
Kisumu's revenue from market fees is declining



Takeaways

- **Revenue has been declining**: Revenue decreased by around 20% over 5 years
- **Revenue should be increasing due to**: a) GCP/capita and population growth b) improved public services and c) Improved admin practices
- **Recent policy has likely reduced revenue:** destruction of markets within Kisumu is likely to have reduced overall OSR potential

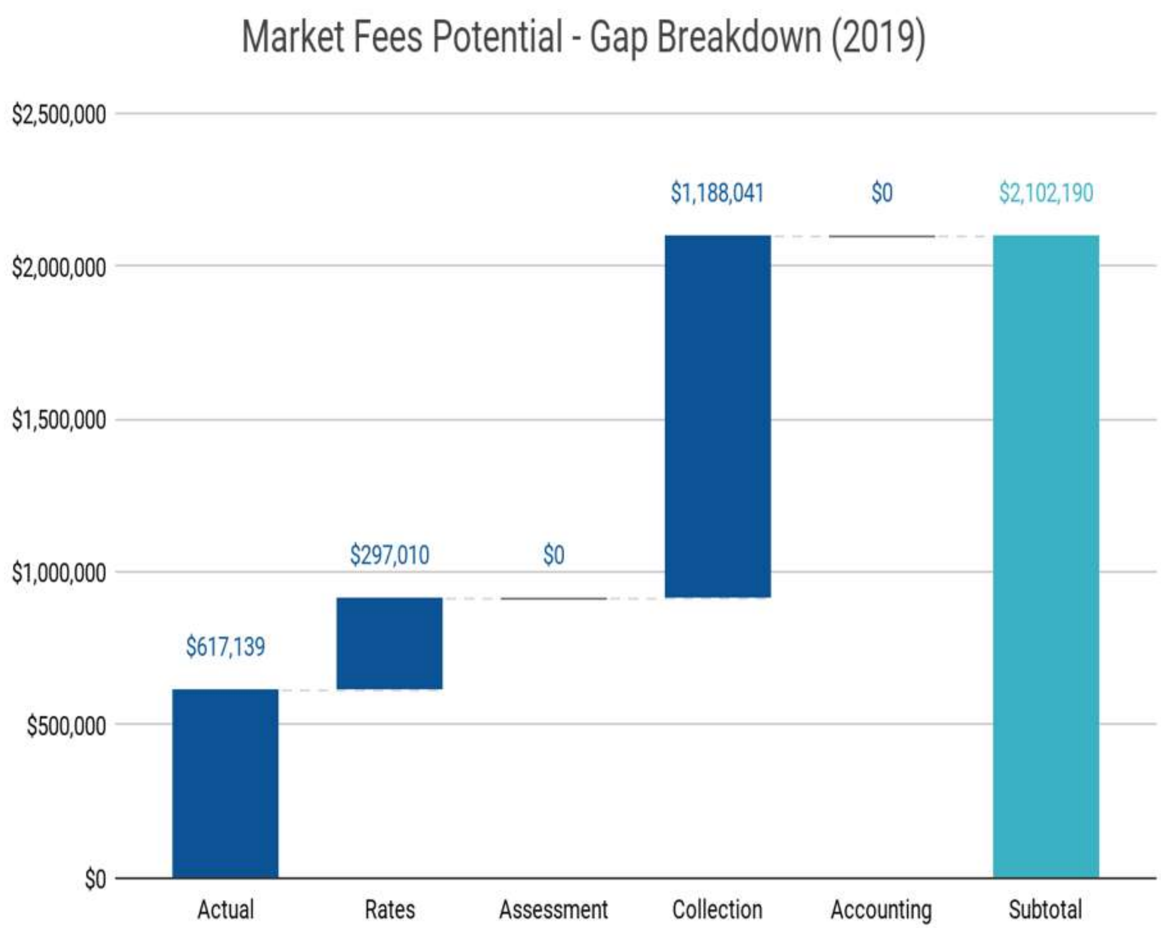
Kisumu is performing above the national average for market fees



Takeaways

- **Overshooting:** Kisumu County has OSR from Market rates far above its peers
- **Consistent with KC's endowment:** This is not unexpected considering the ag and urban makeup of Kisumu county
- **Potential indicator of uneven tax effort:** However, it does suggest that a lot of the tax effort is focused on markets

Markets don’t meet potential due to complex design and collection



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Corruption is the single most probable cause of low market OSR

Collection Gap

Rates Gap	Assessment Gap	Compliance Gap	Corruption Gap
$297K	**$0**	**$237K**	**$950K**

- **Overly Complex Fees:** there are approximately 175 fees relevant markets in the Kisumu Finance Act.
- **Omissions:** Within the act 7 fees are not even stated
- **Ambiguous Units of Measurement:** 69 fees have units of measure that are easily abusable*
- **Potential to Merge Fees:** at least 24 fees could be merged (as they are the same in fee and materially similar enough)

- **Lack of Database:** there is a lack of existing database for markets in Kisumu regarding; number of stalls, number of average attendees

- **Lack of Tools:** amount of POS devices means only 1/5 revenue collectors can collect
- **Abuse of Receipts:** Use of digital receipts means the method of stamping cannot be used. Receipts can be used twice
- **Lack of Enablement**: no manual receipts hinders 4/5 collectors from finding alternatives
- **Ineffective Staff:** despite digitisation leading to only ~1/5 revenue collectors able to collect fees, revenue did not decrease proportionally

- **Easily Abused Systems:** No manual receipts. All collectors without POS could steal
- **Arbitrary Fee Use:** Due to complexity the fee charged can involve the discretion of the market collector

**Such as: sack, basin, canter, basket, pickup, batch, bag, lorry, in regards to tomatoes "small and less" vs. large, a debe, etc.*

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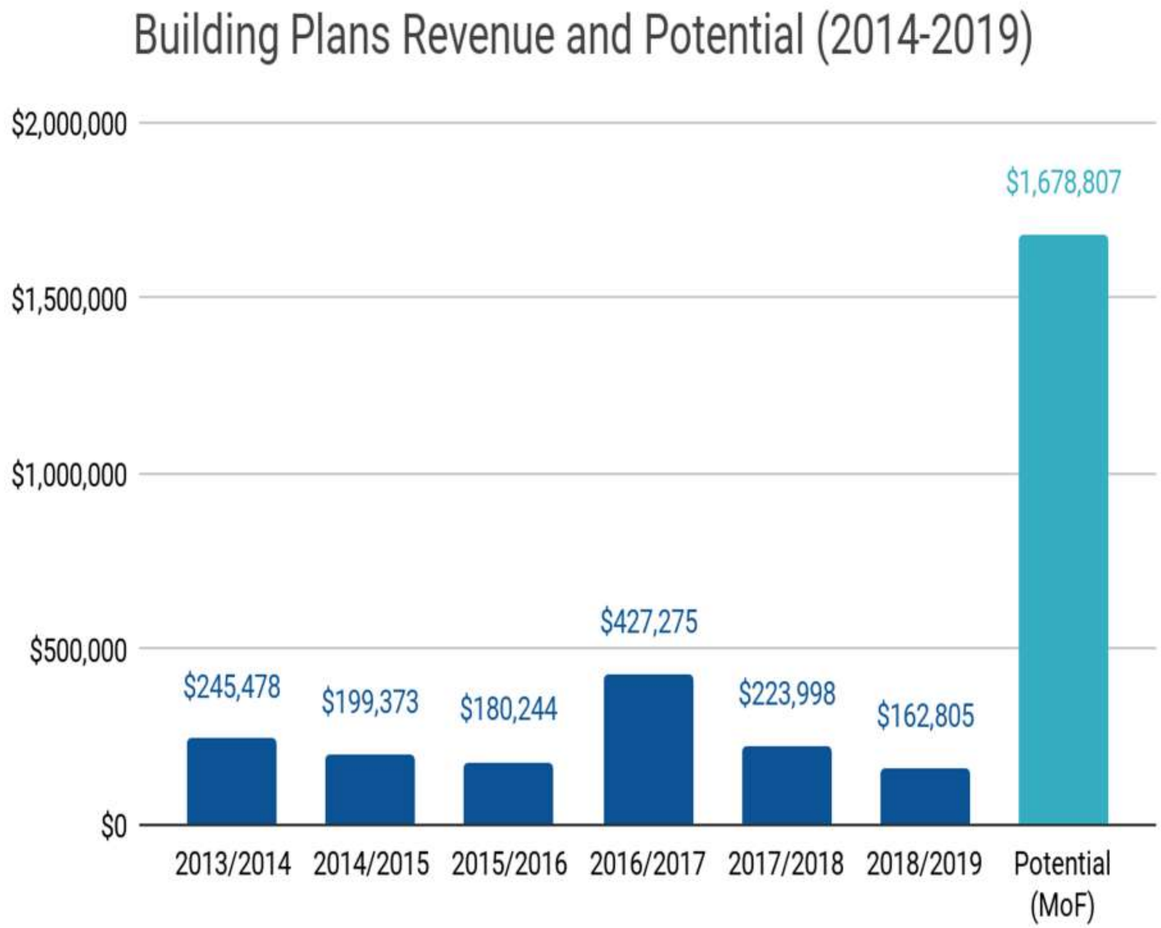
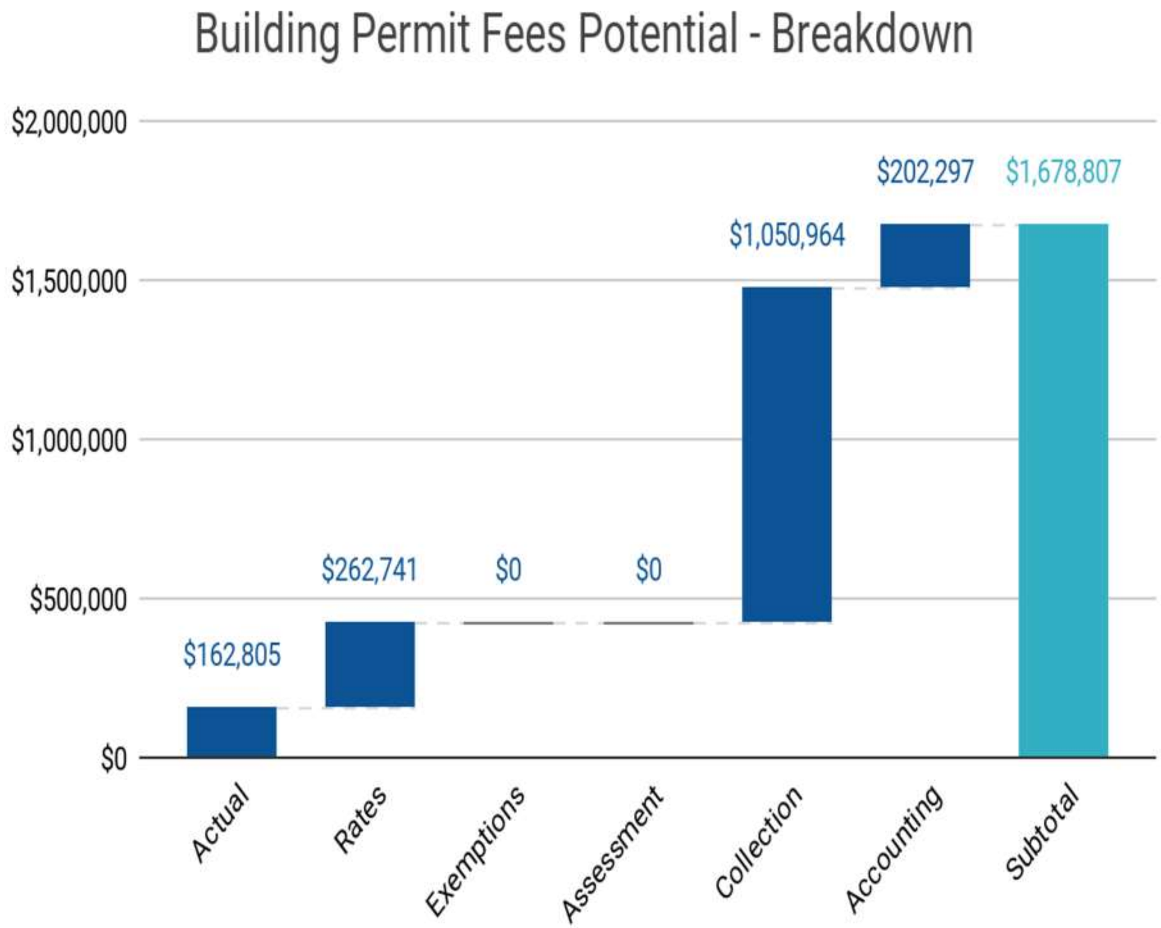
Building Plans may be underutilised with 70% of buildings without formal approvals due to low enforcement



Takeaways

- Revenue is below estimated potential
- Revenue has been rather inconsistent
- Revenue has been declining since 2016 which is rather surprising given the rapid urbanization and demographic growth

Building faces multiple challenges, with collection the greatest



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Building faces multiple challenges, but collection is likely to be the greatest

- **Complex and Technically Difficult Fees:** There's a duplication of building plan fees under the Public Health, Physical Planning and Building Plans in the Finance Bill, 2018. The breakdown of building plan fees by zones (gaps of 47, 93 and 123 sq. m, etc) creates assessment challenge

- **Lack of Register:** there is a lack of register for building permits

- **Corruption:** EACC found Kisumu have the 2nd highest bribes. Construction permits as second most expensive bribe; ~Kshs. 17,661
- **Non-compliance:** 70% of buildings are without formal approval*
- **Lack of Enforcement:** There are currently 2 enforcers at the county and 15 at the city. It is unclear if KPIs are used for these enforcers

- **Potential "Accounting Problems":** with revenue collection in FY18 shown as $426,295 yet only accounted as $223,998. In FY19 there is an account that states there was $426,295**

**Source: interviews with KCG, **sourced from Kisumu County Government "Construction Permit Advisory, 2019.05.07*

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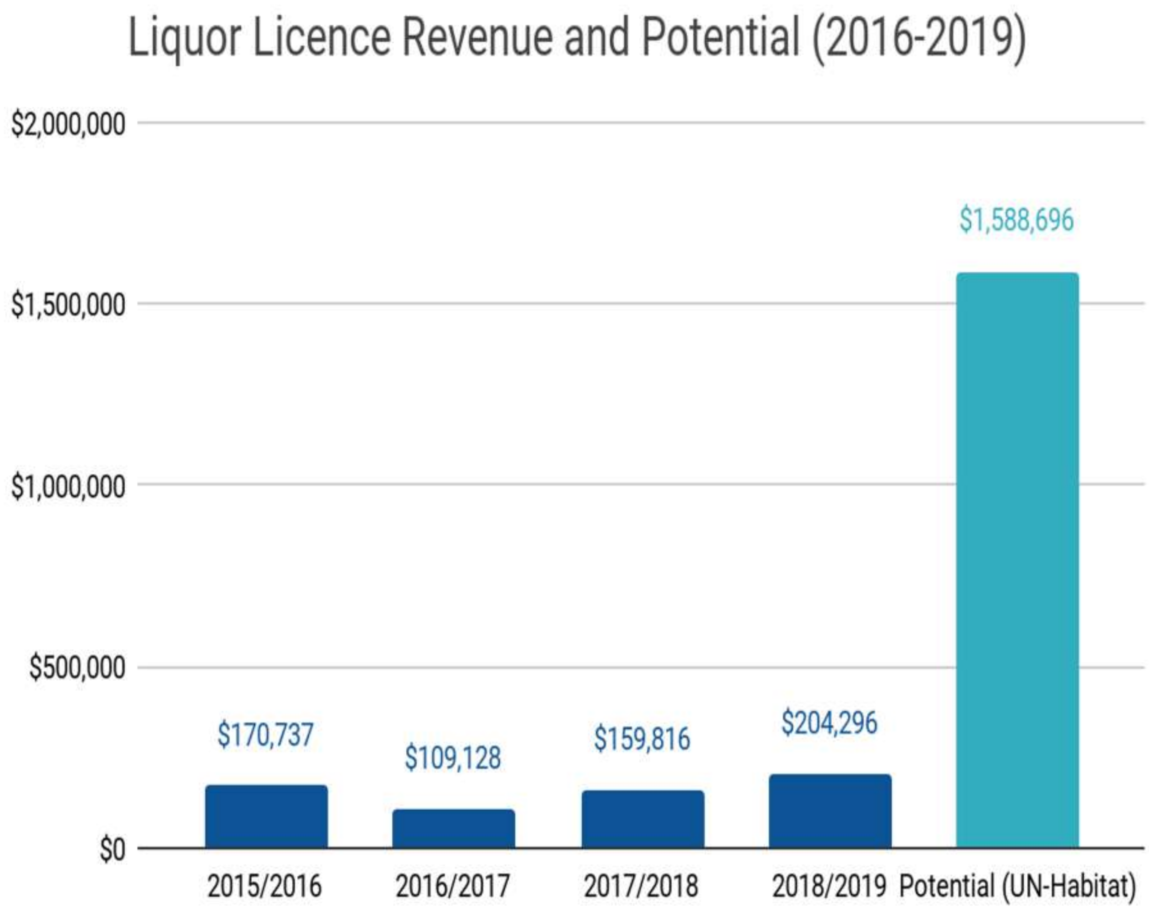
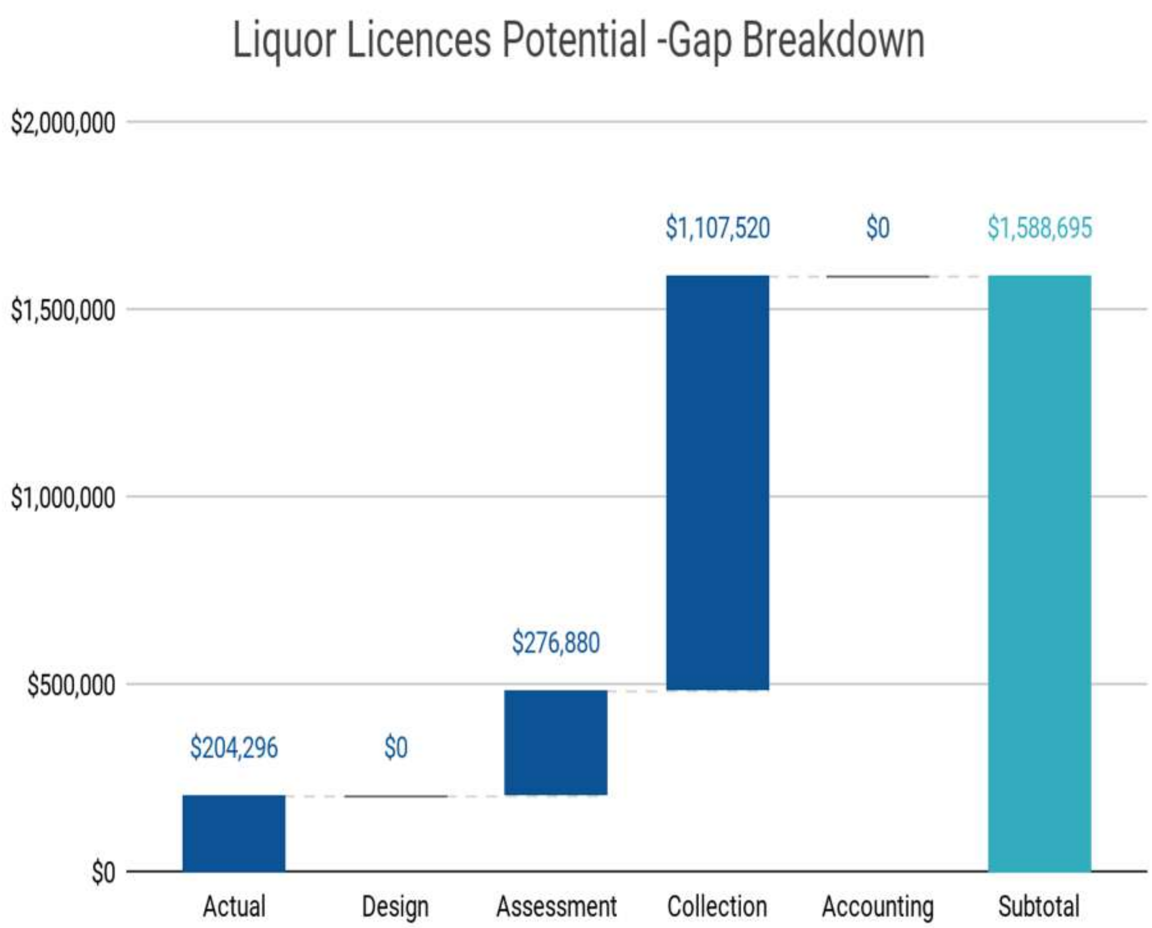
Liquor Licences may be at < 50% of potential



Challenges

- **Well below potential:** Currently liquor licence fees sits at between 6-12% of total potential
- **Unexplained variance:** although Liquor licence should be a relatively stable fee there has been significant change YoY, with revenue returning to similar levels as FY2016. This suggests overly relaxed collection

Liquor Licences suffer a challenge of assessment and collection



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Liquor licences breakdown

Design Gap	Assessment Gap	Collection Gap: Compliance Gap	Corruption Gap
$380K	$276K	$440K	$660K

- **Lack of Consistent Procedure for Registration:** No formal process document; compliance requirements are decided by the sub county officers

- **Lack of Registration:** Just 20% of potential licenses are currently in the LAIFORMs
- **Lack of Assessment:** there is a lack of universal register for businesses that liquor licences are applicable for

- **Lack of Accountability:** no set target on what needs to be collected enables leakages
- **Lack of Enforcement:** despite knowing the whereabouts of some businesses operating illegally the department does not force closure
- **Lack of Capacity for Enforcement:** there is just 1 enforcer. This means there is a reliance on federal enforcers
- **Lack of Online Platform:** there is no way to pay online

- **Reliance on Outside the KCG Enforcers:** The use of federal officers for collection is contributing to corruption. Approx. 60% of enforcement officers collect bribes *
- **Normalisation:** corruption is an expected part of this revenue stream*

