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## The Winding Road towards Growth of Own Source Revenue: In Search of “Hela Endelevu” in Embu County, Kenya

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### Abstract

Since the promulgation of the Constitution of Kenya 2010, County governments are expected to collect revenue from the former local government functions such as business permits, parking fees, registration and processing of titles and levies for various services. However, revenue collection is a challenge experienced by most of the forty-seven (47) County Governments and hence the need to understudy the process with the case of Embu County. Using the primary data collected through structured interview schedules and focused discussions with Sub-County Heads, the case established that numerous reforms had been put in place to enhance revenue collection based on strategies that had been put in place by the County Government such as development of a web-based revenue collection system, acquisition of more vehicles, and harmonization of various finance laws. From the study, the case recommends various measures to boost collection such as the need to establish a revenue authority, emphasize on regular trainings, improve service provision in the revenue centers amongst other new measures.

### Case Synopsis

The case documents own source revenue collection experiences for Embu County and is meant to promote peer learning among Counties in Kenya and in similar jurisdictions elsewhere. In view of the nascent devolution experience in Kenya, there is need for Counties to share experiences and lessons learnt to synergize in inculcating best practices and overcoming the challenges in implementing the devolved governance system in the country. In this case we explore the strategies being employed to enhance increased internal revenue collections, “hela endelevu”, by the County Government of Embu, the challenges experienced and draw lessons that other Counties or similar entities could learn from.

## Methodology

The case was developed based on primary data collected from the County in December 2017. Preliminary data was collected through a focused discussion session with the Sub-County heads of revenue at the County headquarters using a structured interview guide. The case study has been used for the Revenue Enhancement Skills training course at Kenya School of Government Embu Campus between January 2018 and April 2022 for piloting and validation. A total of five (5) cohorts drawn from three (3) Counties and one (1) State Corporation with a total of fifty participants have been involved during this piloting and validation exercise. The feedback from these pilot training cohorts has been adapted in the finalization of the case. A review of the facts on the case has been done with key informants from the County Government of Embu in April 2022. In addition, secondary data was obtained from statistics from the reports of Controller of Budgets for the period between June 2013 to June 2021. The final draft of the case study was presented to the Head of County Treasury for approval and case release to allow for this publication.

## Introduction, History and Context

Embu County is one of the devolved units in Kenya, located in the agricultural rich Mt. Kenya region. The County borders five (5) other Counties namely Tharaka Nithi to the North, Kitui to the East, Machakos to the South, Murang'a to the South West and Kirinyaga to the West. It lies about 120 Kilometres North East of Nairobi and on the South-Eastern side of Mt. Kenya. The County is subdivided into four Sub-Counties of Manyatta, Runyenjes, Mbeere South and Mbeere North and which are further sub-divided into twenty (20) wards for political leadership and administrative purposes.

In line with the devolved governance structure as per the promulgated Constitution of Kenya 2010, the County is a successor of the former Embu and Runyenjes Municipal Councils alongside the Embu and Mbeere County Councils. Prior to the devolved governance structure in Kenya, revenue administration in the former local Government administrative units was governed by separate by-laws for each Municipal or County Council. The administrative powers of the Councils, that included revenue administration was vested in the Municipal or County Council Treasurer, with the oversight roles vested on the elected and/or nominated Councilors under the leadership of a Mayor elected by the Councilors.

The main source of revenue for the Municipal and County Councils was a grant named Local Authority Transfer Fund (LATIFF) from the Central Government through the Ministry in charge of Local Governments. Other local revenue sources included market fees, business permits, vehicle parking fees, slaughter house fees, livestock markets fee, CESS, building approval fees, land sub-division fees, advertisement fees, rents and rates among others. The now defunct local authority units in Embu County had good working relations with the police for enforcement of their by-laws and fairly effective and efficient litigation system that supported their revenue collections and enhanced compliance by the publics.

