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ON

FUNDING COUNTY GOVERNMENT BUDGETS

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INTRODUCTION

Two years since the onset of devolution, Kenya is at the significant stage of implementing the devolved system of governance. Looking back, many have concluded that despite the turbulent take off, devolution was the best thing to have happened in Kenya. The hope of devolution hence, like the flight of an airplane, lies not in the deviations but in Vision, the plan and the ability to get back on track.

Devolution is the sure way of achieving Kenyaôs blueprint, Vision 2030.The success of which, hinges on stronger financial and human resource systems. It is paramount then that counties design systems to optimize use of the scarce resources for the ultimate objective of efficient and effective service delivery. This is the essence of an effective fiscal decentralization programme.

Indeed, fiscal and financial decentralization consists the devolution of the financial resources and decision-making powers to the sub-national levels that will allow them to implement the functions and responsibilities that they have been assigned. Alongside the division of roles between the national and county governments, the Constitution, under Chapter 12, addresses the financing of the functions of the two levels of government towards an equitable society based on openness, accountability and public participation in financial matters.

This paper explores means and ways of furnishing county governments with the appropriate resources for the full execution of their mandate.

EXISTING PROVISIONS FOR COUNTY FINANCING

It is the Constitution principle that every responsibility must be followed with adequate resourcing and as such **finance must follow function**.

Currently, the total county budget consists of the equitable share allocated from the national government and the amount generated locally referred to as the local revenue. Article 209(3)(a)(b)(c) and (d) of the Constitution highlights the following as the most salient avenues that county governments can impose taxes on and charge to generate local revenue; property rates, entertainment taxes, service charge and any other tax that is authorized by an Act of Parliament. The county governments may also borrow a loan subject to the county assembly approval and subject to a loan-guarantee by the National Government as provided under Article 212(a) and (b).

Public finance and budgeting is guided by principles of openness, accountability as well as public participation on matters of financial matters to avoid overburdening the taxpayer. As such, county governments have to balance their taxation measures and revenue generation with these principles in mind. Notwithstanding, the public expect enhanced service delivery to meet their ever increasing needs. This begs the question, from whence will the services be financed?

We explore in sections below, the impeding factors to sufficient resourcing of county governments and attempt to suggest the various ways the county governments could undertake to credit the accounts of their treasuries.

ROAD BLOCKS TO SUFFICIENT RESOURCING

Like Kenya, numerous developing countries have been faced with the following challenges in rolling out fiscal decentralization programmes, namely:

a) Weak accountability and by extension governance structures;
b) Unpredictability of local revenues due to a lack of information, poor planning and implementation of the plans;
c) Lack of capacity skills in counties to collect and effectively account for local revenues;
d) Over dependence on National Government transfers;
e) Lack of awareness by the small business enterprise on county taxation
f) Limited research and innovation on the new tax sources
g) Lack of appreciation of value by the tax-paying public in the services provided by the County Governments ï simply put, the public is often of the view that it does not get tax-worth of services from the county government and hence the sense of apathy would easily crop in.

ALTERNATIVE SOURCES FOR COUNTY FINANCING

County Governments have seen demonstrations and public outcry over various taxation measures that have been adopted by the various devolved units. This points to the fact that first, the existing revenue sources were not sufficient to cover county operations. Secondly, counties were looking for new avenues for generating extra income but not backed by extensive research and or public consultation. Thirdly, the tax points proposed were problematic and not well designed hence hard to sell to the citizens. These imply that without planning and proper research, autonomous taxation powers at the county level can impact negatively on the economy by either stifling inter and intra county trade or causing macroeconomic distortions.

We propose the following mechanisms to be adopted by the county government as alternatives to enhance county financing:

a) Revenue enhancement studies

County governments could benefit from undertaking a comprehensive revenue enhancement study that will analyze and review the current sources of revenue with the aim of improving their performance and identifying other potential sources and or opportunities that counties could undertake to enhance their revenue basket.

The study will further seek to analyze the tax agents and collection points to determine who collects what levies with the aim of averting mismanagement as well as instilling responsibility and accountability to the collection agents. This would also help in identifying which areas to automate to realize maximum collection potential.