**Based on interviews with KCG officials*

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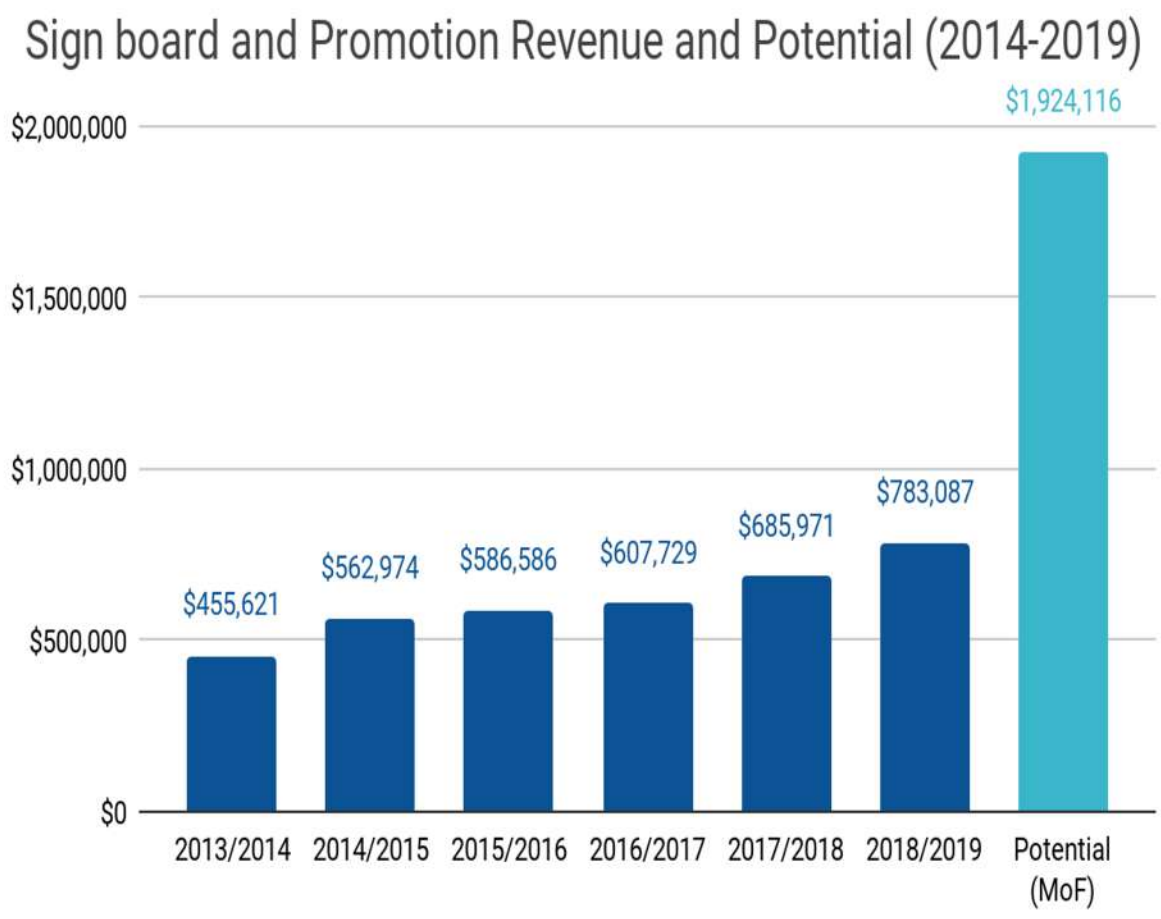
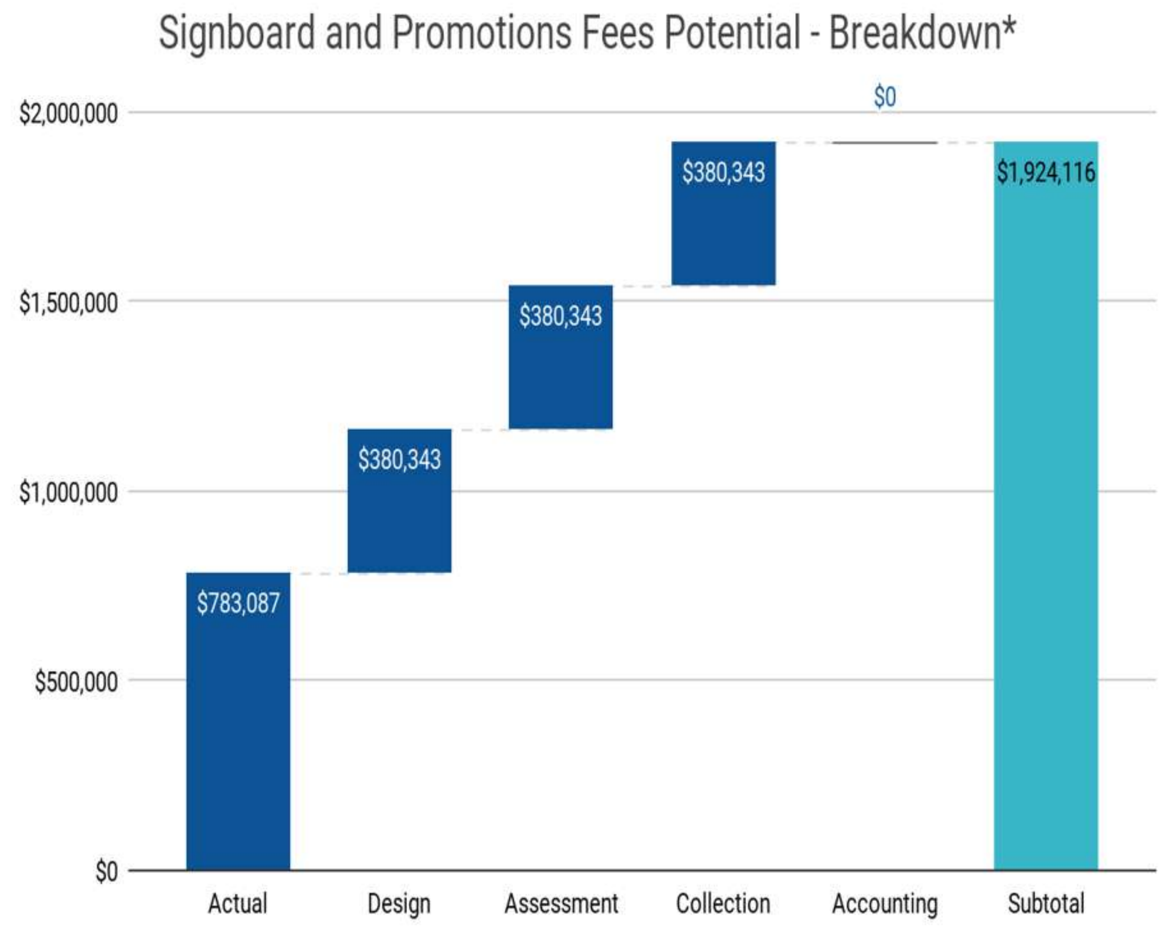
Signboard and Promotion has steady growth but with enforcement challenges



Challenges

- **Significantly below potential:** currently just at 40% of total potential

Signboard suffers from overcomplexity of fees, collection and assessment challenges



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**Whilst it is possible to identify the problem with regards to signboard more research is needed to distinguish the breakdown/focus areas*

Signboard and promotion breakdown

Design Gap	Assessment Gap	Collection Gap	Accounting Gap
$380K*	$380K*	$380K*	$0*

Design Gap

- **Overly High Fees:** On the 20 fee lines shared with Nairobi County, Kisumu 83% more expensive on average
- **Complexity of Fees:** degree of technical expertise and discretion is needed.
- **Lack of legal clarity**: e.g. businesses that advertise from within malls or courtyards claim they do not need to pay despite fees

Assessment Gap

- **Lack of Register:** there is a lack of database or comprehensive register of advertising spots reduces assessment ability and knowing who owes what
- **Lack of Staff Capacity for Assessment:** just 4 officers in the city must create the assessment database

Collection Gap

- **Lack of Enforcement Capacity:** at the city there is just 4 staff and 1 enforcer
- **Limited Cooperation with CAL:** Due to the technical knowledge needed this has limited CAL involvement. Revenue collection team has been uncooperative in working with CAL
- **Corruption:** s

Accounting Gap

- **Accounting:** this does not appear to be a major issue. It could be worth exploring further however

**Further research is needed to accurately allocate the gap across the different functions*

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**Not all of the category other is included in forthcoming breakdown*

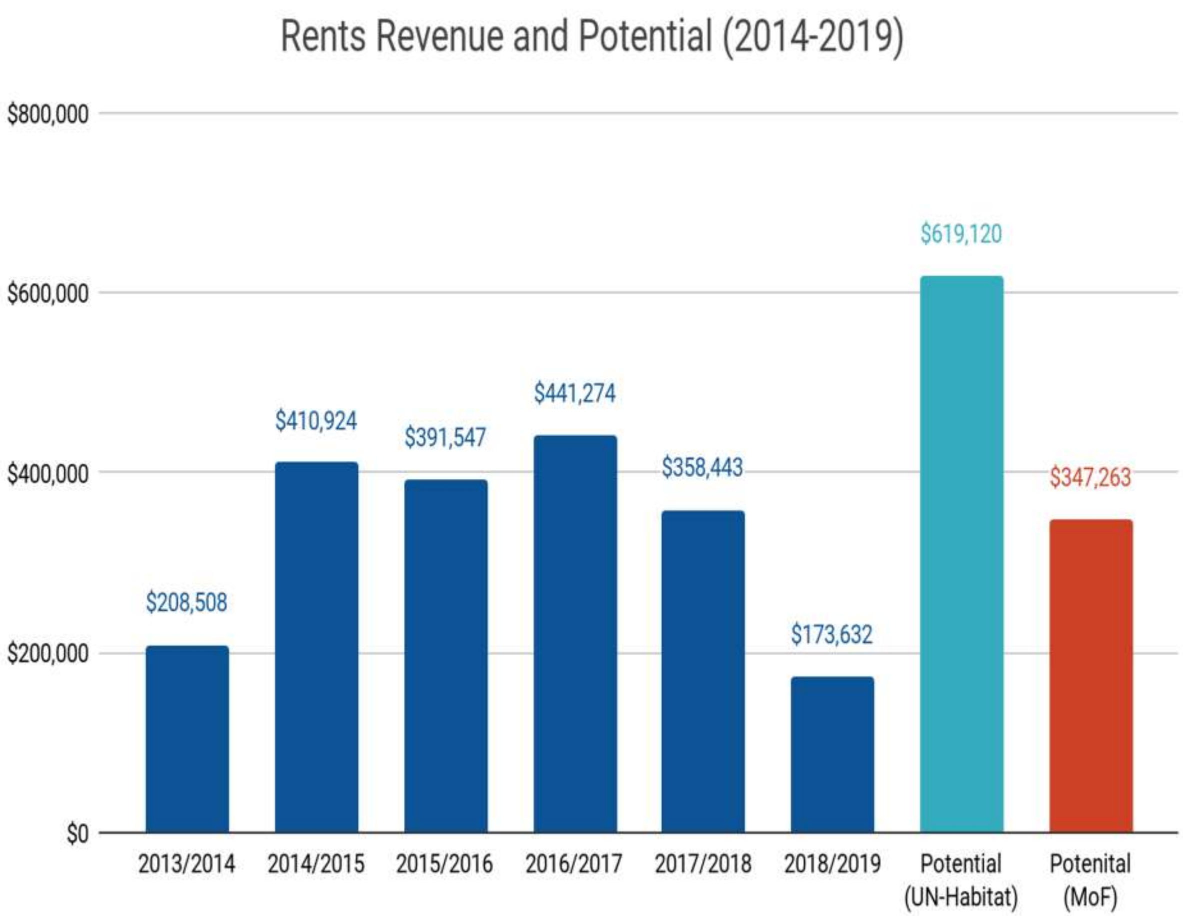
Boda Boda fees if implemented properly has significant potential

	Lower Potential	Mid Potential	Upper Potential
Number of Boda Riders Registered	20,000	35,000[1]	100,000[2]
Monthly Rate Charged	$5	$5	$5
Total Revenue	**$1,200,000**	**$2,100,000**	**$6,000,000**
		Most Achievable Outcome	

Takeaways

- **Inadequate collection:** For 2019 stickers collection was just $3,010
- **New potential:** Boda Boda Drivers agreed to pay fees in June, 2019. This was following negotiation between boda leaders and government for increased service provision.
- **Ongoing effort needed:** There is a need to maintain this tax-benefit relation in order to enable development of this revenue source.

Rent also has more potential and surprising revenue variability

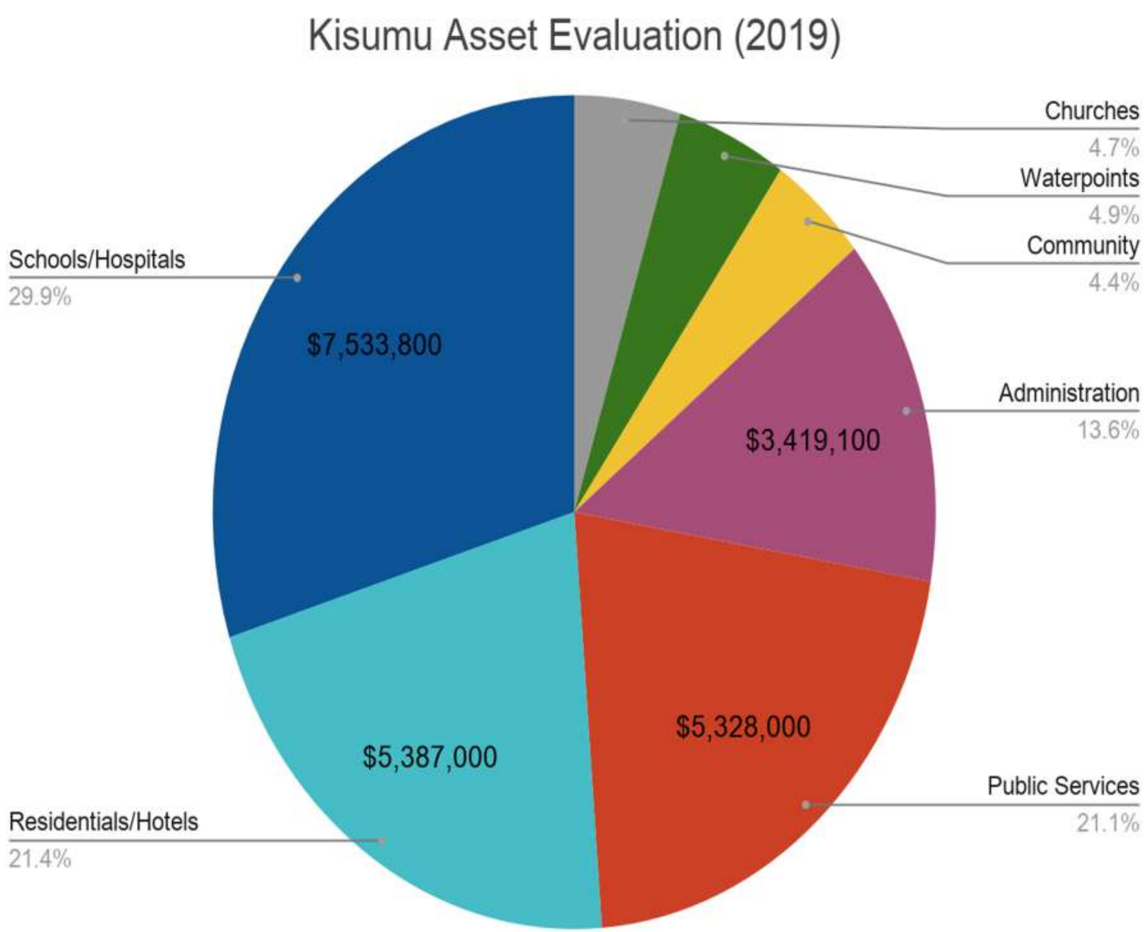


Takeaways

- **Suspicious New Lows:** decrease in rent revenues in FY19; currently at just 39% of its peak in FY17
- **Lack of effective register:** without a register of asset sales it is hard to determine if this is due to fiscal mismanagement
- **Uncharacteristic variance:** rents is a revenue stream that should be stable yet it has a standard deviation of $112,014.17
- **Need for further investigation***

**In interviews in April of 2019, county officials claimed to not have any formal asset registers, creating for all kinds of opportunities for corruption*

Considering Kisumu's asset holdings it is likely to generate more rent

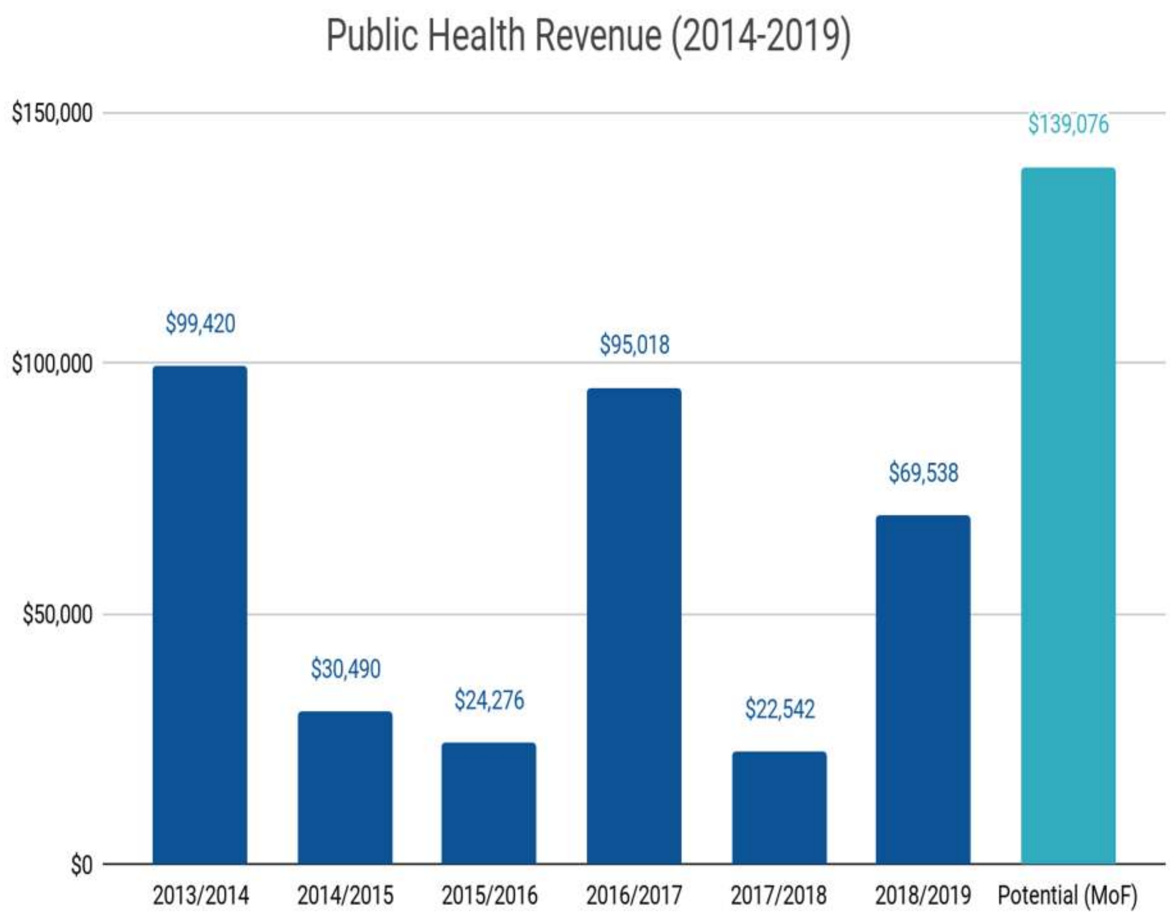


Takeaways

- **lost potential on residential property:** even with rent on residential property alone the county should be making ~$274k*
- **Potential to better utilise community assets:** even with rent on community buildings $57,120.
- **Lack of enforcement:** Water Points represent potential. The lease to KIWASACO should be $288,000 per year but it appears not to be collected.