In addition, they had a good incentive system for revenue collectors in form of Daily Subsistence Allowances. They also enjoyed political goodwill from the Councilors, who never incited the publics against paying fees/levies and rates to the Municipal or County Councils. The political goodwill was partly attributable to the fact that many of the Councilors' emoluments and allowances were drawn from the local revenues collected. Of the four (4)

local Government administrative units of Embu prior to the County Governments, Mbeere County Council was the best in terms of revenue performance. This was attributable to quarries and other natural resources in the region.

### **Reforms in Internal Revenues on Adoption of a Devolved System of Governance**

With the coming of County Governments in 2013 as established by the Constitution, there were not only re-organizations of the political and administrative units, but also major reforms in the revenue governance and administrative structures. The different by-laws for the various Municipal and County Councils were consolidated and harmonized through an annual Finance Bill that is considered and approved alongside the annual budget by the County Assembly before June 30<sup>th</sup> every fiscal year. The County Government of Embu has established the Embu Revenue Authority as an independent agency to drive revenue collections.

However, as at the time of review of this case study, only senior officers had been deployed to the authority. Further, the authority does not have financial autonomy and currently still relies on budgetary allocation from the County Treasury. Thus, the revenue section is technically still under the County Department of Finance and Economic Planning (commonly referred as the County Treasury) headed by the County Executive Committee Member of Finance (CEC-MF). The day-to-day administrative functions of the revenue section are overseen by the Chief Officer (CO) for finance, who is the Accounting Officer (AO) for the County Treasury. The holders of these two positions are nominated and appointed by the Governor, after consideration and approval by the County Assembly.

The section is headed by the County Head of Revenues, who supervises the Sub-County heads of revenues who in turn drive revenues in each of the 4 sub-Counties. Under each Sub-County heads of revenues are supervisors in charge of individual revenue streams and supervise the revenue collectors for their streams. The current staff establishment is a mix of those inherited from the now defunct Municipal and County Councils and newly recruited ones by the County Public Service Board (CPSB).

Over the past 10 years of County Governments, questions have been raised as to whether the reforms brought about by the new governance structure have helped improve revenue collection or hindered growth in revenues for the Counties. Generally, there is now a tendency towards the view that individual County revenues have not grown as fast as it had been envisioned, and in some cases, they seem to be collecting less than the defunct local authorities were able to. Conclusive evidence on this view is however hampered by absence of reliable data on Municipal and County Council revenue collections prior to their dissolution and transition to Counties

### **Strategies for Enhanced Revenue Collection**

To enhance its own revenue collection, the Embu County Government has employed a number of strategies. First, the annual finance bills have harmonized and strengthened revenue streams in all the sub-Counties, even though they may be charging different rates in different locations/centres. In addition to the Finance Bills, the County has passed and adopted a Trade Act, a Tax Waiver Act and a Valuation Act, all of which have been instrumental in boosting the County revenue collections. Second, the County has invested on a web-based electronic system hosted by KCB bank named ZIZI. This system tracks revenue collections on

real time and the County can determine actual collections at the end of each day or at various points in time within the day. This has enhanced transparency and accountability in the County revenue collection and among the revenue collectors.

Third, the County has invested in new vehicles to ease movement and access to all the revenue centres. Fourth, the County has employed more enforcement officers to strengthen its enforcement efforts and increase compliance from the taxable publics. Finally, it has enhanced the skills set among the revenue collectors in the new recruitments. This has brought on board more qualified/skilled revenue collectors and enhanced the revenue collecting capacity of the section. These initiatives have resulted into modest and progressive improvements in the County revenue collections over the past 10 years. This is represented by the revenue growth curve presented in appendix I below. The County treasury reports that consecutive declines on revenues for fiscal years 2019/20 and 2020/21 were attributable to prolonged COVID-19 pandemic that resulted to slow and closure of businesses, political interference and incitements from the local chamber of commerce for traders not to pay permits, licences and other fees.