Furthermore, the study should seek to identify potential gaps on business licenses tax to curb tax evasion and control tax avoidance. Notably for instance, property tax cannot be avoided and it forms an integral part of the levies collected by both the national and the county governments all over in the word; if it is well (fairly and legally) administered, it can represent a non- distortional and highly effective fiscal tool. Poor business licensing and non- issuance of receipts lead to closure of businesses and creation of non-tax remitting businesses a very fertile environment for corruption occasioning to loss of revenue and tax on the part of county governments.

Above all, ways to increase the political willingness and commitment to support the tax systems reforms should be explored and implemented.

b) Industrial revolution at the counties

The county governments are in the take-off stage of economic development. They have at their disposal, the classical economic factors of production in the form of land, labour, capital and entrepreneurial skills set that they can capitalize to make themselves economic giants in the present future.

The county governments should, from their total revenue basket, allocate significant amounts for county development and towards the growth of county economy and GDP. This would enhance the level and quality of investments in the county and form a base for taxation and hence, revenue. Therefore, an increase in a countyǿs GDP would mean an increase in the own revenue basket.

c) Development of the land resource

Many counties have invested heavily on acquiring heavy machinery including tractors, bulldozers and grand movers as county assets. What should follow is proper maintenance and utilization of the same to cultivate and develop their various counties. The same should, within a well-articulated policy framework, hired out or rented to generate income.

The county governments should moreover, utilize the Public Private Partnership legislation positively to among other areas, creatively partner up with small scale farmers, after reviewing their land tenure policies in order to transform production, enhance productivity and generate income. In the same breath, they should through PPP, seek to utilize idle land and plant trees to enhance environment, control carbon emission, increase the production of timber as a source of employment and development of industries within the counties.

d) Inter-County collaborative development initiatives

Different counties are undertaking and laying out massive infrastructure projects that could benefit from concerted efforts from the neighboring counties. Regional development banks to support small and micro enterprises.

e) Expenditure rationalization

The nature of public finance is such that there must be resources including but not limited cash assets that are committed to costs to yield public goods and services. It is the dream of every County Government to maximize on its value proposition and hence the need for reliable budget financing. The challenge facing all counties is the inadequacy of financial resources to effectively fund their budgets. It thus calls for innovative ideas of maintaining the accounting equation at least balance.

Many county budgets are developed on the premise of what activities to deliver to the people without due consideration of the countiesô abilities to effectively fund them. It is increasingly becoming difficult for counties to generate adequate resources to fund these budgets. Consequently, it is time for the counties to consider cost minimization as a means of optimize its value proposition. This proposal will yield a value-based cost assessment and thus only provide for costs that yield maximum value and succeed at weeding out the non-essential costlines on county budgets.

f) Leverage on private capital

World over, public finances have not adequately funded all the developmental needs of governments. In light of this, national government as well counties must explore the possibilities and merits of tapping into private capital to fund the provisions of public goods. Such of this approach would be dictated by national and county governments establishing a sound policy and regulatory environment that allows for the participation of the private sector in this activites that would ordinarily require government interventions. The key is to create a situation where it makes business sense for the private sector to invest their capital and provide assurances on stable return on that investment.

It is important that County Governments focus efforts on what they can deliver with ease and create frameworks to allow the private sector to drive those services that the private sector can efficiently and effectively deliver on. In this regard, counties may consider the following approaches:

- Outsourcing services to the private sector
- Public private partnerships on the very capital intensive and technical projects that would be better delivered by the private sector.

g) Other measures

To enhance their various sources of revenue, county governments should explore the following mechanisms too:

a. Set up County enterprises and position them as profit centres
b. Reform procurement through undertaking regular market studies and adoption of E-Procurement to avoid hiked prices by un-scrupulous middle men and brokers
c. Conduct regular pre and post expenditure value assessments that would compliment value for money audits
d. Leverage on ICT to manage operational costs

CONCLUSION

To avert arbitrary and or illegal imposition of taxes and charges, the Constitution put a yardstick on the extent to which the county governments can go in imposing additional taxes pursuant to section 209(1). County governments continue to suffer financial burden with the ever increasing needs of the populous. This fact outlines the need for the alternative options by the county governments to source for the resources to fund their budget and development projects instead of majorly relying on the national government allocations (Article 203 of the 2010 Constitution of Kenya). It is only those counties that would think outside the box and explore alternative sources of revenue generation that are backed by research and public collaboration that would be able to succeed and develop.