Source:"Kisumu County Land and Buildings register June, 2018"
** the average rental yield in Kisumu for residentials is 5.1%*

Public Health variance represents a worrying accounting problem



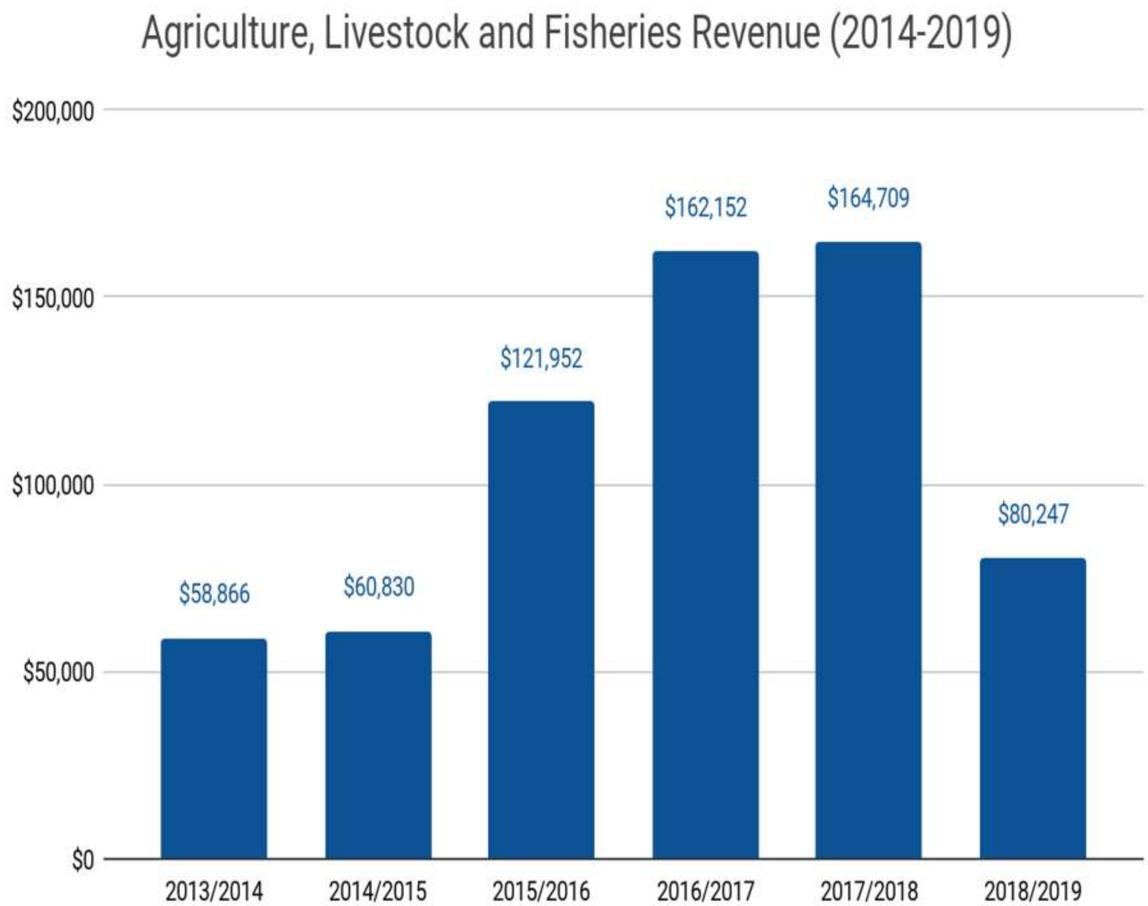
Takeaways

- **Uncharacteristic change:** YoY change is radical for a relatively consistent stream
- **Online platform should remedy this:** but despite being linked to the WB online collection revenue it still varies

Challenges

- **Linked to SBP:** as collected on same platform and during same process
- **Collection challenges:** are mostly due to enforcement
- **Investigate:** revenue variance needed

Low revenue from Agriculture, Livestock, and Fisheries



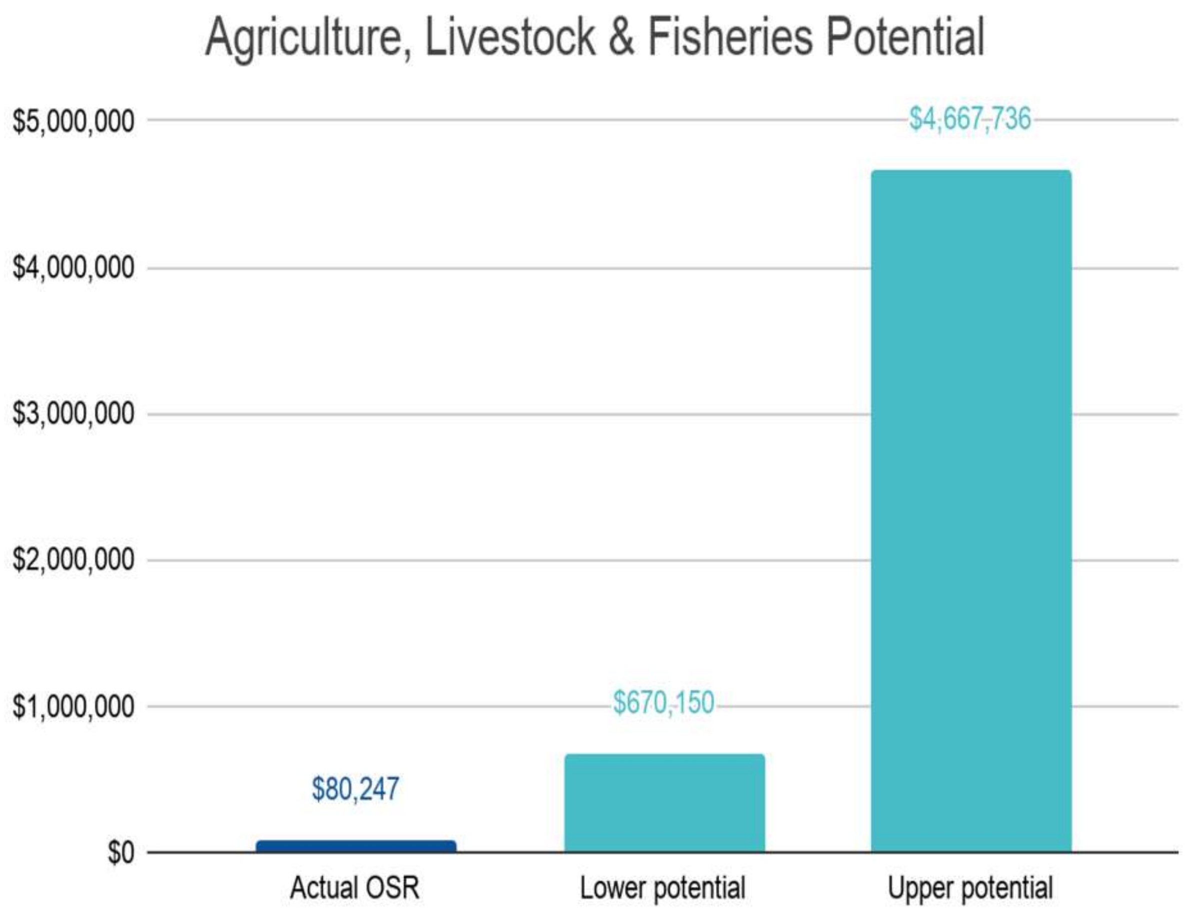
Insights

- **Inconsistent collection** with significant YoY revenue changes
- **Lack of Cess points:** the county no longer uses roadside collection

Challenges

- **Fish Cess requires further exploration:** this could be a source of potential revenue
- **Lack of legal or political priority:** lack of implemented legislation alongside lack of priority

Potential of the sector needs serious investigation



Takeaway

- **Well below potential:** actual collection is between 2-9 % of potential
- **Peers outperform:** Bomet county raises over ten times as much from this stream, despite having lower OSR per capita
- **Why we aren't worried:** whilst it's worthy of investigation Ag is still taxed indirectly
- **Lack of legal rates used:** it is not taxed according to the bill at 1% of all Ag produce

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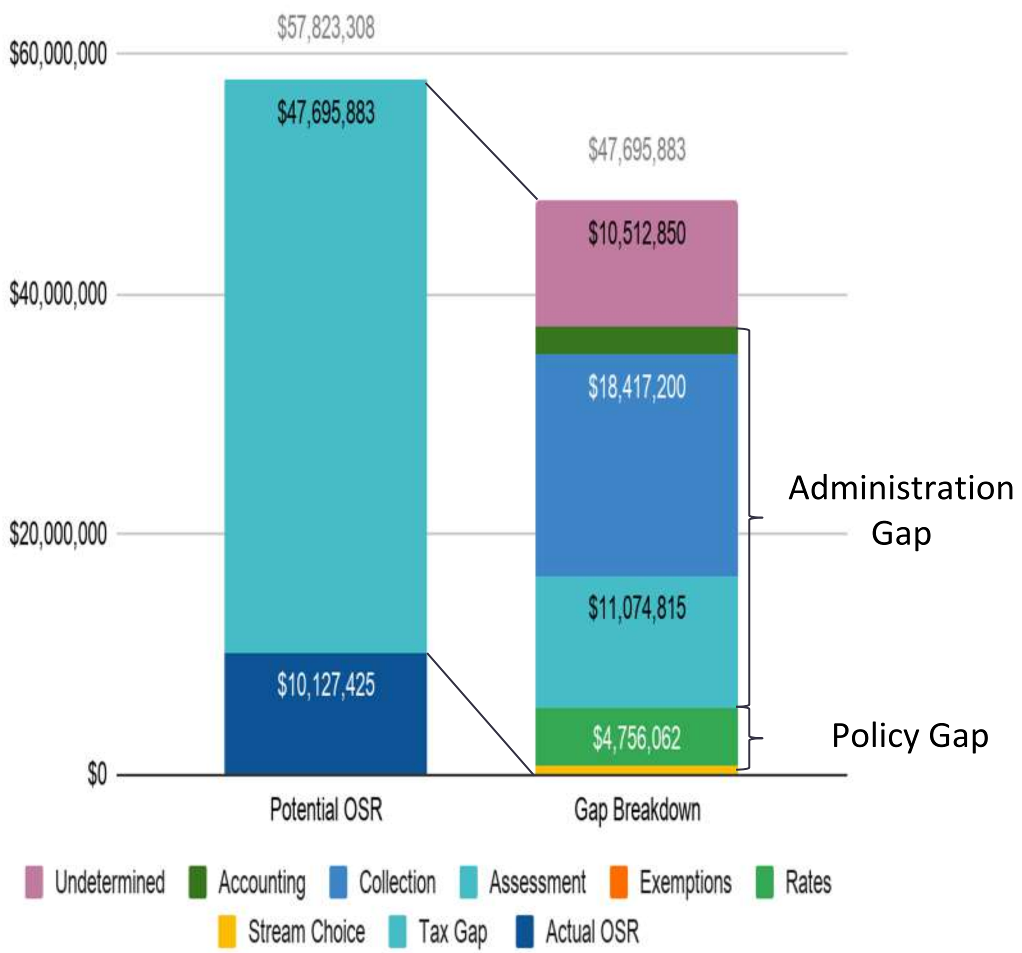
**Note: The remaining 21.6% of Gap by Function is categorised as undetermined*

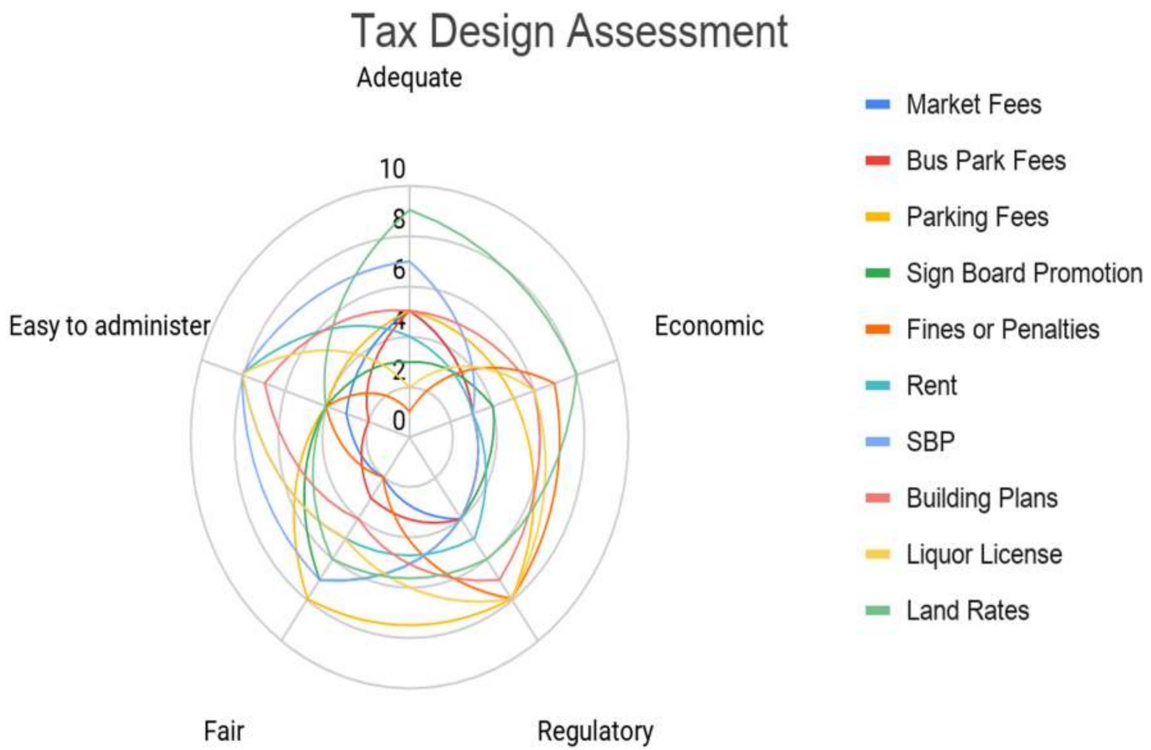
OSR Potential & Leakage Analysis



Definitions

- **Policy Gap**: the difference between potential and actual OSR which is due to specific policy choices
- **Administration Gap**: the difference between potential and actual OSR which is due to the practices of the tax administration, i.e. implementation of policy
- **Stream Choice Gap:** effect of not using the relevant revenue streams
- **Rates Gap:** effect of not charging appropriate legal rates or having a very complex rate system that is hard to administer
- **Exemptions Gap:** effect of exempting taxable value
- **Assessment Gap:** effect of not knowing correctly how much is owed and charging taxpayers less than they owe
- **Collection Gap:** effect of not collecting the amount which is owed due to non-compliance and theft
- **Accounting Gap:** effect of not registering collected amounts properly, although they have been paid for

The tax system is already rather comprehensive

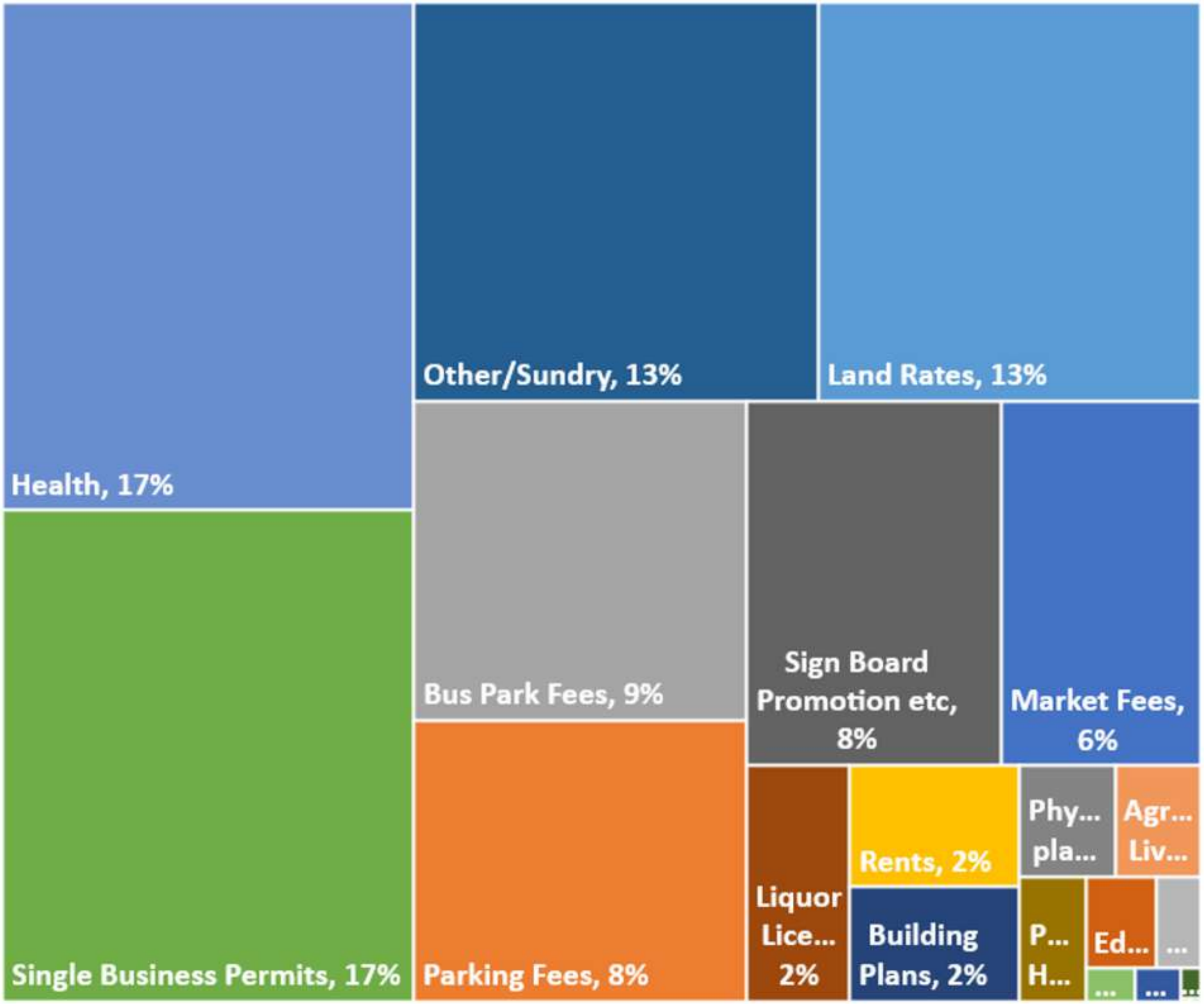


Disclaimer: this is a general representation of strengths of different revenue streams based on the literature on local taxes. The exact shape of the above diagram is affected by local conditions and the specific implementation of revenue streams

Takeaways

- The tax system is based on streams which are less fair
- The system does not need to be diversified with other sources to achieve other goals,
- The characteristics of the revenue system will also change depending on the weight of the individual revenue streams, i.e. the system could be rendered fairer by collecting more from progressive revenue streams

The tax system is already rather diverse. If anything it uses too many small revenue streams



Takeaways

- The typical revenue streams are used and provide 69% of total OSR from top 5
- Little point in adding further small revenue streams, given that bottom 10 revenue streams provided 4% of total OSR
- Only revenue streams with large potential revenue should be added
- The system could be simplified and tax effort focused on exploiting potential of large streams

**Sundry is 13% due to uncategorised revenue sources titled "Paybill" and "Direct payment to KCRA" as a result of 'temporary' accounting failures This has strong accounting implications, it lends itself to decreased accountability of revenue collection and opens potential opportunities for increased corruption and theft*

A stream which is underutilised is tourism (prepare for Africities)

New Tax	Pros	Cons	Suitability
Bed Occupancy Levy	• Externalises the costs of tourism on the tourist • Politically popular • Easy to collect • Difficult tax to avoid	• Potential for distortionary effects	✓
Other Cess*	• High potential with targeted tax policy • High human and technical capacity needed for collection	• Potential double taxation on farmers • High human and technical capacity needed for collection • Easy to escape tax net	✗
Develop-ment Levy*	• Externalises the costs of building projects • Re-couples the tax-benefit relation	• Potential distortionary effect • Politically unpopular • Difficult to quantify fee	✗

Why Tourism revenue should be greater

- **Low revenue:** just 0.335% of OSR or $33K
- **High potential:** 130-300 hotels and ~500,000 travellers passing Kisumu Airport yearly

Rationale

- **Legally possible:** potential use of appropriate taxe "241 Bed Occupancy Levy" already in finance act
- **Economically rational:** tourists increase demand on services yet the city is not compensated
- **Potential distortionary** effect on tourist intake needs a reactive policy

**Discussed by KCG as taxes being explored by the county*

A bed occupancy levy could radically increase tourism OSR

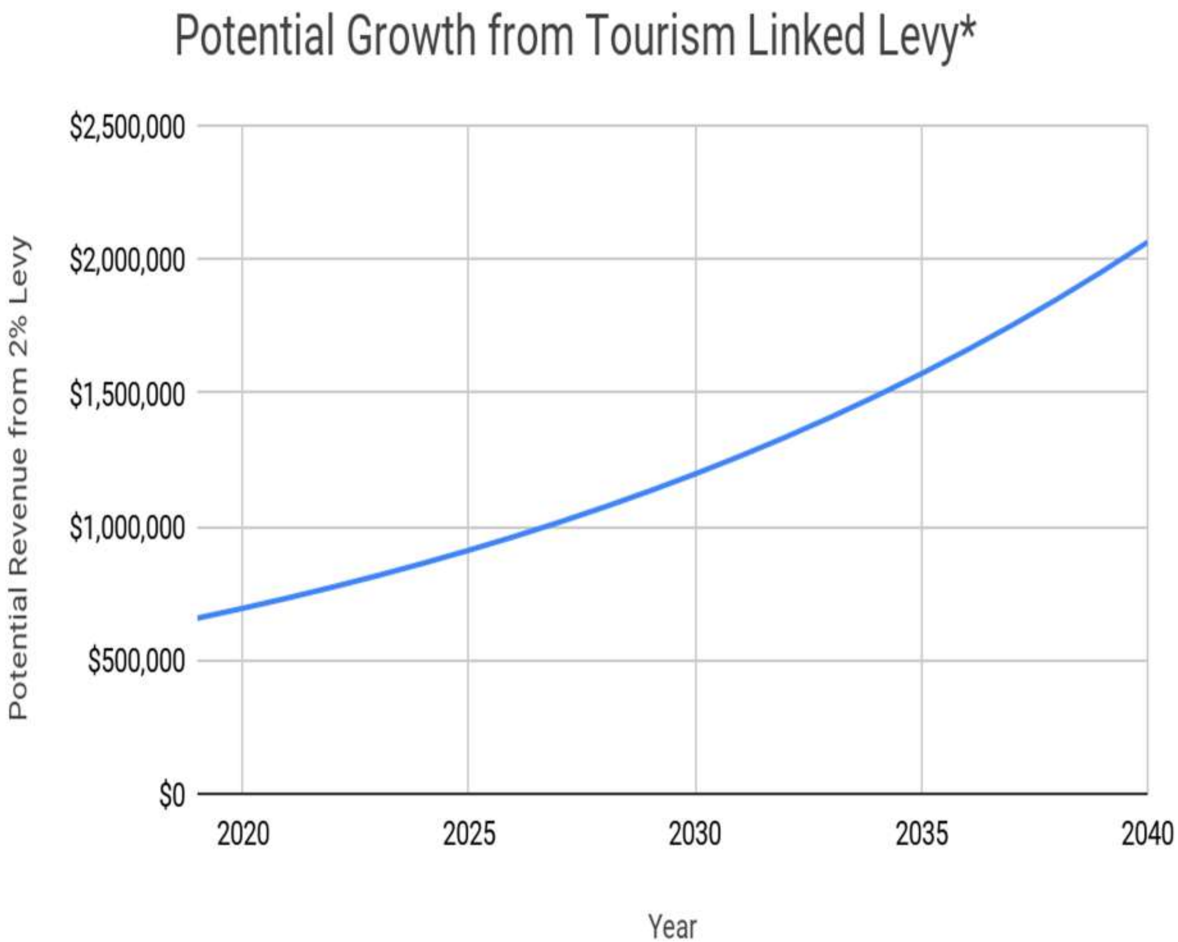
	Scenario 1: Levy 1% per occupied bed	Scenario 2: Levy 2% per occupied bed	Scenario 3: Levy 5% per occupied bed
Estimated Number of Hotels*	100	100	100
Estimated Average Beds per hotel	30-40	30-40	30-40
Average rate charged/night	$60	$60	$60
Occupancy rate**	50%	50%	50%
Potential OSR Range	$328,500 to $438,000	$657,000 to $876,000	$1,642,500 to $2,190,000
		Best Option***	

Takeaways

- **Untapped Potential:** potential of >10% of current OSR
- **Revenue has increasing potential:** with Africities arriving soon and the development of tourism infrastructure (Africities expects >5000 attendees)
- **Start with a bed levy:** a starting 2% bed levy of the daily rate is recommended based on Kisumu's occupancy rates. This rate is based on peer governments.