However, there have been challenges that have hampered fast growth in the County revenue collections. One and a major contrast from the defunct local authorities has been political interference. Unlike prior to County Governments, local elected leaders have often incited residents not to pay certain fees and levies, especially where they perceive absence of commensurate direct services by the County Government. This has been occasioned by the separation of the financing of County Assemblies from locally collected revenues. Instead, the County Assembly receives their budgetary allocation directly from the equitable share devolved to the County Government.

Two, also unlike in the local authority units, the enforcement and prosecution units/efforts are much weaker than under the local authorities. While the local authority units were supported by the police, the County now has to rely on their sub-County administrators for enforcement. Further, the County lacks an internal legal team to prosecute revenue non-compliance.

Three, there are staff issues that seriously hinder revenue collector morale and motivation. These include absence of regular training, none involvement/consultation in setting revenue targets, no insurance cover while on duty despite often having to work with hostile publics and discontinuance of the incentive systems that were provided under the local authorities. This is in addition to staff shortage occasioned by natural attrition or retirements and an aging work force despite the nature and intensity of work requiring a more youthful workforce. There has also been disharmony between the inherited staff from the defunct local authorities and the newly recruited revenue collectors. The tensions hamper cohesiveness in implementation of policies and decisions on revenue collection.

Four, the economy of the County is largely agricultural based and the shifting weather and climatic conditions have affected agricultural productivity and consequently hurt key revenue sources for the County. Five, despite the investments by the County on equipment and technology, the web based revenue collection electronic systems suffers from poor internet connectivity, the vehicles sometimes lack fuel and the County has no specific budget to support its own revenue collections. Other challenges include resistance to pay by the public

where they perceive the County has not delivered commensurate services, complex application of the finance bill (often charging different rates in various location for same revenue stream), enforcement officers at the sub-Counties lack necessary equipment's/facilities and lack of or poor inter departmental coordination among the various County departments which hurts certain revenue streams and limits the County from achieving its full potential.

### **Conclusion and Recommendations**

To accelerate revenue collections in the future, the County needs to strengthen the established Revenue Authority with adequate budgetary allocation; upgrade the electronic system to support a mobile based platform of revenue collection; establish a legal unit within the revenue section to support enforcement and prosecution efforts; and exploit unexploited potential like untapped markets and parking parks in certain areas on the County. The sub-County revenue heads emphasize on the need for regular training for the revenue collectors and the need to establish a clear incentives and performance rewards and sanctions system for revenue collectors. At the moment, there are no rewards tied to high performance nor are there clear sanctions for non performance. This de-motivates high fliers, diminishes desire to go the extra mile and encourages laxity for low performers in revenue collection.

The County needs also to improve provision of services in the revenue centres, enhance advocacy and awareness on the importance of paying fees/levies among the citizens and elected leaders and improve public participation on matters relating to County revenues. This shall help address the frequent hostilities and resistance on payment of fees/levies due to the County Government.

### **Case Discussion Questions**

1. Read the Embu revenue case study and responds to parts (a) and (b) below:
  - a) Describe in detail the revenue governance structure prior to the County Governments.
  - b) How have these changed with the introduction of the County Governments?
2. Have the changes and reforms introduced by the devolved governance structure improved revenue collections? Share your own County experiences.
3. Identify and discuss staff related challenges in Embu County that may have hindered revenue collections in the County. Share your own experiences in your respective Counties.
4. Other than staff related issues, what other challenges have hampered revenue collection in Embu County? How do they compare to challenges in your own County?
5. Discuss the strategies that Embu County has employed to improve own source revenue collections.
6. What opportunities are available to Embu County to enhance its revenue collection in the future? Are these opportunities relevant and applicable to your own County?
7. Based on the facts of this case, what lessons can the Counties learn? As far as possible, share your own County experiences.

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Appendix I: Embu County Revenue Trends