Based of Kisumu County Revenue Department Estimates **Based of Statista hotel occupancy rates by region, * Based on UN-Habitat estimates*

Tourism faces some significant growth potential



Takeaways

- **Strategic time to implement:** introduction of the levy now could position Kisumu County to benefit from growing tourism within the country
- **Long term growth:** the bed occupancy levy stands to link Kisumu's OSR growth with growth of tourism sector. Potential to double tourism revenue within 10 years following implementation

**Based on projected growth rates of the tourism sector of 5.6% p.a.*

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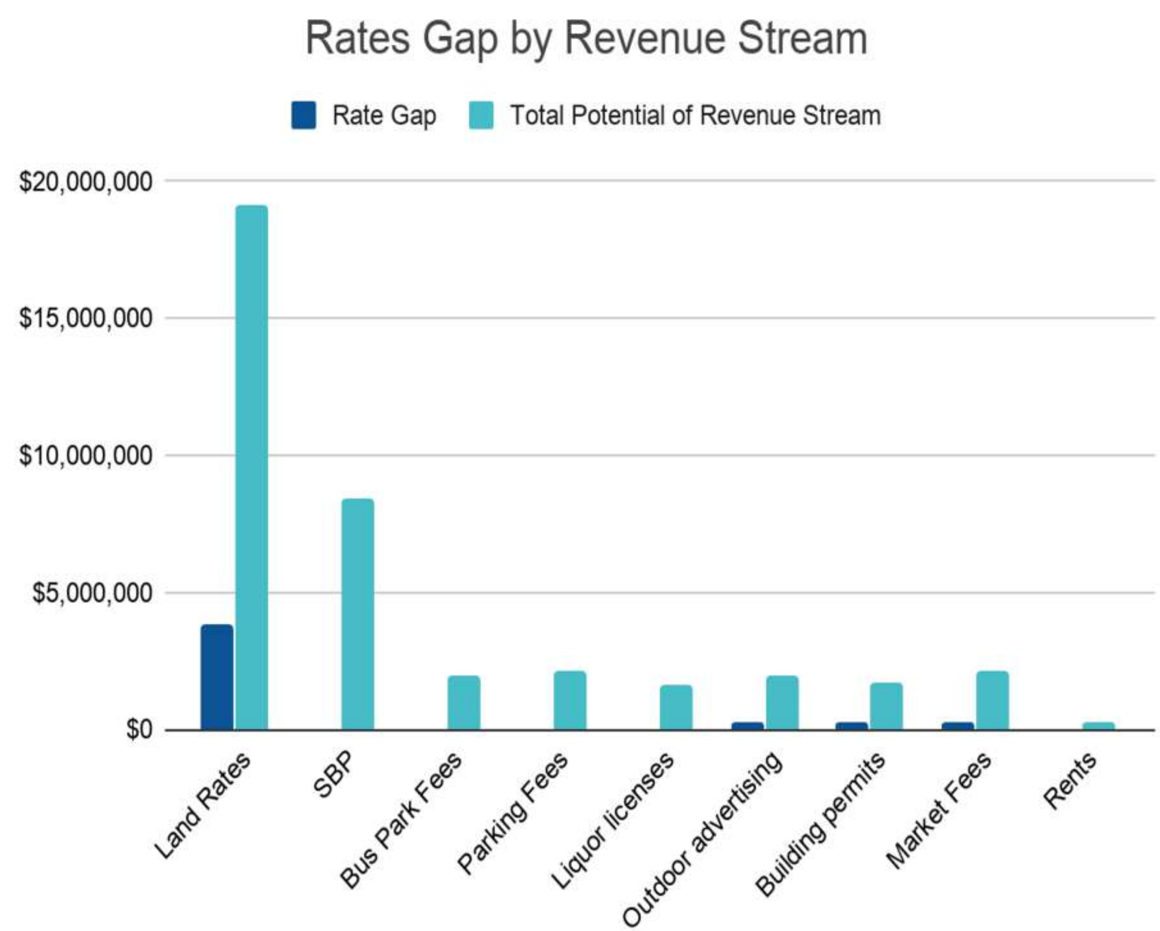
**Note: The remaining 21.6% of Gap by Function is categorised as undetermined*

There are few large tax rate related gaps except for land rates



Takeaways

- The most prevalent tax rate related gap is land rates
- Overcomplexity of fees is the main tax rate related issue for non-land taxes

**This is based on a rapid analysis of the 2018 Revised Finance Bill, focusing on the extent to which rates are within legal norms*

Fine-tuning tax rates should be done after other administration issues have been dealt with

01 It is complicated and costly to determine optimum rates

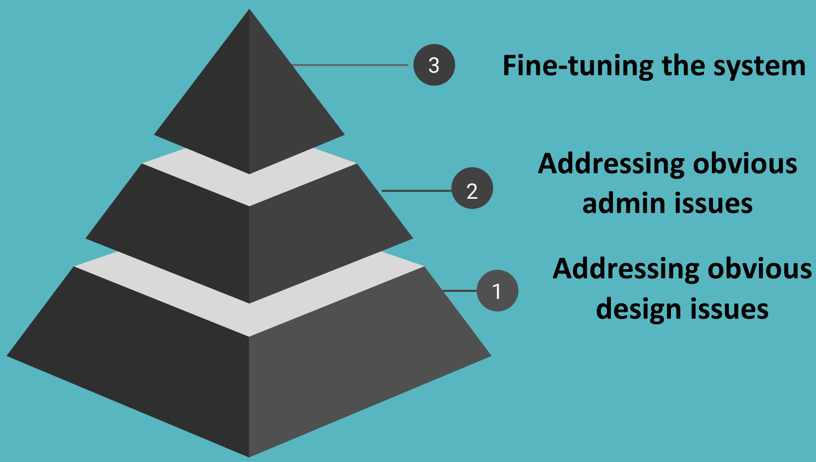
02 It is difficult to estimate effect of rates when other administrative issues remain

03 Increasing rates may likely lower compliance and therefore not have the desired effect

04 Lowering rates may equally not increase revenue and is not clear how low is ideal

05 Changing rates requires participatory processes and potentially lengthy legislative changes

Hierarchy of Reform Needs



Yet user charges could be improved on 4/5 principles

Criteria	Definition	Kisumu Assessment	Is it acceptable?
Clear legal authority	The legal authority to charge for services should be clearly defined. However, It should also have some flexibility for the level of charges to be adjusted without further legislative authority	Certain fees overlap in the finance act (i.e. 129,227). It is unclear what body is responsible for which rates. Ambiguity on fee amounts and metric used	✗
Consultation with users	To avoid misunderstandings (through education) and to ensure appropriate rates are set	Some stakeholders stated they did not have enough time to adequately consult	✗
Determine full costs	The full cost of providing the service (defined to include operational and capital costs) should be determined regardless of whether the goal is to recover this cost. These costs then should be made transparent	This does not appear to have been done transparently and linked to each service	✗
Equity considerations	Consideration needs to be made to assess whether user charges should be reduced or waived for particular categories e.g. pensioner or disabled persons	The county has considered this	✓
Competitive neutrality	When pricing services, the costing procedure should be accurate and incorporate all items of costs faced by private sector entities operating in the same sector	It is unclear if this has happened. Rents revenue suggest that it has not	✗

**Adapted from OECD, and "Managing Public Expenditure - A Reference Book for Transition Countries", The World Bank, (2001)*

Overly severe and ambiguous penalties may be reducing compliance (1/2)

Category	Penalty	Assessment	Is it appropriate?
Rent	3% on any outstanding amount unpaid for after the 31st day of March, every year, or in **127** it states 5%	The use of a % amount makes it relatively appropriate. However, the ambiguity and presence of two rates in the bill represents a significant problem	✓
Illegal discharge of sewage	$50 per 3500 litres	Potentially not severe enough for the degree of externality	✗
Signboard	Penalty for unpaid rate 50% plus fee applicable (read as 50% charge above the relevant fee) . Advertisement non-conformity : 1st offence $100, 2nd and subsequent $500 (notorious get withdrawal of trading licence	This is overly severe. Particularly since signboard is complex and difficult to understand.	✗
Offences not covered by the bill	Are liable, on conviction, to a fine not exceeding $2000 or to imprisonment for a term not exceeding one year or both	This may be too severe if not used appropriately to consider income group. It also lacks clarity and thus may be open to abuse.	✗

Overly severe and ambiguous penalties may be reducing compliance (2/2)

Category	Penalty	Assessment	Is it appropriate?
Building Plans	Late submission of plans $250	This is too severe and is likely to result in people not submitting plans	❌
Bus Park and town parking	Late payment of monthly stickers: 50%	This is too severe and may lead to non-compliance. It also lacks clarity and is thus abusable	❌
Market Slabs	Late payment of market stalls/slabs 5%	This is appropriate but lacks clarity on how the 5% is charged and thus may be abusable	✓
Penalty for non-payment of market fees	Twice the charge	This may be too low depending on the probability of audit/being caught. It also depends on how likely it can be enforced. Research needs to be done here	?
Trade licence	Penalty for late payment of trade licence 5%	The use of a % amount makes it relatively appropriate. However, the ambiguity in the bill represents a problem.	✓

The kisumu county draft finance bill has a number of weaknesses

Weakness	Why this is a problem	Priority
High increase in fees with the introduction of the new bill	Sudden and large increases can have significant negative effects on compliance and trust of the tax base	Low
Overly complex fees such as: markets, cess, and sign board	The complexity of fees increases the technical capacity needed to charge rates and opportunities for corruption/miscalculations	High
Certain fees overlap (e.g. 129 and 227, 166 and 292).	This can confuse revenue collectors responsibility and may result in double collection	High
Lack of clarity regarding responsibilities of each revenue body	This may result in leakages and double collection	Mid
Ambiguity regarding; fees to be charged, to whom, and the timeliness of charges (especially in regards to informal sector businesses such as codes 215,220,295)	This may result in loss of fees charged, or abuse by collectors	Mid
Difficulty for certain streams to assign revenue codes/amounts with high degrees of accountability(e.g. Cess, Building plans). This is most evident in building plans where it is difficult to link fees paid to legally mandated amounts	This makes it difficult to audit revenue, as well as reduces the ease of corruption or abuse of the system. It also makes it harder for consumers to know their rights	High
Throughout the act there are a number of blank or undefined fees (due to poor editing). Of importance is bed occupancy levy in Tourism and Trade	This may mean certain fees that are financially important are left out of the act	Low
Frequent changes to the finance bill (3 iterations since 2014)	This has been shown to have a large effect on compliance	Low

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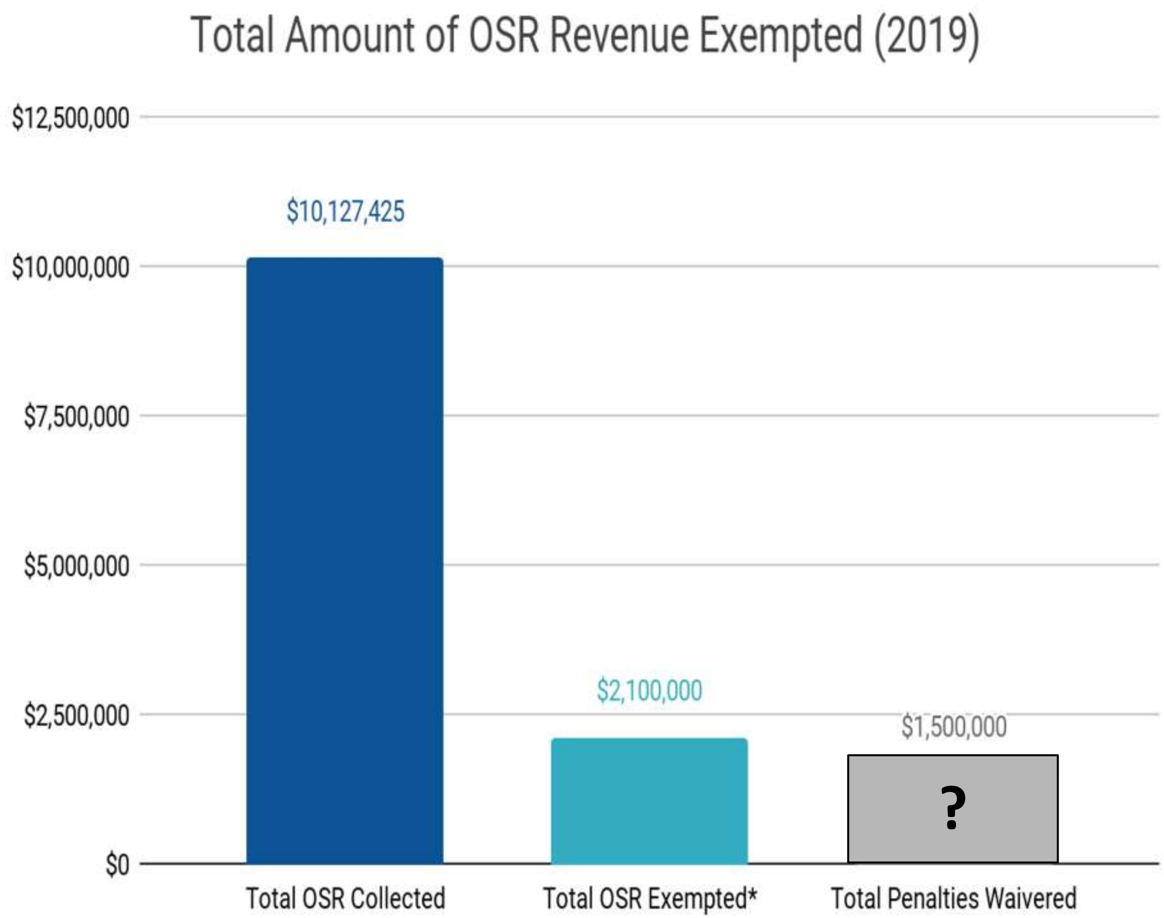
**Note: The remaining 21.6% of Gap by Function is categorised as undetermined*

Exemptions do not appear to cause any tax gap



Takeaways

- **Few tax exemptions to:** prisoners, street families, children <5, and the disabled
- **Waivers:** they exist for penalties accrued but for exceptional circumstances such as severe financial hardship or child headed households
- **Potential lack of accountability:** for waivers all power is in the CEC of Finance.The waiver needs more detail regarding rationale
- **Boda Boda:** this is where the $2.1m exempt is. Since devolution they have refused to pay*

**Whilst technically not exempt, boda boda fees were not collected in the years following devolution. An agreement has recently been met. This accepted refusal acts as a type of exemption in these circumstances. However, since not an official exemption we have not included it as an "Exemptions gap"*

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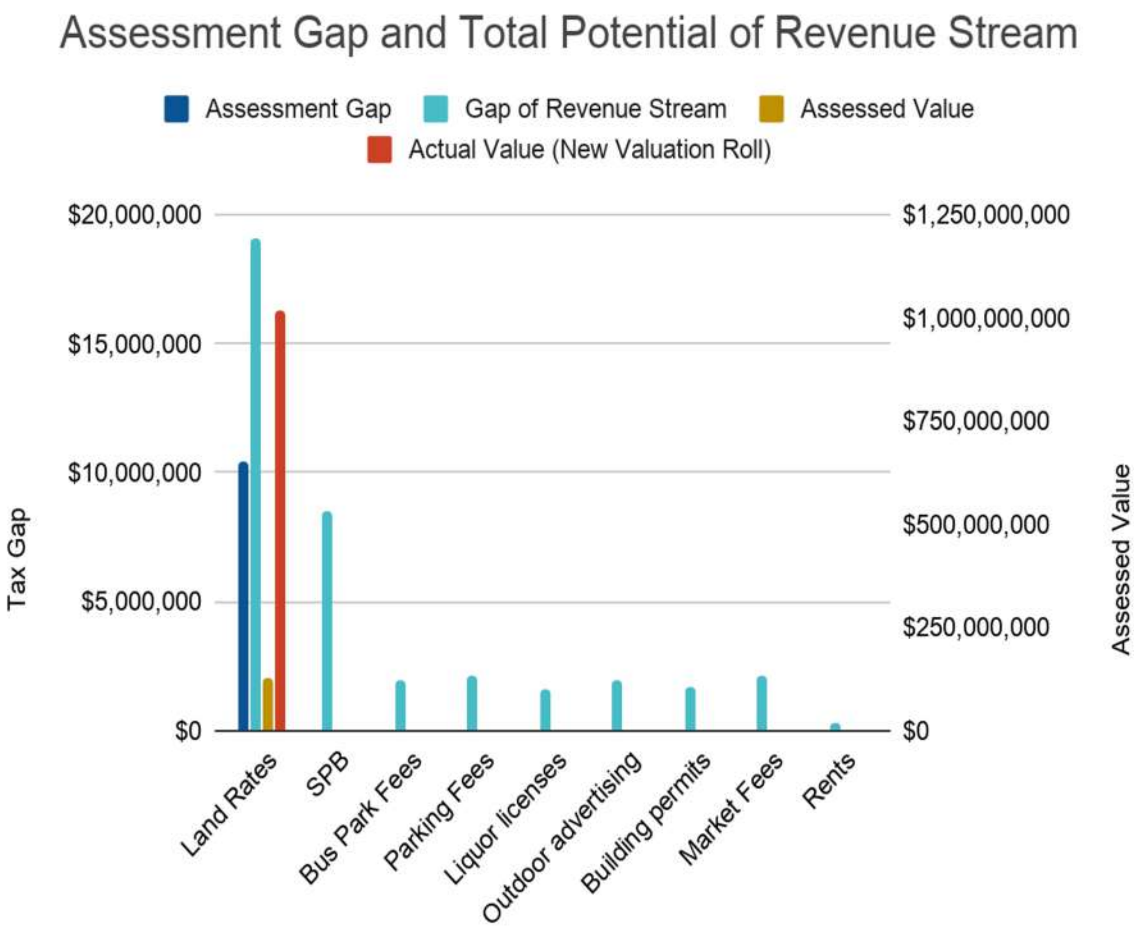
**Note: The remaining 21.6% of gap by function is categorised as undetermined*

Assessment gaps only seem to be a problem for land rates



Takeaways

- **Old Valuation roll:** The 2009 valuation roll has caused assessment challenges for land rates The other rates do really have assessment problems because the assessment process is more straightforward
- **Difficulty to disentangle:** In some instances, it may not be clear what e.g. type of business rate should apply, but these losses are estimated to be minimal

Unless compliance rates increase, resolving the assessment problem will not help

	Status-quo	New Valuation	HABITAT EST
Registered Parcels	25284	55000	55000
Average Parcel Value	$5,028	$18,552	$18,552
Total Value	$127,136,818	$1,020,365,082	$1,020,365,082
Land Rate	1.5%	1.5%	1.5%
Compliance Rate	68%	68%	18%
Total Revenue	**$1,289,302**	**$10,407,724**	**$2,754,986**
Average Rate paid per landowner	$51	$189	$50

Takeaways

- Increased assessment value is likely to be captured by the collection gap and not increase total revenues

Explanation

- **Potential resistance :** taxpayers are used to a certain price and will challenge the validity of the new assessment

1..Based on current % of people who paid their tax obligation. 2. With the increase in avg. land rate the compliance will also decrease

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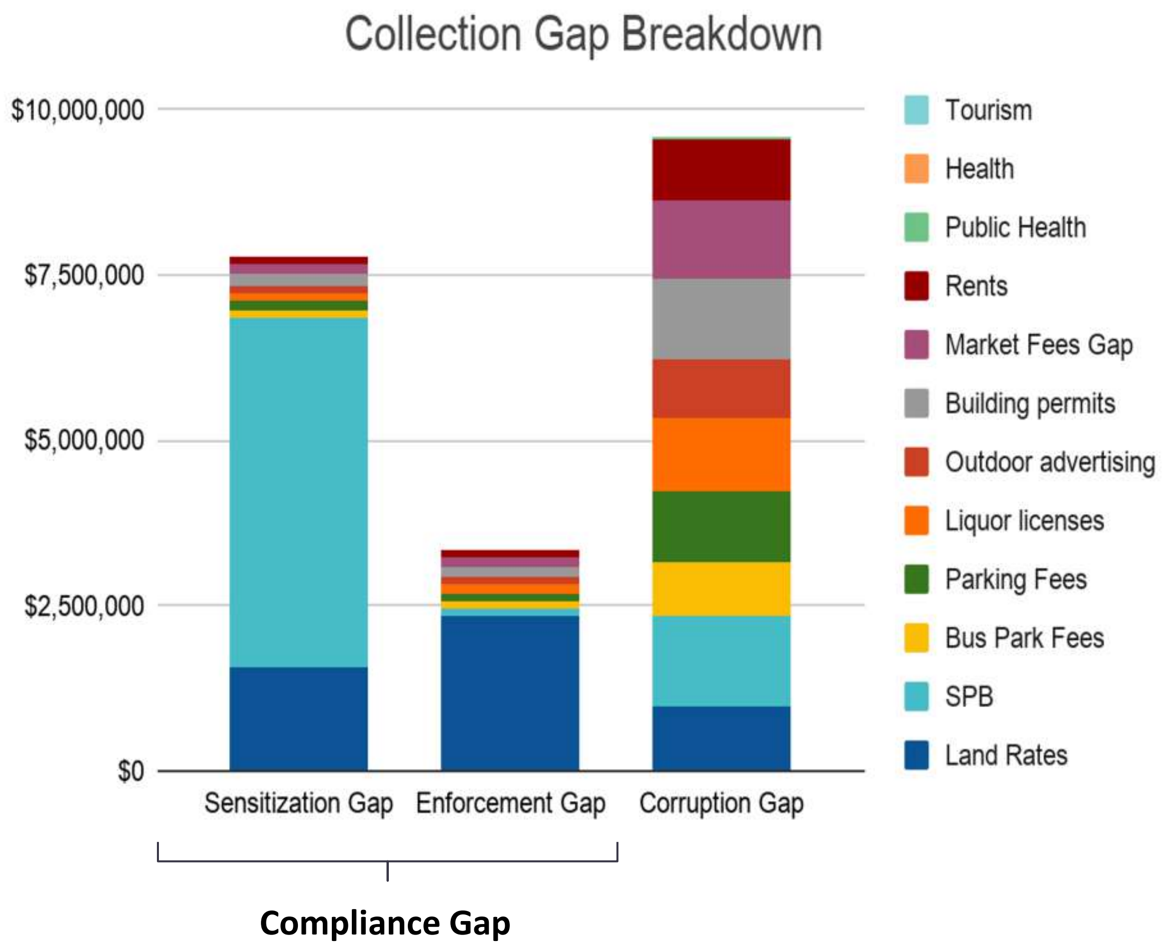
**Note: The remaining 21.6% of Gap by Function is categorised as undetermined*

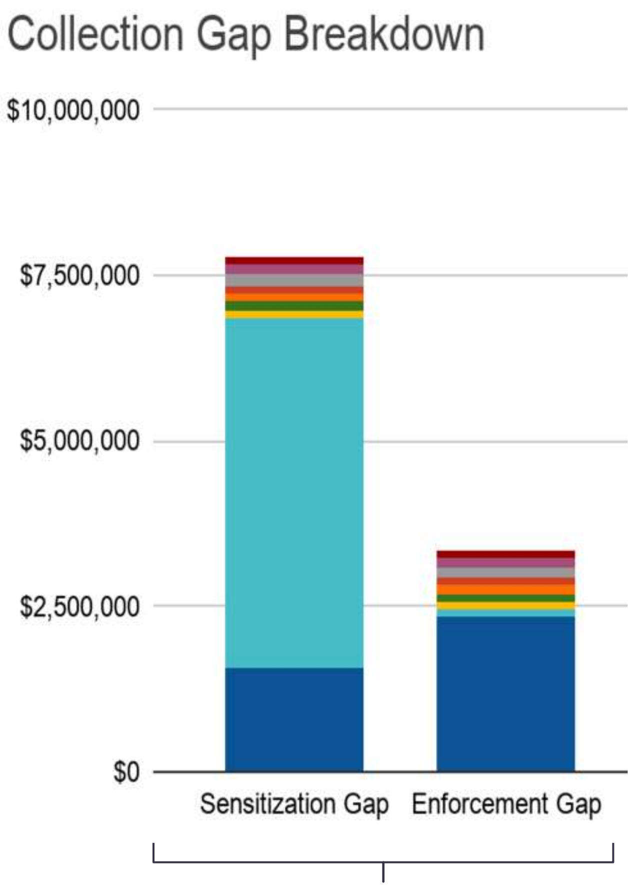
The collection gap has both a compliance and a corruption problem



Takeaway

- Corruption is a problem of all streams
- Compliance is primarily a problem of the structured revenue streams
- The collection gap of unstructured revenue streams is primarily a corruption problem

The compliance problem has 6 key drivers

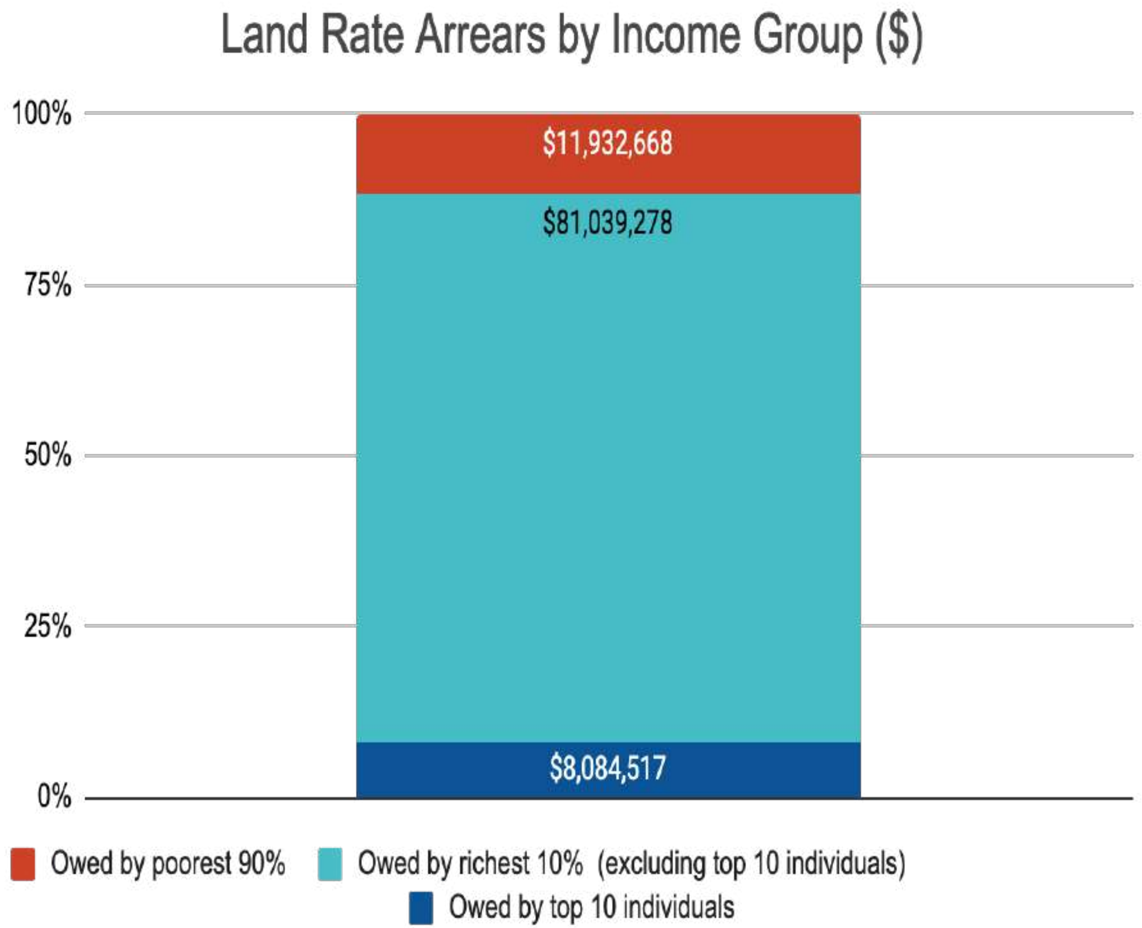


Compliance Gap

Drivers

- **Weak data management**: difficult to know who owes how much accurately (including knowing how much is owed across streams), and difficult to contact people
- **Weak sensitization**: insufficient attempts to contact taxpayers and notify them of their incompliance
- **Minimal sanction for non-compliance**: in the past years virtually no one has been taken to court for non-payment of taxes
- **Weak legislation**: undermines the ability to take people to court and the the credibility of the threat of sanction
- **Low compliance of high-net individuals**
- **Tax efforts are focused on unstructured-revenue streams**

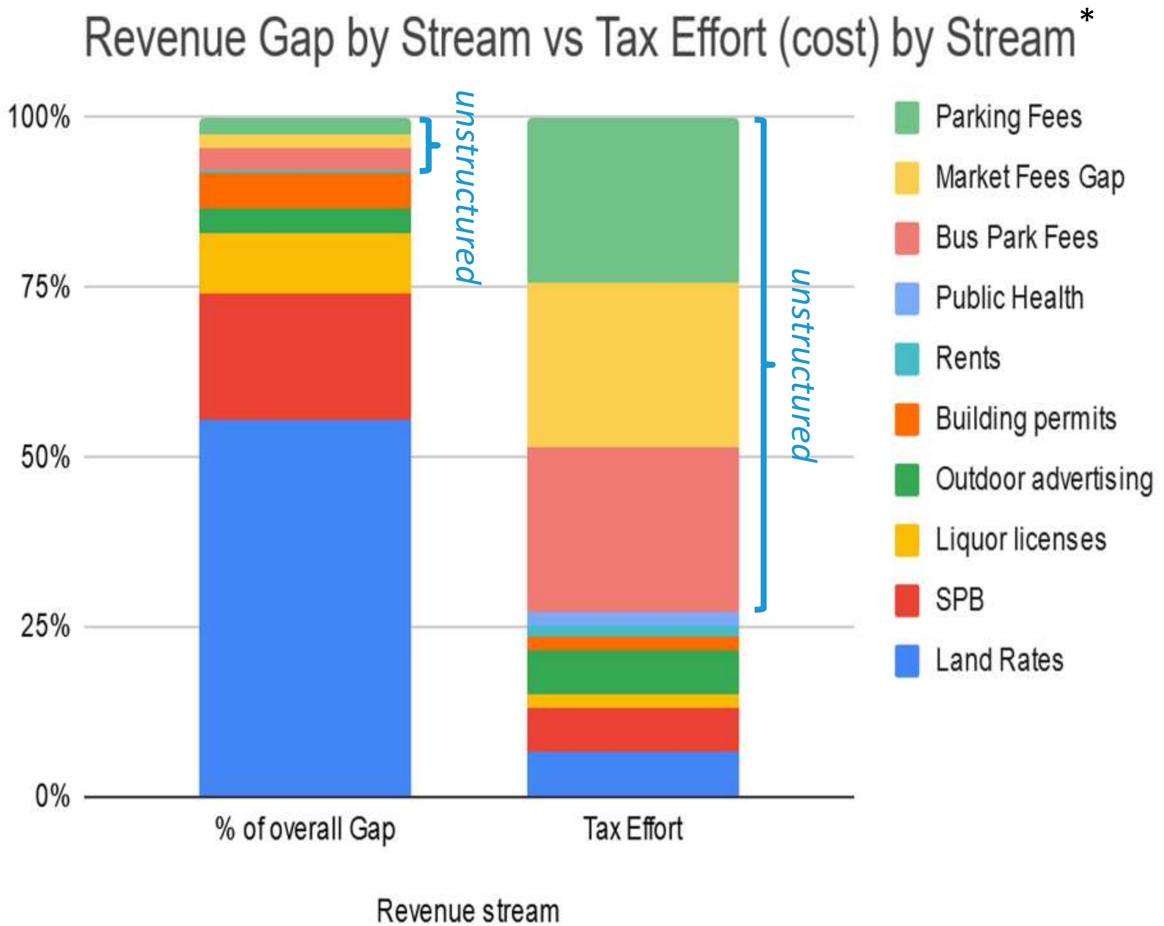
Addressing the collection gap will require finding a way to increase compliance of high-net individuals



Takeaways

- **High-income individuals:** The top 10% of the population own around 90% of the debt
- **Arrears of the top 10%:** Even just getting top 10 individuals to pay their arrears would bring in $10M (equivalent of yearly OSR)
- **Compliance issue:** Lowest high-net individuals and should become a particular focus of the tax administration

Addressing the compliance gap will likely require shifting tax efforts away from unstructured revenue streams

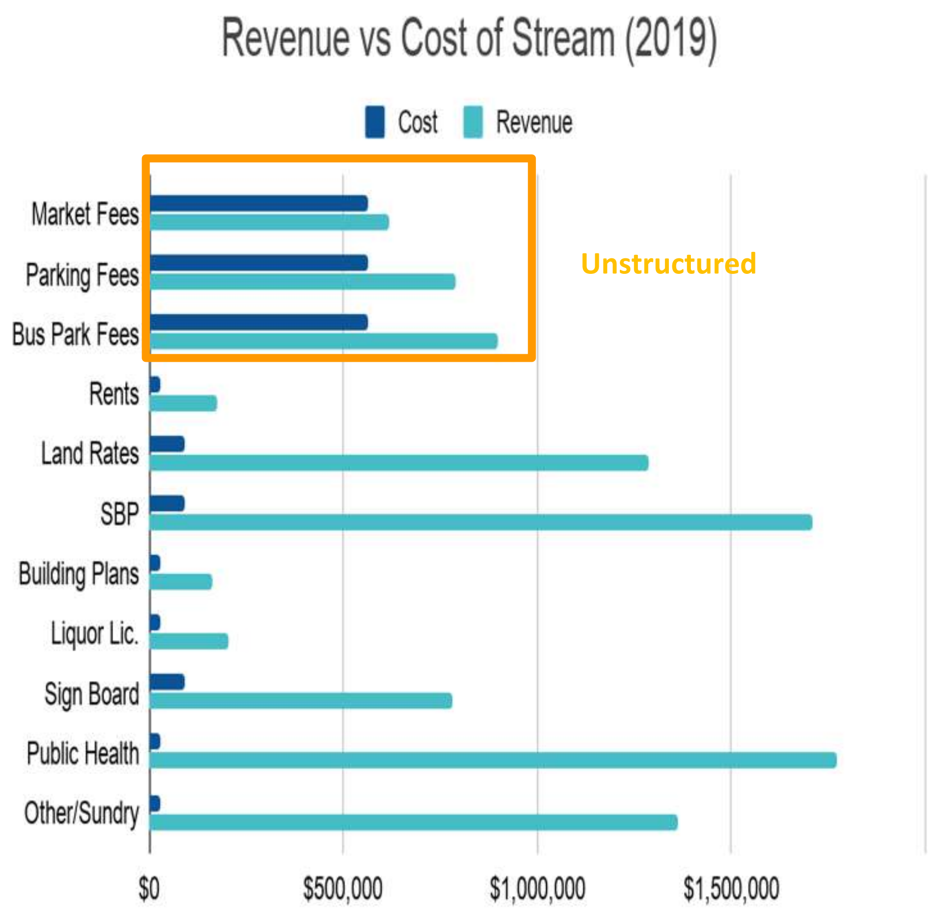


Takeaways

- **Misalignment:** the emphasis of tax collection efforts on unstructured revenue stream is not in line with the potential of those unstructured revenue streams

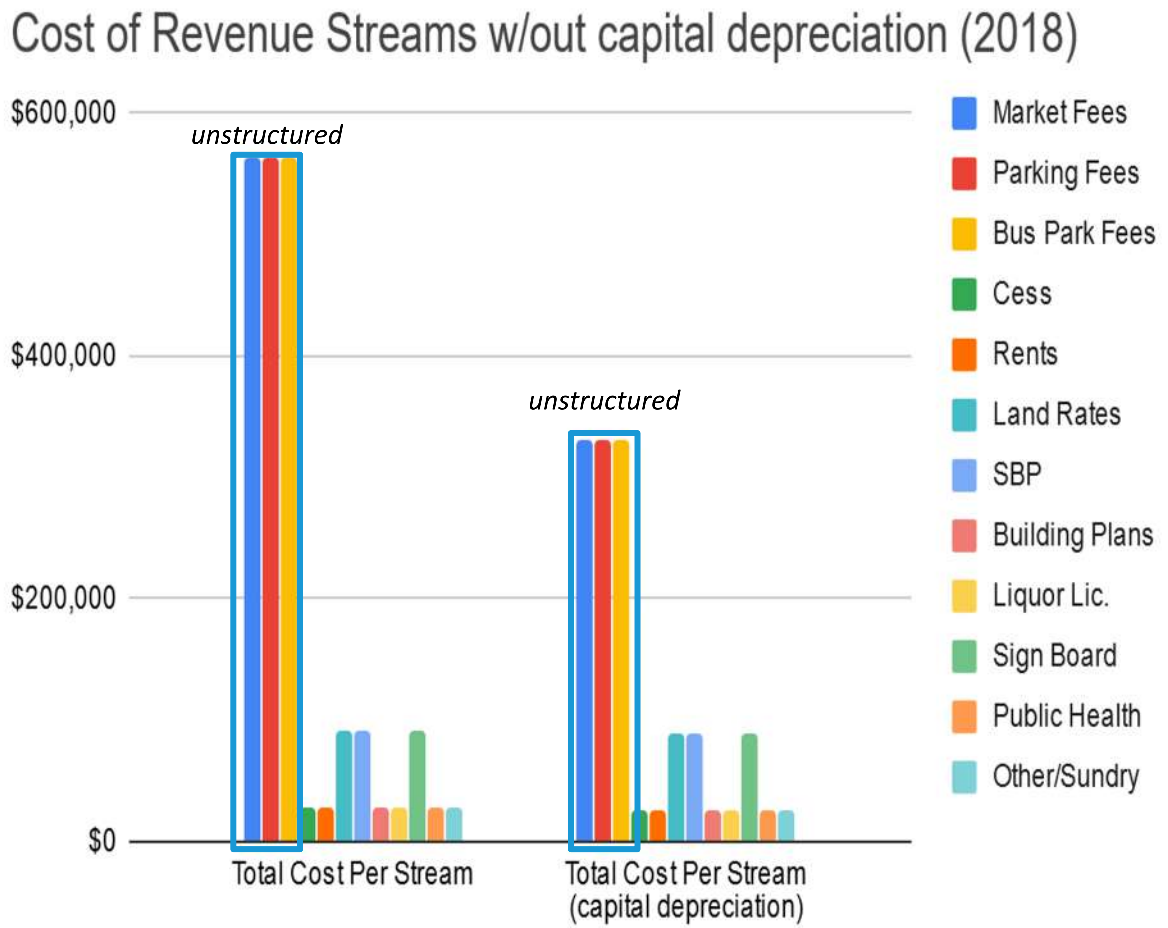
**Costs were allocated based on Budget of Revenue department and a discussion with responsible officials from the Revenue department who facilitated the breakdown of cost budget items per revenue streams. Additional data has been found that of existing POS 40% market, 50% parking, 10% bus parks, but this could not be confirmed*

Unstructured Revenue streams have the lowest ROI



Revenue Streams	ROI	Return at $100k
Market Fees	**9%**	**$9,360**
Parking Fees	**40%**	**$40,267**
Bus Park Fees	**59%**	**$59,480**
Rents	516%	$516,043
Land Rates	1309%	$1,308,797
SBP	1769%	$1,769,200
Building Plans	478%	$477,629
Liquor Lic.	625%	$624,838
Sign Board	756%	$755,664
Public Health	6185%	$6,184,940

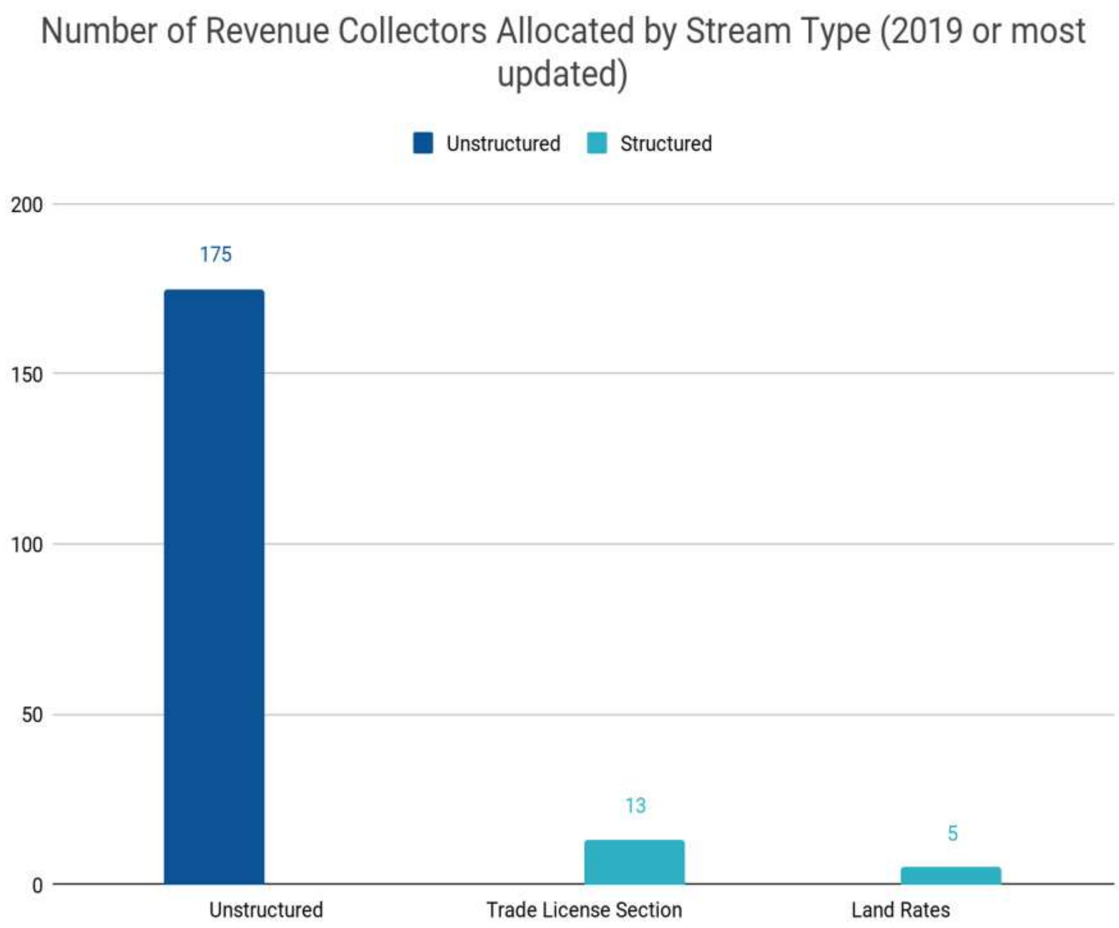
Costs per revenue stream are by far the highest for unstructured revenues streams



Explanation

- **High fixed costs of collection:** Unstructured revenues streams require POS devices and an expensive Strathmore system
- **High cost of human capital:** unstructured revenues streams have 90% of collection personal working on them. Need to collect frequently; often daily

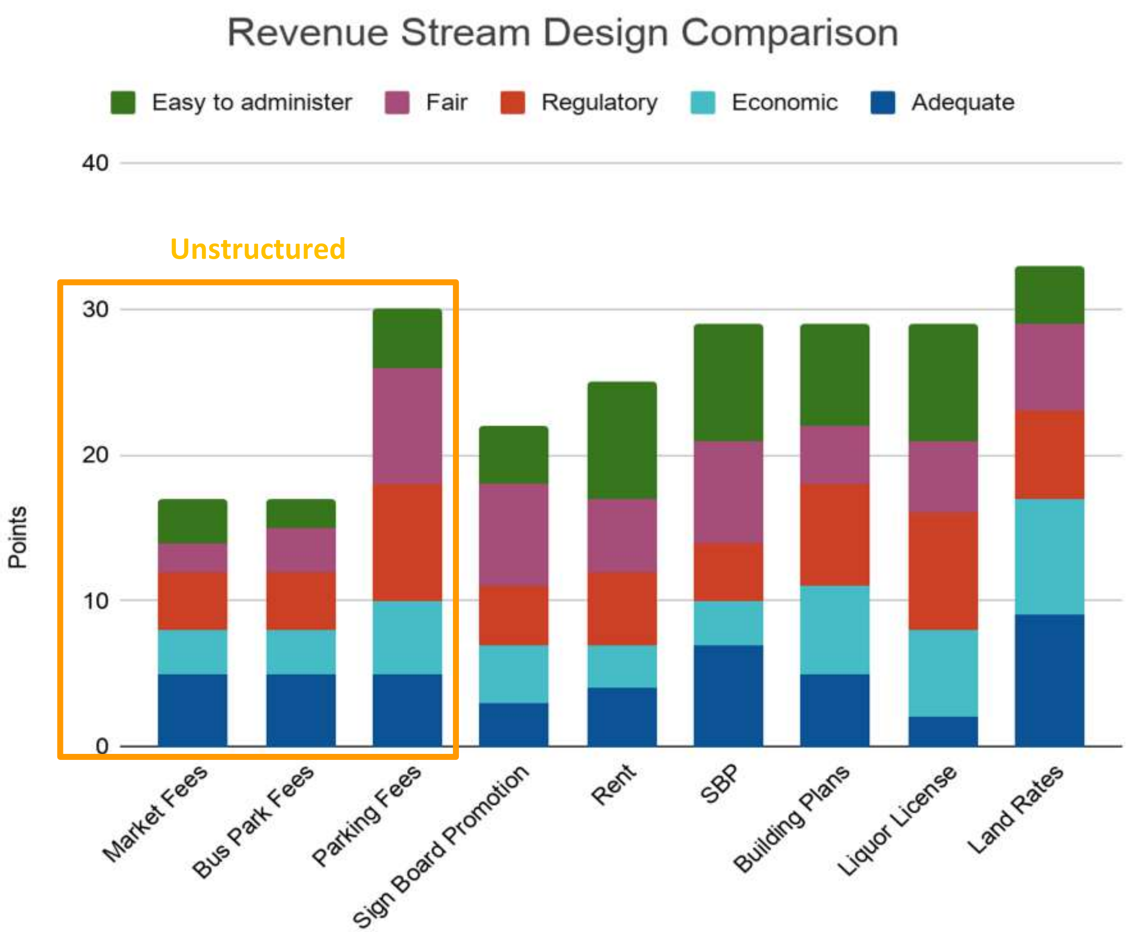
There is also a lack of prioritisation of staff onto high potential structured revenue streams at the City Council



Takeaways

- **Highest value streams under resourced:** there are only 10% as much staff capacity in trade and land rates as unstructured
- **Value not focused on:** despite these two revenue streams representing 30% of current OSR and a potential ~$25m. Whilst unstructured only represents 23% of current OSR and a potential ~$4.6M
- **Missing out on high ROI:** Trade licenses have a high ROI for increased staff with payback of 5.4 registered business per month per staff

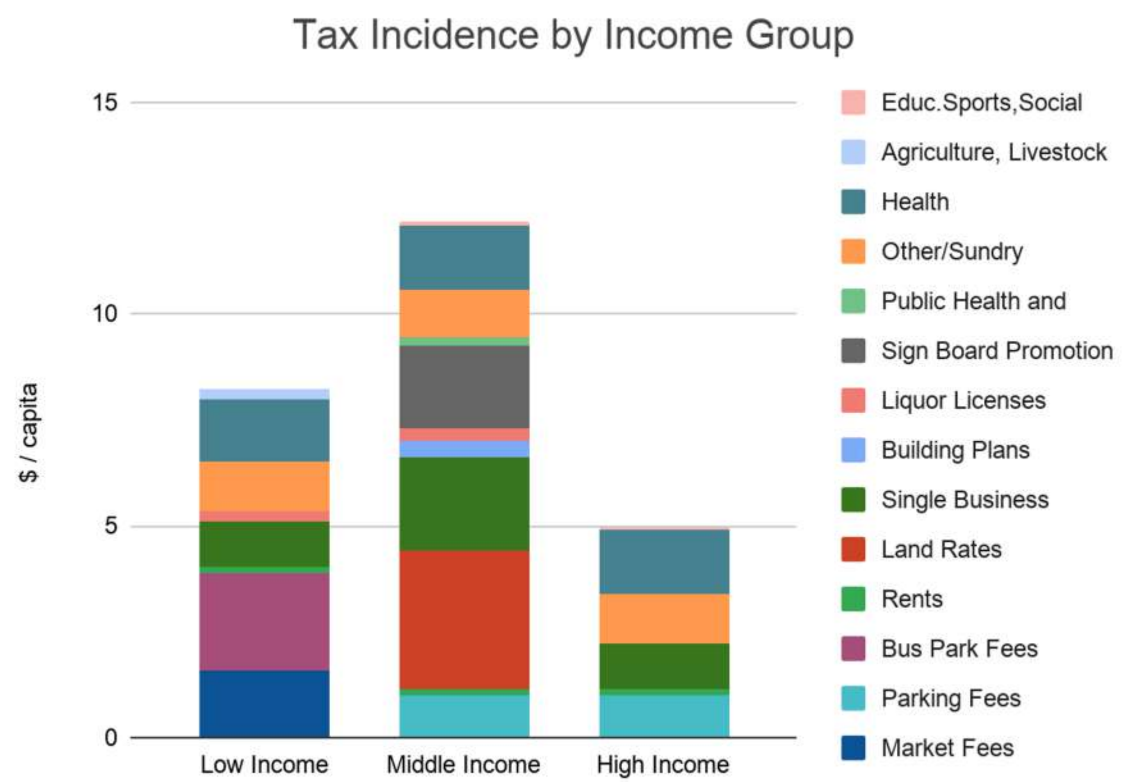
Focus on market fees and bus parks makes little sense from a design perspective



Explanation

- **Easy to administer:** daily admin is cumbersome and offers opp. for corruption
- **Fair:** it is unfair as it mainly falls on poor traders
- **Positive externality:** it has little social advantages
- **Economic**: it prevents more trade from happening
- **Adequate:** market fees do not have a high tax potential as it a user fee of a low income group

As a result of the focus on unstructured revenue as well as low compliance on progressive streams the system is very unfair



Disclaimer: this is a based on the assumption that all income is evenly distributed such that 33% of the population is in each group. It also is an approximation of the tax incidence based on UN-HABITAT's own assessment

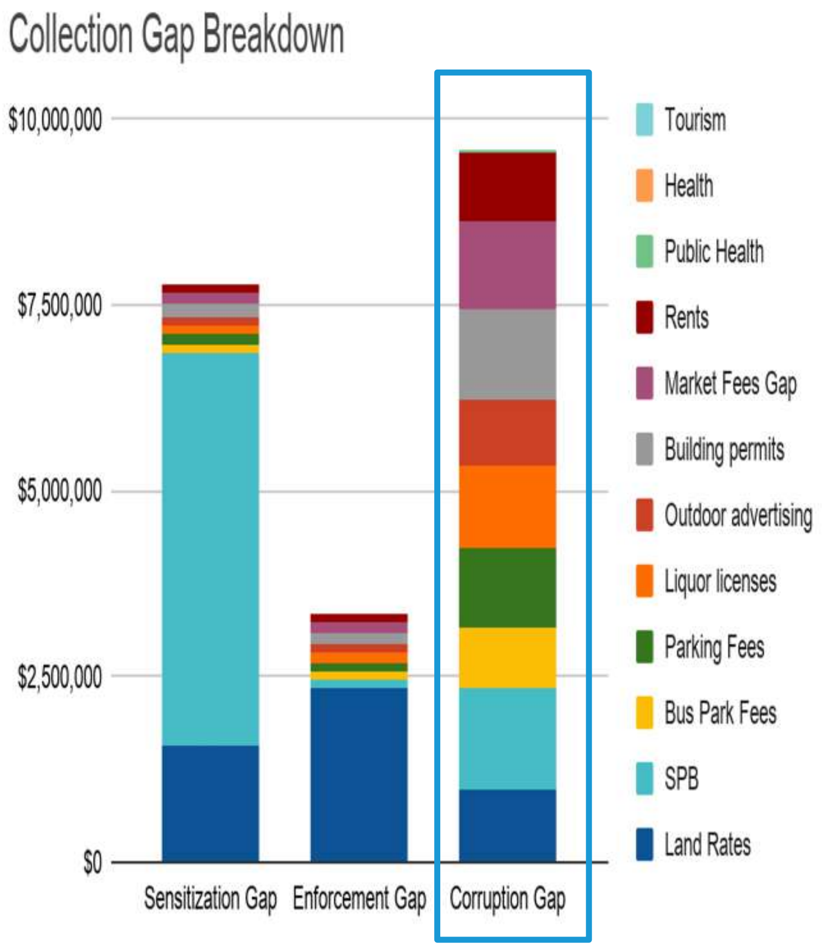
Takeaways

- **Uneven Spread of OSR:** of the $8.4 spent per person on taxes annually, $2.7 is paid by the poor, $4 by middle income groups and only $1.6 by lower income groups
- **Unfair system:** given that higher income groups should pay a larger proportion of taxes, Kisumu's system can be considered **very unfair**
- **There is need to shift policy:** toward fairer taxes and or increase compliance of high income groups

Kisumu is positioned to better leverage the use of data for performance evaluation

Best Practice	KCG Position	Adequate?
Data from previous years is stored in a central database	It is inconsistent and often poorly labeled	✗
Documents that are saved are stored uniform and accessible file names	Files are often poorly labeled and hard to track to a particular date. An overall database master is difficult to find and not fully established	✗
There are a number of KPIs for each revenue stream, and for collectors	This does not currently exist	✗
Mechanisms exist to address abnormal changes to revenue streams	There are a lack of mechanisms to 1. Flag changes as they arise 2. Monitor changes and implement plans to address them	✗

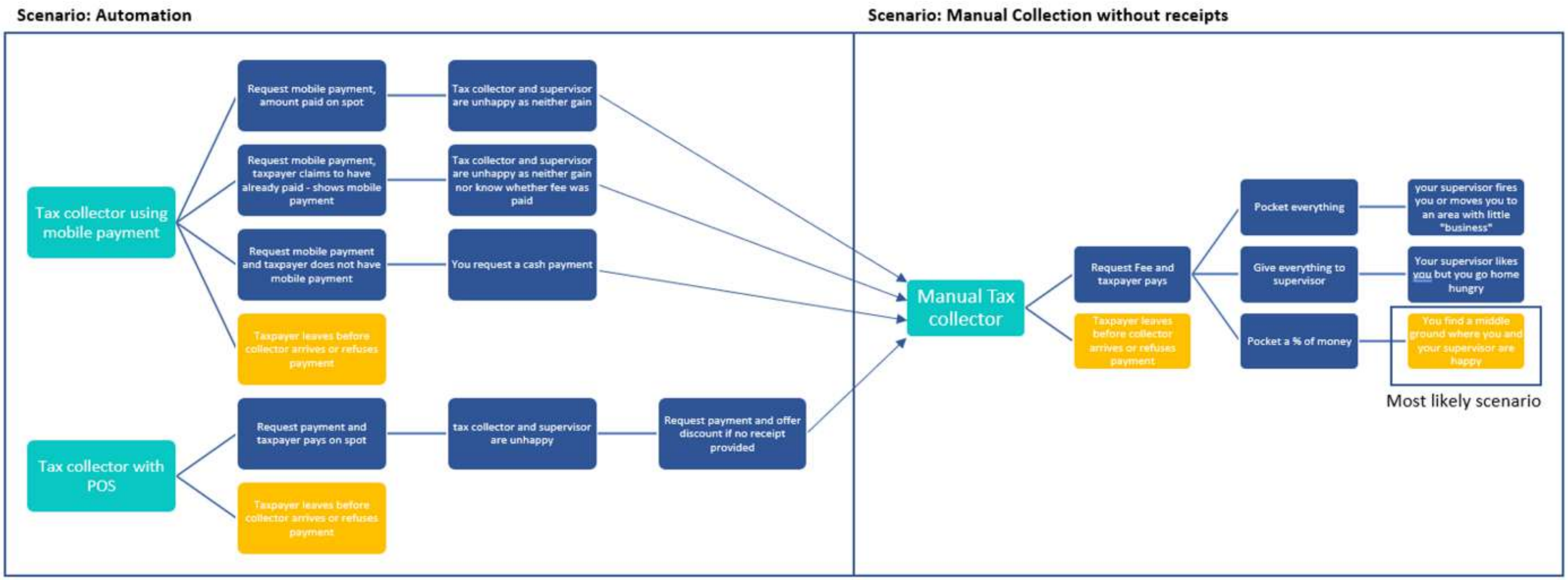
The corruption problem has 6 key drivers



Drivers

- **Weak legislation**: undermines the ability to take people to court and the the credibility of the threat of sanction
- **Tax efforts are focused on unstructured-revenue streams**
- **Database access:** data within the system is sometimes changed instead of collecting total amounts. User access needs to be controlled and monitored
- **Control of unstructured revenue streams:** automation has not increased control and revenue collectors are basically rogue
- **Audit:** there audit team has an insufficient methodology to uncover corruption
- **Accepted culture of corruption:** corruption has become normalised within the county

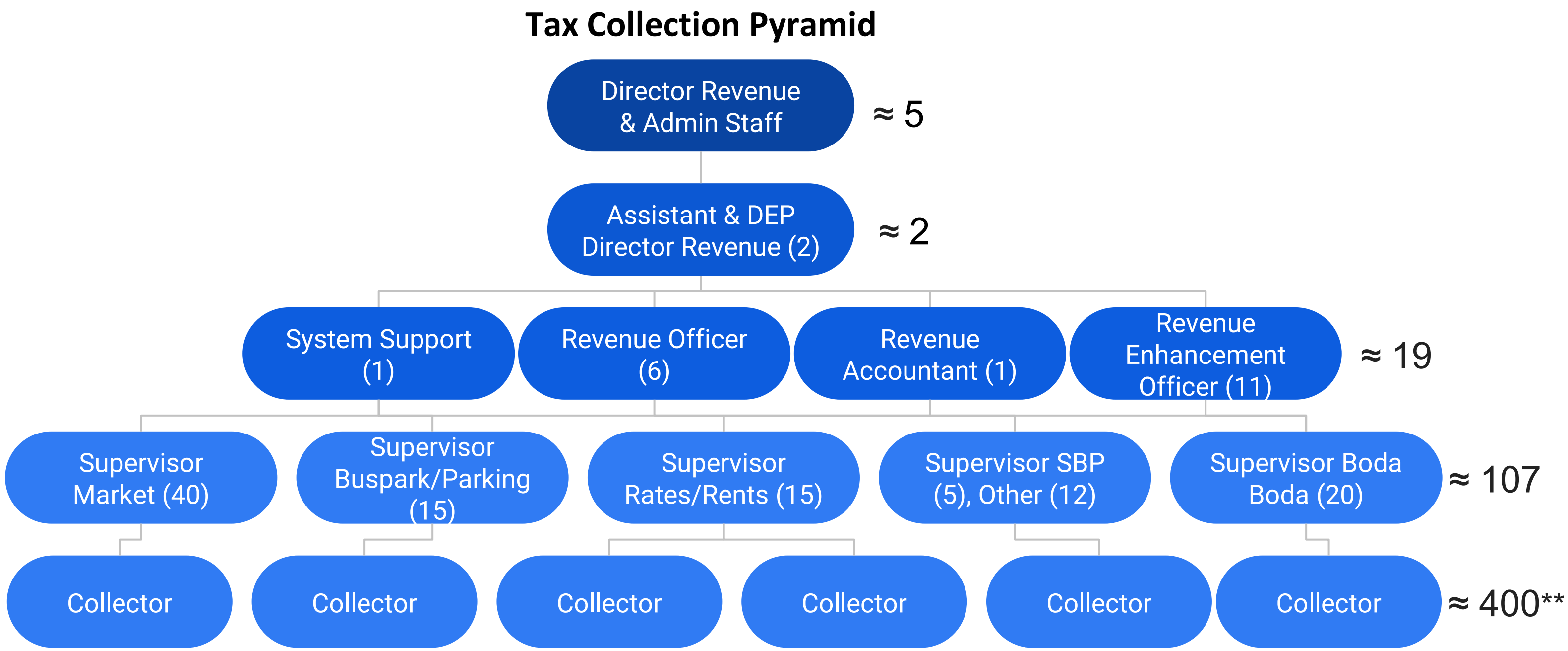
Automation has not worked because it still ends up functioning like a manual tax collection system with little control over collectors



Takeaways

- Automation of payments has not resolved corruption within the collection process
- The incentives of the collector system are such that they do not want automation to work as it would close down loopholes
- For the current collector system employing contracted collectors (some working without a contract) is not particularly discomforting, given that contracted individuals are generally easier to manipulate

Tax revenue is lost at different stages of the collection pyramid



Takeaways

- **Money lost at different points of the pyramid**: It is difficult to rule out that money is lost at the different steps of the collection pyramid because there is no real control mechanism. Collectors are likely to pass an amount to the supervisor, trying to balance their own appetite and that of the supervisor. If the collector takes it all, the supervisor will not give him a high value market, parking road, etc.* The supervisor will likely engage in the same type of game with his/her manager. It is not clear where this system starts/stops, but the system is so intransparent it should not even allow for these suspicions to arise
- **Intransparent system**: The system does not have insights on a) how much is collected per collector b) per supervisor c) per e.g. road / market

**This is based on interviews with tax collectors*

***Based on County Government Documents of Organizational Structure, not clear whether structure is current or target structure*

Whilst there are a number of challenges with Strathmore, none have a radical effect on OSR collection

Challenge	Problem Description	Priority
Lack of POS systems (100 of contracted 300)	Strathmore has refused to hand over contractual 300 POS. This has meant a number of staff have been idle	Low
Lack of manual receipts operating in parallel to digital systems	Manual receipt use has not been enabled alongside the Strathmore system	High
Fee of 5% of OSR per stream used in the	Strathmore extracts a fee of 5% of total OSR from each stream it operates its system on	Mid
Automation in the sub Counties	Lack of infrastructure for implementation in the sub counties	Mid
Contractual dispute	Refusal to hand over 200 POS until dispute is resolved. Lack of payment by the government	Mid
Rushed implementation with lack of knowledge regarding the system by revenue collectors	No piloting of the Strathmore product alongside quick implementation	Low
Lack of physical receipts	Problem of USSD in parking where users can fake a receipt. The unique identification number can’t be stamped, thus users can use the receipt twice	High
Lack of phones by users	Many users cannot pay using USSD as they claim to not have phones	Low

The audit mechanism has only found 1 instance of corruption in 5 years - it is not working properly

Function of Audit	How is this done by audit team	Outcome
Reporting	The audit team provides senior management with audit reports on a periodic basis	✓
Analysis	Currently the audit team uses tax potential as the maximum historic revenue that has been collected in the past. It has no clear methodology for finding problems, testing corruption, surveying citizens, assessing tax collection efforts, controlling data access rights, etc.	✗
Independence	The audit department reports directly to the County Audit Committee, but since 2017 it is also under the CEC Finance which encroaches on its independence	✗
Implementation	The audit team has no control over implementation and while this is partially normal there needs to be a process by which the implementation of audit recommendations are closely monitored	✗
Performance Review	It does not appear that the audit team assesses the performance of collection teams or track KPIS. The assessment on potential of each revenue stream also appears to be lacking	✗

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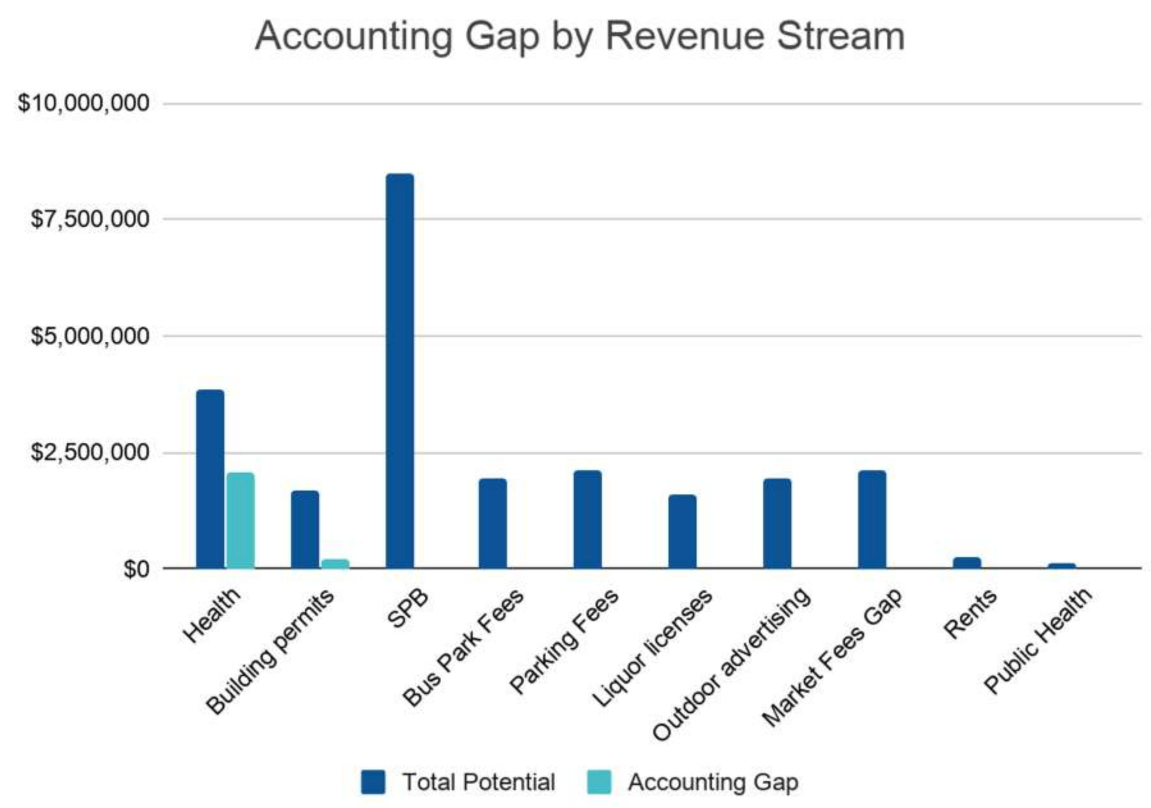
**Note: The remaining 21.6% of Gap by Function is categorised as undetermined*

Poor accounting practices appear to primarily be an issue for health revenue



Disclaimer: based on evidence pertained from documents provided by the KCG. It is no way conclusive, or exhaustive but is based on the evidence we were able to gather. This is indicative of a potentially larger problem that needs to be explored further

Takeaways

- **Some evidence:** by nature it is difficult to determine how much of collection is due to poor accounting practices. Evidence found during the analysis pointed to these revenue streams for poor accounting practices.
- **Next steps:** There need to be signposts and redflags when problems are perceived. Systems need to be in place.

Executive Summary

Key Findings

- **Kisumu's OSR is at 17% of its full potential** of around $53 Million
- **Land rates are 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 collection and corruption** 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

Implications

- **Reduced confidence in the current government**
- **Hugely unfair tax incidence**
- **Distortionary effects on economic growth**
- **Ineffective use of government revenue**
- **Low OSR, inability to provide services**
- **Non-transparent system, bad governance**

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Recommendations (1/6)

	Scenario 1: "Business as Usual"	Scenario 2: "Incremental Change"	Scenario 3: "Sweeping Reform"
Political Capital*	Low	Medium	High
Tax Equity	Low	Medium	High
OSR by 2021	$12M	$18M	$25M
Vision / Example Reforms	**Tax Design:** ● **Implement Bed Occupancy Levy** ● **Simplify taxes**, introduce process document, revise penalties, introduce customer approach **Assessment**: ● Introduce new valuation roll at 1.5% with eventually implementation of GIS system	**Tax Design:** ● **Implement Bed Occupancy Levy** ● **Simplify taxes**, introduce process document, revise penalties, introduce customer approach **Assessment**: ● Introduce new valuation roll at 1.5% with eventually implementation of GIS system ● Actively carry over arrears as much as can be linked to current owners ● Create/revise asset register	**Tax Design:** ● **Implement Bed Occupancy Levy** ● **Simplify taxes,** introduce process document revise penalties ● **Introduce business permit:** exemptions for tax informal sector businesses, introduce customer approach **Assessment**: ● Introduce new valuation roll at 1.5% with eventually implementation of GIS systems ● Actively carry over arrears as much as can be linked to current owners ● Ensure Land Department has exclusive access to LAIFORMs ● Create/revise asset register

Note: these combinations of recommendations are combinable as required - do not have to be separated out in these reform bundles (scenarios)

** Political capital provides an indication of the amount of resources, relationships, political networks, and influence between politicians required to make this happen*

Recommendations (2/6)

	Scenario 1: "Business as Usual"	Scenario 2: "Incremental Change"	Scenario 3: "Sweeping Reform"
Political Capital*	Low	Medium	High
Tax Equity	Low	Medium	High
OSR by 2021	$12M	$22M	$25M
Vision / Example Reforms	**Collection** ● **Strengthen legislation** to sanction non-compliance ● **Continue focus on unstructured revenue:** increase POS coverage purchasing additional POS devices ● **Increase control of collectors**: introduce KPIs for collectors ● **Assess digital education of revenue collectors:** Implement training as necessary	**Collection** ● **Strengthen legislation** to sanction non-compliance ● **Shift away from unstructured revenue**: reallocate POS devices to key spots (remove USSD), reduce number of contracted collectors ● **Increase control of all collectors**: introduce KPIs for collectors with devices, sanction mechanism for corruption, audit access to LAIFORMs	**Collection** ● **Strengthen legislation** to sanction non-compliance ● **Shift away from unstructured revenue**: moving all non-POS collectors to structured revenue under CAL. Suspend collection of markets & bus parks until POS collection possible ● **Increase control of all collectors**: introduce KPIs for collectors with devices, sanction mechanism for corruption, audit access to LAIFORMs, launch online-platform to report instances of corruption for citizens, and wage incentives for collectors (or higher pay)

Note: these combinations of recommendations are combinable as required - do not have to be separated out in these reform bundles (scenarios)

** Political capital provides an indication of the amount of resources, relationships, political networks, and influence between politicians required to make this happen*

Recommendations (3/6)

	Scenario 1: "Business as Usual"	Scenario 2: "Incremental Change"	Scenario 3: "Sweeping Reform"
Political Capital*	Low	Medium	High
Tax Equity	Low	Medium	High
OSR by 2021	$12M	$22M	$25M
Vision / Example Reforms	**Collection** ● **Continue cooperation with service providers**: Continue working with Strathmore and release funds for POS, support CAL to do its work	**Collection** ● **Renegotiate contract with service providers** to lower the fees or limit fees to revenues collected by them and allow adding of functionality if needed, add liquor licenses to contract ● **Focus structured collection on streams not covered by CAL** ● **Automate follow-up of structured revenue**: introduce database for sensitization with automated follow-up messages/calls for non CAL streams	**Collection** ● **Renegotiate contract with service providers** to lower the fees/limit fees to revenues collected by them, add liquor licenses to contract, limit to 3 years, explore options for consolidation into 1 platform for all revenue streams with integrated dashboard, 1 view per taxpayer by KRA pin ● **Focus structured collection on streams not covered by CAL** ● **Automate follow-up of structured revenue**: introduce database for sensitization with automated follow-up messages/calls, for all streams with data input from CAL

Note: these combinations of recommendations are combinable as required - do not have to be separated out in these reform bundles (scenarios)

** Political capital provides an indication of the amount of resources, relationships, political networks, and influence between politicians required to make this happen*

Recommendations (4/6)

	Scenario 1: "Business as Usual"	Scenario 2: "Incremental Change"	Scenario 3: "Sweeping Reform"
Political Capital*	Low	Medium	High
Tax Equity	Low	Medium	High
OSR by 2021	$12M	$22M	$25M
Vision / Example Reforms	**Collection** ● **Strengthen internal analysis**: introduce a monthly reporting template designed by UN-Habitat with performance metrics and capacity building for Rev. Dept. on use of tool	**Collection** ● **Strengthen internal analysis**: introduce a monthly reporting template designed by UN-Habitat with performance metrics and capacity building for Rev. Dept. on use of tool ● **Focus on high-net individuals and strengthen enforcement:** Set ultimatum for paying land arrears and take a few taxpayers to court, ensure service providers focus on HNI	**Collection** ● **Strengthen internal analysis**: introduce a monthly reporting template designed by UN-Habitat with performance metrics and capacity building for Rev. Dept. on use of tool ● **Focus on high-net individuals (HNI) and strengthen enforcement:** launch amnesty program with ultimatum for non-compliance, systematically take high-net individuals to court, connect non-payment with blocking of government services, special body for HNI ● **Consider a reapplication of staff to existing positions** - total revenue department reshuffle

Note: these combinations of recommendations are combinable as required - do not have to be separated out in these reform bundles (scenarios)
** Political capital provides an indication of the amount of resources, relationships, political networks, and influence between politicians required to make this happen*

Recommendations (5/6)

	Scenario 1: "Business as Usual"	Scenario 2: "Incremental Change"	Scenario 3: "Sweeping Reform"
Political Capital*	Low	Medium	High
Tax Equity	Low	Medium	High
OSR by 2021	$12M	$22M	$25M
Vision / Example Reforms	**Collection** ● **Tackle public perception:** showcase to public usage of OSR, SMS system to invite for participatory budgeting/explaining system changes	**Collection** ● **Tackle public perception:** showcase to public usage of OSR, SMS system to invite for participatory budgeting/explaining system changes, strengthen internal audit oversight and enforce 0 tolerance policy for fraud of tax collectors, launch audit of revenue department corruption (audit access to LAIFORMs) ● **Arrear collection**: Launch information campaign to prompt citizens to pay	**Collection** ● **Tackle public perception:** showcase to public usage of OSR, SMS system to invite for participatory budgeting/explaining system changes, strengthen internal audit oversight and enforce 0 tolerance policy for fraud of tax collectors, set ultimatum for paying of debts after which data for all public officials will be published, launch audit of revenue department corruption ● **Arrear collection**: Launch arrear amnesty programme and information campaign, with limitation of services sanction

Note: these combinations of recommendations are combinable as required - do not have to be separated out in these reform bundles (scenarios)

** Political capital provides an indication of the amount of resources, relationships, political networks, and influence between politicians required to make this happen*

Recommendations (6/6)

	Scenario 1: "Business as Usual"	Scenario 2: "Incremental Change"	Scenario 3: "Sweeping Reform"
Political Capital*	Low	Medium	High
Tax Equity	Low	Medium	High
OSR by 2021	$12M	$22M	$25M
Vision / Example Reforms	**Accounting** ● **Enforce health facility reporting** of returns, but allowing for imprest accounts to remain ● **Introduce penalties and systems to reduce accounting for OSR in 'sundry/other'** category. Further, look into the possibility of CAL suing due to this accounting practice	**Accounting** ● **Enforce health facility reporting** of returns, but allowing for imprest accounts to remain ● Digitalise heath transactions by employing some version of IFMIS ● **Introduce penalties and systems to reduce accounting for OSR in 'sundry/other'** category. Further, look into the possibility of CAL suing due to this accounting practice	**Accounting** ● **Enforce health facility reporting** of returns, but allowing for imprest accounts to remain ● **Introduce a County Health Bill:** to allow spending at source, with oversight. ● **Digitalise heath transactions** by employing some version of IFMIS ● **Introduce penalties and systems to reduce accounting for OSR in 'sundry/other'** category. Further, look into the possibility of CAL suing due to this accounting practice

Note: these combinations of recommendations are combinable as required - do not have to be separated out in these reform bundles (scenarios)

** Political capital provides an indication of the amount of resources, relationships, political networks, and influence between politicians required to make this happen*

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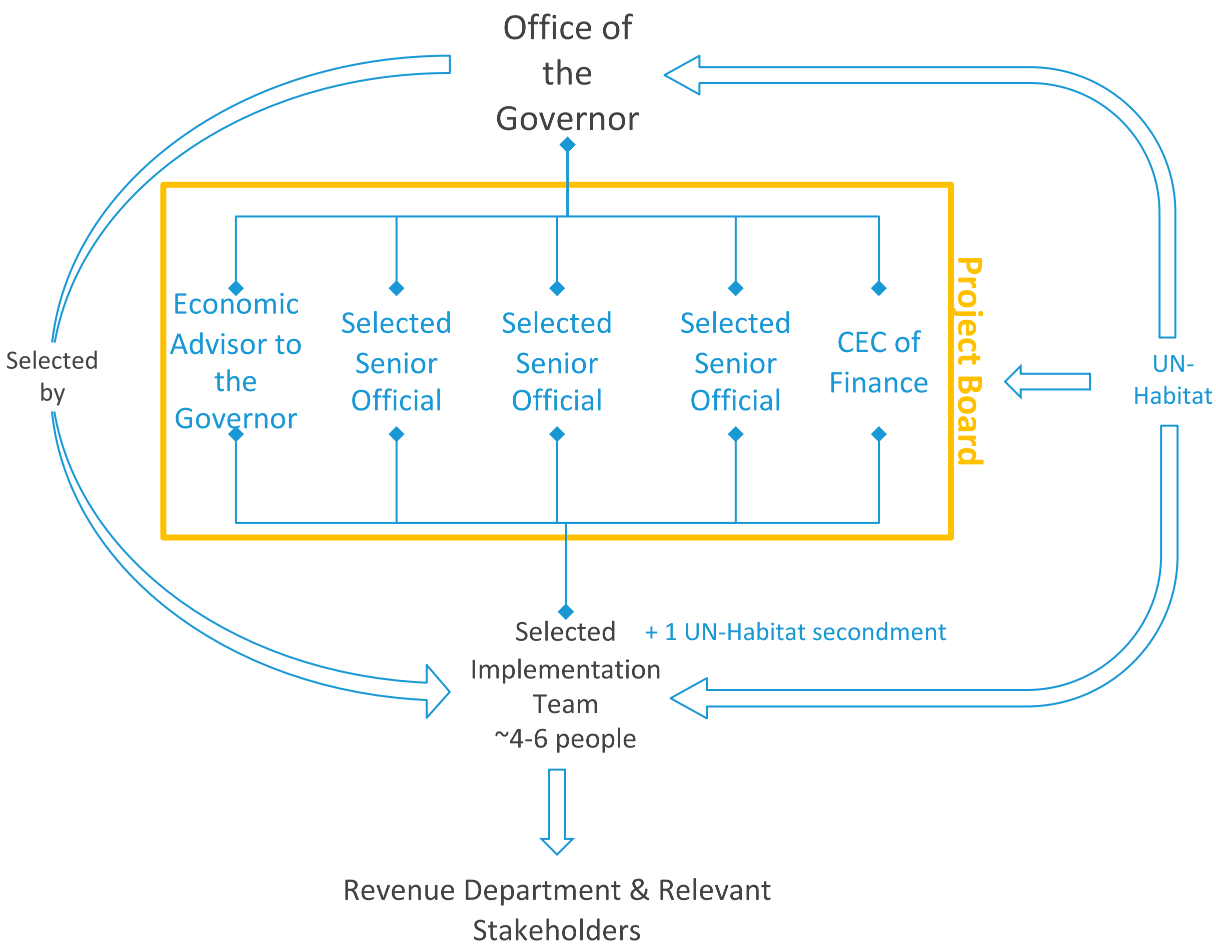
Implementation Task Force Proposed Structure



Format of the Task Force

- **UN-Habitat:** will consult with all levels and assist with recommendations and next steps. Ideally it will also second a consultant to the implementation team to ensure UN-Habitat is adequately present for daily decisions/action and enforce communication to HQ
- **The Office of the Governor:** will oversee the project board and approve decisions and implementation plan. Further, it will select the implementation team
- **Project Board:** will provide basic direction to the project team with final approval granted by the Office of the Governor, meeting every 2nd month
- **Implementation Team:** will review recommendations, prioritise interventions, develop timeline and implement change. They should be given full legal authority to enforce change on revenue department. Reports to the project board

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Next Steps

- Decide on scenario
- Form task force to implement recommendations
- Elaborate implementation strategy

Thank You
Erokamano

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UN HABITAT
FOR A BETTER URBAN FUTURE

Appendix

1. UN-Habitat Revenue Potential Methodology
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3. Land Rates Potential - Methodology
4. Single Business Permits Potential - Methodology
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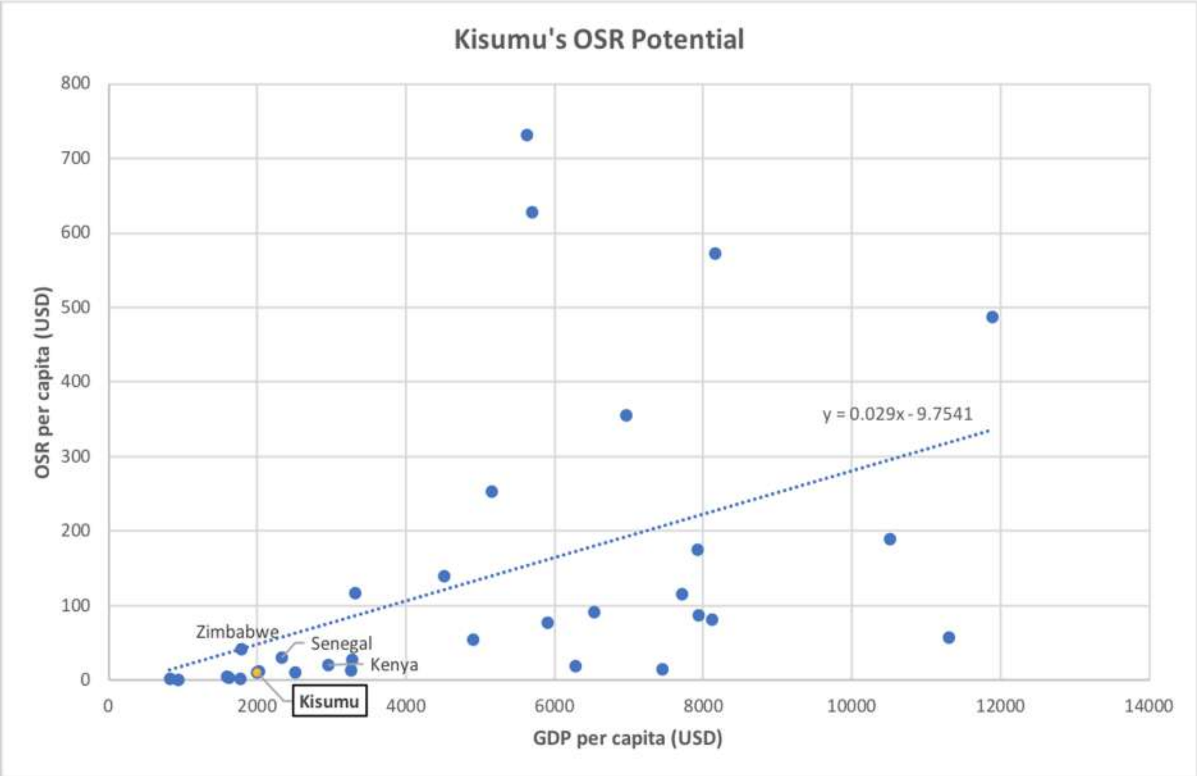
1. UN-Habitat Revenue Potential Methodology



Data

- The national averages data for this analysis comes from the report *Subnational Governments Around the World – Structure and Finance*, prepared by United Cities and Local Governments (UCLG), OECD and Agence Francaise. N.B: all classifications and names follow the report.
- The 31 countries are all the Low and Lower-Middle Countries for which we found data

Methodology

- **Revenue (OSR) potential:** Measured as distance to the revenue predicted based on a regression on GDP/capita for 31 Countries and Kisumu County
- From the report, OSR per capita was calculated for the 92 countries of the sample that had complete sufficient data. The countries were analysed divided into subgroups after income class. To calculate the OSR potential for Kisumu, the county was compared in this regression with all Low income and Lower-Middle Income countries, as they show similar income to Kisumu.
- **National averages:** These are representative for a normal position within each country, a comparable position for Kisumu. The averages shows how OSR per capita should correspond to GDP/capita.

Note: There are ways to increase tax potential that are not covered here (e.g., increasing access to education, subsidizing fast growth industries, growing GDP, etc.

2. Ministry of Finance Potential

- **Data:** The 2019 Budget Policy Statement has a calculation for “County Governments’ estimated own-source revenue potential by stream (Low scenario)”
- **Calculation:** The estimate shows that business licences, vehicle parking fees, liquor licences, outdoor advertising charges and building permits held a revenue performance potential of Sh23.4 billion, Sh12.6 billion, Sh10.2 billion, Sh6.3 billion and Sh6.0 billion respectively. Each of the streams were divided by Kenya’s GDP to find potential per GDP for each stream. The potential per GDP for each stream was then multiplied by Kisumu’s GCP to calculate the potential of each stream for Kisumu
- **Total potential:** Lastly, the potential of all streams were combined to calculate average gap for Kisumu. The total potential for Kisumu was calculated by multiplying current revenue with the potential multiplier

3. Land Rates Potential - Methodology

	Status-quo	NEW	UN-Habitat Estimate	Notes
Registered Parcels	25284	55000	55000	Estimate
Average Parcel Value	$5,028	$18,552	$18,552	Calculated
Total Value	$127,136,818	$1,020,365,082	$1,020,365,082	From Valuation Roll
Land Rate	1.5%	1.5%	2.0%	Based on UN-Habitat Data
Average Rate per landowner	$75	$278	$371	Calculated
Compliance Rate	68%	40%	100%	Assumed
Total Debt	$101,035,633	$101,035,633	$101,035,633	Based on Report from LAIFORMS
Total Revenue	**$1,289,302**	**$6,122,190**	**$20,407,302**	

Methodology

- The methodology is based on data which was extracted from LAIFORMS as well as the newly carried out valuation roll
- 2% was used as a tax rate, based on the experience of UN-Habitat working for local governments
- Compliance rate of 100% is difficult to achieve, but is an indication of the overall tax potential

4. Single Business Permits Potential - Methodology

- **Data:** The 2019 Budget Policy Statement has a calculation for "County Governments' estimated own-source revenue potential by stream (Low scenario)"
- **Calculation:** The estimate shows that business licences, vehicle parking fees, liquor licences, outdoor advertising charges and building permits held a revenue performance potential of Sh23.4 billion, Sh12.6 billion, Sh10.2 billion, Sh6.3 billion and Sh6.0 billion respectively. Each of the streams were divided by Kenya's GDP to find potential per GDP for each stream. The potential per GDP for each stream was then multiplied by Kisumu's GCP to calculate the potential of each stream for Kisumu
- **Total potential:** Lastly, the potential of all streams were combined to calculate average gap for Kisumu. The total potential for Kisumu was calculated by multiplying current revenue with the potential multiplier
- **Data:** Kisumu County Government provided a LAIFORM business register for 2019. The number of businesses . Following interviews with Collections Africa limited the number of businesses was estimated at 90,000
- **Calculation:** : From the county government LAIFORM summary the average price of business fees was $94. This was multiplied by total businesses to get full potential.
- **Total Potential:** This gave a total potential of $8,468,100

References

- Kisumu County Finance Draft Bill 2018
- Summary of Business, 2019: https://drive.google.com/file/d/1Gp9x9Wq_4sUc5uIkdL4LvH_0MCKymbmZ/view?usp=sharing

5. Health Potential - Methodology

- **Data:** The average per capita spending for all health services (inpatient and outpatient) was KShs 1,609 in 2013, compared with KShs 1,181 in 2007 and KShs 1,913 in 2003 according to the 2013 Kenya Household Health Expenditure and Utilisation Survey. 125 out of the 210 health facilities in Kisumu are public, according to the Kisumu County Integrated Development Plan 2018-2022. 968,879 was the population of Kisumu in 2009. 1.04260236 is the average population growth rate for Kenya (Source: World Bank Data, 2009-2018), I grow this for 10 years. 28.3% is the utilisation rate of formal health services in Kenya, according to Basic Report Based on 2015/16 Kenya Integrated Household Budget Survey (issued by KNBS).
- **Calculation**: =1609*(125/210)*(968879*1.04260236^10)*0.283
- **Total Potential:** This gave a total potential of $3,847,069

References:

- 2013 Kenya Household Health Expenditure and Utilisation Survey (Source: https://www.healthpolicyproject.com/pubs/745_KHHUESReportJanuary.pdf)
- Kisumu County Integrated Development plan (Source: https://www.kisumu.go.ke/wp-content/uploads/2018/11/Kisumu-County-CIDP-II-2018-2022.pdf, Pg 42)

6. Markets Rates Potential - Methodology

- **Data:** Obtained data on all markets, market days per market, number of stalls in each market, and the rate charged per stall in each market.
- **Calculation:** The potential was estimated by multiplying the number of stalls per market, by the market stall rate stipulated in the Kisumu County Finance Draft Bill 2018, and the number of market days in the year (250 days).
- **Total potential:** Addition of all annual revenues from each market.

References:

- Kisumu County Finance Draft Bill 2018.
- Register of Markets, as provided by Kisumu County Government. https://drive.google.com/file/d/1o78dyIcmzhXeQ7E-jdmoj6YhKlPdcPIo/view?usp=sharing

7. Signboard and Promotion Potential - Methodology

- Methodology based on Ministry of Finance estimates

8. Parking Fees and Bus Parks Potential - Methodology (1/2)

- **Total Potential Revenue:** Given by the summation of potential parking fees revenues + potential reserved slots + potential clamping fees.
- The 2018/2019 total parking fees revenue was $788, 546. It comprised of regular parking revenues which was $421,357 (or 53%), revenue from reserved slots which was $78,872 (or 10%), and revenue from clamping which was $288,316 (or 37%).
- **Potential parking fees revenue:** Simple multiplication of daily parking rate ($1), by the 261 working days, and the number of cars on the road in use (cars are estimated to be used about 5% of the time). The total number of cars on the road is therefore multiplied by 0.05, to find ksh. **1,128,525** or 53%, using 2018/2019 percentages.
- Potential for reserved slots: Applying 2018/2019 percentage of 10%, revenue potential is **$212,976.**
- Potential for Clamping fees: Applying 2018/2019 percentage of 37%, revenue potential is **$778,534.**
- **Total Potential= 1,128,525 + 212,976 + 778,534= 2,120, 035**

9. Parking Fees and Bus Parks Potential - Methodology (2/2)

- The revenue potential from bus parks in Kisumu was calculated using estimated revenue from matatus plying within town, matatus plying outside of town, and the revenue potential of entry fees.
- **Estimating number of matatus in Kisumu:** The estimated number of matatus in Nairobi is about 20,000. The number of matatus in Kisumu was calculated by multiplying the ratio of Gross County Product per Economic Activity of Kisumu and Nairobi (0.13) by the number of matatus in Nairobi (20,000)
- **Revenue from matatus plying within the town:** Calculated by multiplying the number of matatus in Kisumu by the urban population percentage of Kisumu (50.3%), and the monthly rate charged for plying within town ($35).
- **Revenue from matatus plying outside town:** Calculated by multiplying the number of matatus in Kisumu by the urban population percentage of Kisumu (49.7%%), and the monthly rate charged for plying within town ($37.5).
- **Entry fees revenue potential:** Calculated by multiplying the number of matatus with the entry fee rate ($1.5) for twice a day. Resulting value is multiplied by 250 working days.
- **Total revenue:** Revenue from matatus plying within town + revenue from matatus plying outside town + entry fee revenues.

References:

- https://www.google.com/url?q=https://www.kisumu.go.ke/wp-content/uploads/2019/08/Kisumu-County-Urban-Institutional-Development-Strategy-CUIDS-2018-2019-final.pdf&sa=D&ust=1568809085750000&usg=AFQjCNEp0oiAyW2RUz2fQNpN6cqynel3Rw
- https://www.google.com/url?q=https://www.kisumu.go.ke/wp-content/uploads/2019/08/Kisumu-County-Urban-Institutional-Development-Strategy-CUIDS-2018-2019-final.pdf&sa=D&ust=1568809085750000&usg=AFQjCNEp0oiAyW2RUz2fQNpN6cqynel3Rw
- The Kisumu County Draft Finance Bill, 2018.
- https://www.nation.co.ke/news/Matatus-vow-to-defy-city-centre-ban/1056-4877398-ny774b/index.html
- Gross County Product Report 2019.

10. Building Plans Potential - Methodology

- Methodology based on Ministry of Finance estimates

11. Liquor Licenses Potential - Methodology

- **Counted number of eligible business:** As provided by the Kisumu County Government we were able to identify 649 businesses in the "Summary of Businesses, 2019" document which were explicitly eligible for a liquor licence (i.e. bars, restaurants that serve alcohol)
- **Used the Finance Act Fee:** from the Finance Act mode fee to be charged for Liquor Licences is $500
- **Scaled the calculation accordingly:** since the business register accounts for ~18k of total 90k businesses we expanded this number proportionally
- **Concluded:** this lead to 3177 eligible businesses and a total potential of $1,588,696.08

References:

- Summary of Business LAIFORMs, 2019, as provided by Kisumu County Government : https://drive.google.com/file/d/1Gp9x9Wq_4sUc5uIkdL4LvH_0MCKymbmZ/view?usp=sharing
- Finance Act: https://www.kisumu.go.ke/wp-content/uploads/2018/11/THE-KISUMU-COUNTY-DRAF-FINANCE-BILL-2018-Revised.pdf

12. Other Revenue Streams: Rents Potential - Methodology

- **Total potential:** Calculated by the addition of the revenue potential from residential assets owned by the county, and the debt owed Kisumu County of $288,000.
- **Revenue potential of owned residential buildings:** Calculated by multiplying the average rental yield for the residential sector in Kisumu (5.1%), by the total asset base value of residentials owned by Kisumu County.
- **KIWASCO debt:** Owes the county $288,000.
- **Total Potential:** Residential revenue potential + KIWASCO debt.

References:

- https://www.cytonn.com/topicals/kisumu-real-estate-investment-opportunity

13. Other Revenue Streams: Agriculture, Livestock, and Fisheries Potential - Methodology

- **Estimation 1:**
  - Kisumu Finance Bill point 285: “Agricultural CESS (1% as prescribed by Agricultural produces and cess Act 2016)”. This, I interpret as that they should be taxing 1% of all agricultural produce. Agriculture makes up 24% of the Kenyan economy and Kisumu’s GCP is 1 944 890 000 USD. The agricultural part of Kisumu’ economy should thus be around 466 773 600 USD. Taxing that amount 1% means a revenue of 4 667 736 USD. This would mean that Kisumu is only collecting 1.71 % of their potential, and the estimation does not include any of the many other revenues under agriculture. Also, considering Kisumu is on Lake Victoria, the fisheries part of this revenue stream should higher the potential even further.
  - **Conclusion 1:** Potential is 4 667 736 USD. Actual is 1.71 % of potential.
- **Estimation 2:**
  - Bomet had a total agriculture OSR of around $670,150 in FY 2016/17. Comparing Kisumu county to Bomet county, which has a similar GCP per capita as Kisumu, it is found that Kisumu’s agricultural OSR per capita is only 9 % of Bomet’s. This in spite of the fact that Kisumu has a total OSR per capita that is over three times as high as Bomet county.
  - **Conclusion 2:** Potential could be 0.92 USD per capita. Actual is 9% of potential.

References:

- https://www.kisumu.go.ke/wp-content/uploads/2018/11/THE-KISUMU-COUNTY-DRAF-FINANCE-BILL-2018-Revised.pdf
- https://www.kisumu.go.ke/wp-content/uploads/2018/11/THE-KISUMU-COUNTY-DRAF-FINANCE-BILL-2018-Revised.pdf

14. Scenario 1 - Summary and Action Timeline (1/4)

Month 1 - 3 (Quick Wins)		
Action	**Ease of Implementation**	**Impact**
Provide continued interaction with Boda Boda representatives and enforce rates	High	High
Connect as many tax payments together as possible i.e. liquor permits and trade licences	High	High
Pay strathmore and continue with the 5% fee	High	Low
Allow land arrears to be lost for technical reasons when switching to the new valuation roll	High	Low
Allow tax arrears to be lost without publicly speaking of tax amnesty, labelling it “inability to transfer data” as opposed to explicit policy	High	Low
Introduce process document for liquor licences which simplifies and increase accountability of achieving a liquor licence	High	Mid
Introduce new Valuation Roll at 1.5%	Mid	High
Renegotiate contract with CAL for Year 2, to provide % of increase in tax not overall totals	Mid	High
Introduce management of unstructured revenue streams: KPIs for each collectors, sanction process for non-performance	Mid	High
Register of property and assets owned by the county needs to be established and the potential yield potential linked to a KPI for rent revenue	Mid	Mid
Investigate OSR potential of Agriculture, Livestock, and Fisheries	Mid	Mid
Investigate tax revenue from monthly stickers (bus, parking, boda)	Mid	Mid

14. Scenario 1 - Summary and Action Timeline (2/4)

Month 1 - 3 (Quick Wins)		
Action	**Ease of Implementation**	**Impact**
Purchase 300 POS with or without Strathmore and all unstructured revenue collectors have 1 POS assigned to them, with digital receipts no longer accepted (400 total)	Mid	Mid
Introduce 'bed occupancy levy' in line with current finance act	Mid	Mid
Introduce monitoring system for enforcers, with measurable KPIs, and a clearly defined strategy for escalation steps when requiring enforcement	Mid	Low
Investigate potential to shift daily collections (where relevant) to monthly mechanisms	Mid	Low
Focus land rate payments on government officials and make sure they have paid their taxes. Publicise this in a campaign.	Low	Mid
Consider implementation of "shame and blame' campaign for high value tax debt	Low	Mid
Implement improved data management policy with a focus on tracking the potential of OSR and reliance on IGT	Low	Low
Review the role of enforcement team for unstructured revenue streams	Low	Low
Explore potential of getting land rates arrears paid by the airport	Low	Low
Review, and create a strategic plan for user charges based on the framework provided	Low	Low

14. Scenario 1 - Summary and Action Timeline (3/4)

Months 4-6		
Action	**Ease of Implementation**	**Impact**
Audit and review performance of CAL and Strathmore. (and other 3rd parties) Review potential for corruption and act accordingly	Mid	Mid
Enforce mechanisms to ensure 3rd party collectors (Strathmore and CAL) have an obligation to focus on high net worth individuals	Mid	Mid
Introduce information campaign regarding new tax policy*	Mid	Low
Launch an information campaign to highlight usage of OSR expenditure	Mid	Low
Assess digital education of revenue collectors. Implement training as necessary	Mid	Low
Audit access to LAIFORMS data	Mid	Low
Reach agreement with Strathmore to solve contract dispute	Mid	Low
Introduce programmes to improve citizen participation such as; budgeting improvements indicated to citizens via SMS, and more meaningful consultation regarding changes for the next finance act (allowing time for people to contribute)	Mid	Low
Reduce the level of hierarchies for unstructured revenue streams	Low	High
Strengthen legislation to enable enforcement of land rates	Low	High
Ensure Land Department directly changes data in LAIFORMS, not City Council	Low	High
Ensure new valuation roll data system includes GIS coordinates and contact info	Low	High

14. Scenario 1 - Summary and Action Timeline (4/4)

Months 4-6		
Action	**Ease of Implementation**	**Impact**
Simplify outlined rates (market fees, building plans, sign board, etc.)	Low	High
Investigate strategy of penalties and assessment of severity, including a stakeholder session with the community regarding penalties	Low	Mid
Investigate the waiver system and the accountability mechanisms in place. Implement changes regarding the current rationale document	Low	Low
Investigate current rates for key revenue streams.	Low	Low
Investigate land arrears repayment (amnesty repayment modalities)	Low	Low
Improve mobility of collectors, by allocating allowance	Low	Low
Investigate key challenges related to gangs and collection. Prepare a strategic plan	Low	Low
Introduce penalties and systems to reduce accounting for OSR in 'sundry/other' category. Further, look into the possibility of CAL suing due to this accounting practice	Low	Low

14. Scenario 2 - Summary and Action Timeline (1/5)

Month 1 - 3 (Quick Wins)		
Action	**Ease of Implementation**	**Impact**
Provide continued interaction with Boda Boda representatives and enforce rates	High	High
Connect as many tax payments together as possible i.e. liquor permits and trade licences	High	High
Introduce process document for liquor licences which simplifies and increase accountability of achieving a liquor licence	High	Mid
Shift idle market collectors to other structured revenue streams (~4/5 collectors)* Purchase 100 POS with or without Strathmore and all unstructured revenue collectors have 1 POS assigned to them, with digital receipts no longer accepted (200 total)	Mid	High
Introduce management of unstructured revenue streams: KPIs for each collectors, sanction process for non-performance	Mid	High
Register of property and assets owned by the county needs to be established and the potential yield potential linked to a KPI for rent revenue	Mid	Mid
Introduce platform for citizens to anonymously report corruption*2	Mid	Mid
Investigate tax revenue from monthly stickers (bus, parking, boda)	Mid	Mid
Investigate OSR potential of Agriculture, Livestock, and Fisheries	Mid	Mid
Introduce 'bed occupancy levy' in line with current finance act	Mid	Mid
Audit access to LAIFORMS data	Mid	Low
Investigate potential to shift daily collections (where relevant) to monthly mechanisms	Mid	Low

14. Scenario 2 - Summary and Action Timeline (2/5)

Month 1 - 3 (Quick Wins)		
Action	**Ease of Implementation**	**Impact**
Introduce monitoring system for enforcers, with measurable KPIs, and a clearly defined strategy for escalation steps when requiring enforcement	Mid	Low
Introduce sensitization database and process for structured revenue streams, which tracks who has been approached when and how, clearly stipulating the process of engagement 1) automated messages (SMS) 2) telephone 3) home-visit (number of visits per officer) 4) enforcement as well as prioritizing easily accessible taxpayers. Should also include number of stalls per market, total number of parking spaces, penalties and arrear payment	Low	High
Ensure Land Department directly changes data in LAIFORMS, not City Council	Low	High
Ensure new valuation roll data system includes GIS coordinates and contact info	Low	High
Simplify outlined rates: market fees, building plans, sign board	Low	High
Imprest controls - The health facilities should be forced to submit all returns for expenditure	Low	Mid
Consider implementation of “shame and blame’ campaign for high value tax debt	Low	Mid
Focus land rate payments on government officials and make sure they have paid their taxes. Publicise this in a campaign.	Low	Mid
Improve mobility of collectors, by allocating allowance	Low	Low
Review the role of enforcement team for unstructured revenue streams	Low	Low

14. Scenario 2 - Summary and Action Timeline (3/5)

Month 1 - 3 (Quick Wins)		
Action	**Ease of Implementation**	**Impact**
Explore potential of getting land rates arrears paid by the airport	Low	Low
Review, and create a strategic plan for user charges based on the framework provided	Low	Low
Months 4-6		
Action	**Ease of Implementation**	**Impact**
Introduce new Valuation Roll at 1.5%	Mid	High
Introduce mechanisms for analysis of changes in performance with systems to flag variance in OSR from streams and flag key warnings	Mid	High
Renegotiate contract with CAL for Year 2, to provide % of increase in tax not overall totals	Mid	High
Introduce new valuation roll and attempt to carry over, as much of the arrears as possible	Mid	High
Shift collectors from unstructured to structured revenue streams, payout consultants who have been working without contract and move consultants over to CAL for structured revenue collection	Mid	High
Agree to a refund on POS systems not provided, and operate with POS currently have. Slowly introduce more POS as cost assessed	Mid	MId
Audit and review performance of CAL and Strathmore. (and other 3rd parties) Review potential for corruption and act accordingly	Mid	Mid

14. Scenario 2 - Summary and Action Timeline (4/5)

Months 4-6		
Action	**Ease of Implementation**	**Impact**
Enforce mechanisms to ensure 3rd party collectors (Strathmore and CAL) have an obligation to focus on high net worth individuals	Mid	Mid
Introduce information campaign regarding new tax policy	Mid	Low
Information campaign to highlight usage of OSR expenditure	Mid	Low
Assess digital education of revenue collectors. Implement training as necessary	Mid	Low
Introduce programmes to improve citizen participation such as; budgeting improvements indicated to citizens via SMS, and more meaningful consultation (allowing time)	Mid	Low
Investigate the waiver system and the accountability mechanisms in place. Implement changes regarding the current rationale document	Low	Low
Reduce the level of hierarchies for unstructured revenue streams	Low	High
Set ultimatum for paying land arrears and take a few taxpayers to court	Low	High
Strengthen legislation to enable enforcement of land rates	Low	High
Introduce sanction mechanism for corrupt officials and collectors	Low	High
Investigate strategy of penalties and assessment of severity, including a stakeholder session with the community regarding penalties	Low	Mid

14. Scenario 2 - Summary and Action Timeline (5/5)

Months 4-6		
Action	**Ease of Implementation**	**Impact**
Investigate current rates for key revenue streams. Enforce County Finance Bill in regards to spending at source	Low	Low
Investigate land arrears repayment (amnesty repayment modalities)	Low	Low
Significantly reduce the degree of severe penalties Simplify the penalty process and increase transparency	Low	Low
Investigate technical option to introduce systems to register businesses on the spot during first visits	Low	Low
Digitalise heath transactions by employing some version of IFMIS at the county level to improve transparency and reduce delays.	Low	Low
Investigate key challenges related to gangs and collection. Prepare a strategic plan	Low	Low
Introduce penalties and systems to reduce accounting for OSR in ‘sundry/other’ category. Further, look into the possibility of CAL suing due to this accounting practice	Low	Low

14. Scenario 3 - Summary and Action Timeline (1/6)

Month 1 - 3 (Quick Wins)		
Action	**Ease of Implementation**	**Impact**
Provide continued interaction with Boda Boda representatives and enforce rates	High	High
Connect as many tax payments together as possible i.e. liquor permits and trade licences	High	High
Introduce process document for liquor licences which simplifies and increase accountability of achieving a liquor licence	High	Mid
Parking fee collectors to reduce to 100, 1/ POS	High	Low
Rebrand market fees	High	:Low
Establish special team servicing high-tax-worth (HTW) businesses who help high net individuals lower the tax compliance	Mid	High
Introduce unstructured revenue management: KPIs for each collectors, sanction process for non-performance	Mid	High
Investigate OSR potential of Agriculture, Livestock, and Fisheries	Mid	Mid
Imprest controls - The health facilities should be forced to submit all returns for expenditure	Mid	Mid
Investigate tax revenue from monthly stickers (bus, parking, boda)	Mid	Mid
Register of property and assets owned by the county needs to be established and the potential yield potential linked to a KPI for rent revenue	Mid	Mid
Introduce ‘bed occupancy levy’ in line with current finance act	Mid	Mid

14. Scenario 3 - Summary and Action Timeline (2/6)

Month 1 - 3 (Quick Wins)		
Action	**Ease of Implementation**	**Impact**
Introduce sensitization database and process for unstructured revenue streams, which tracks who has been approached when and how, clearly stipulating the process of engagement 1) automated messages (SMS) 2) telephone 3) home-visit (number of visits per officer) 4) enforcement as well as prioritizing easily accessible taxpayers. Should also include number of stalls per market, total number of parking spaces, penalties and arrear payment	Mid	Mid
Audit access to LAIFORMS data	Mid	Low
Introduce monitoring system for enforcers, with measurable KPIs, and a clearly defined strategy for escalation steps when requiring enforcement	Mid	Low
Investigate potential to shift daily collections (where relevant) to monthly mechanisms	Mid	Low
Set ultimatum for paying land arrears and take high-net people to court	Low	High
Establish a specialised team for informal sector taxation	Low	High
Ensure work of CAL is complete: allowing them to send demand notices, complete revenue mapping, and digitalization and giving them full authority over land rates, SBP, sign board	Low	High
Introduce management of unstructured revenue streams: rotation of tax collectors, KPIs for each collectors, sanction process for non-performance, reward for performance (bonuses)	Low	High
Ensure Land Department directly changes data in LAIFORMS, not City Council	Low	High

14. Scenario 3 - Summary and Action Timeline (3/6)

Month 1 - 3 (Quick Wins)		
Action	**Ease of Implementation**	**Impact**
Ensure new valuation roll data system includes GIS coordinates and contact info	Low	High
Simplify outlined rates (market fees, building plans, sign board, etc.)	Low	High
Handover for CAL so that they are fully able to collect their three streams without impediment (specific focus on sign boards)	Low	Mid
Consider implementation of “shame and blame’ campaign for high value tax debt	Low	Mid
Focus land rate payments on government officials and make sure they have paid their taxes. Publicise this in a campaign.	Low	Mid
Introduce incentives for early compliance for land rates	Low	Mid
Handover for CAL so that they are fully able to collect their three streams without impediment (specific focus on sign boards)	Low	Mid
Introduce incentives for early compliance for land rates	Low	Mid
Reduce inappropriate penalties radically	Low	Mid
Review the role of enforcement team for unstructured revenue streams	Low	Low
Temporarily suspend collection of market fees & bus parks	Low	Low
Simplify penalties	Low	Low
Introduce more equitable penalties with accumulative % rates	Low	Low

14. Scenario 3 - Summary and Action Timeline (4/6)

Month 1 - 3 (Quick Wins)		
Action	**Ease of Implementation**	**Impact**
Increase penalties where necessary	Low	Low
Introduce penalty with a 'understanding/customer' based approach, that favours forgiveness and education rather than initial penalty	Low	Low
Improve mobility of collectors, by allocating allowance	Low	Low
Explore potential of getting land rates arrears paid by the airport	Low	Low
Review, and create a strategic plan for user charges based on the framework provided	Low	Low
Months 4-6		
Action	**Ease of Implementation**	**Impact**
Introduce new valuation roll and attempt to carry over, as much of the arrears as possible	High	Mid
Introduce mechanisms for analysis of changes in performance with systems to flag variance in OSR from streams and flag key warnings	Mid	High
Introduce new Valuation Roll at 1.5%	Mid	High
Renegotiate contract with CAL for Year 2, to provide % of increase in tax not overall totals	Mid	High
Introduce new Val. Roll and enforce arrears carried over	Mid	Mid
Introduce new valuation roll and enforce arrears to be carried over and reasonable tax amnesty programme with set rules	Mid	Mid

14. Scenario 3 - Summary and Action Timeline (5/6)

Months 4-6		
Action	**Ease of Implementation**	**Impact**
Audit and review performance of CAL and Strathmore. (and other 3rd parties) Review potential for corruption and act accordingly	Mid	Mid
Enforce mechanisms to ensure 3rd party collectors (Strathmore and CAL) have an obligation to focus on high net worth individuals	Mid	Mid
Introduce information campaign regarding new tax policy*	Mid	Low
Information campaign to highlight usage of OSR expenditure	Mid	Low
Reach agreement with Strathmore to solve contract dispute	Mid	Low
Assess digital education of revenue collectors. Implement training as necessary	Mid	Low
Introduce programmes to improve citizen participation such as; budgeting improvements indicated to citizens via SMS, and more meaningful consultation regarding changes for the next finance act (allowing time for people to contribute)	Mid	Low
Renegotiate % with strathmore due to lack of automation in the sub counties	Mid	Low
Introduce hotline for individuals to complain about perceived instances of corruption. Supplement this with monthly town halls to address concerns. Create a special task force to investigate those calls and introduce clearly defined sanction mechanisms for those reported. Introduce mandatory ID for all collectors to supplement this.	Low	High
Introduce sanction mechanism for corrupt officials and collectors	Low	High
Introduce a County Health Bill: to allow spending at source, with oversight.	Low	High

14. Scenario 3 - Summary and Action Timeline (6/6)

Months 4-6		
Action	**Ease of Implementation**	**Impact**
Reduce the level of hierarchies for unstructured revenue streams	Low	High
Strengthen legislation to enable enforcement of land rates	Low	High
Consider symbolic dismissal of county officials linked to corrupt activities to improve public perception	Low	Mid
Renegotiate/cancel contract with Strathmore, invest in 1 system for all streams, or load all to one existing system and ensure system provides view of all taxes per taxpayer, to only provide % of revenue on revenue increases	Low	Mid
Implement a plan to bring CAL and Strathmore inhouse in the following 5 years	Low	Mid
Investigate the waiver system and the accountability mechanisms in place. Implement changes regarding the current rationale document	Low	Low
Investigate current rates for key revenue streams. Enforce County Finance Bill in regards to spending at source	Low	Low
Investigate land arrears repayment (amnesty repayment modalities)	Low	Low
Deny public services for those who have tax debt	Low	Low
Digitalise heath transactions by employing some version of IFMIS	Low	Low
Investigate key challenges related to gangs and collection. Prepare a strategic plan	Low	Low
Introduce penalties and systems to reduce accounting for OSR in ‘sundry/other’ category. Further, look into the possibility of CAL suing due to this accounting practice	Low	Low