ICPAK PRESENTATION ON COUNTY BORROWING & INVESTMENT OPPORTUNITIES FOR FINANCIAL SUSTAINABILITY

FINANCIAL REPORTING & MANAGEMENT SEMINAR FOR COUNTY GOVERNMENTS
DATE: 26TH – 27TH MAY 2016
VENUE: HILTON HOTEL, NAIROBI

Legal Framework- Planning & Budgeting

- There are three main components in government budgeting legal framework:

1. **The Constitution** highest in the legal hierarchy. The Constitution clarifies:
   - *relative powers of the executive & legislative branches with respect to public finance;*
   - *Definition of the financial relations between national & sub-national(County) levels of government;*
   - *Principles of public finance- article 201;*
2. **Public Finance Management Act, 2012** -main vehicle for establishing principles of public financial management. Provides the basis for budget preparation, approval, execution, control & auditing;
3. **Public Finance Management Regulations**: The organic law also gives the government the authority to issue detailed regulations/instructions on public financial management

Introduction- Public Finance Management Principles

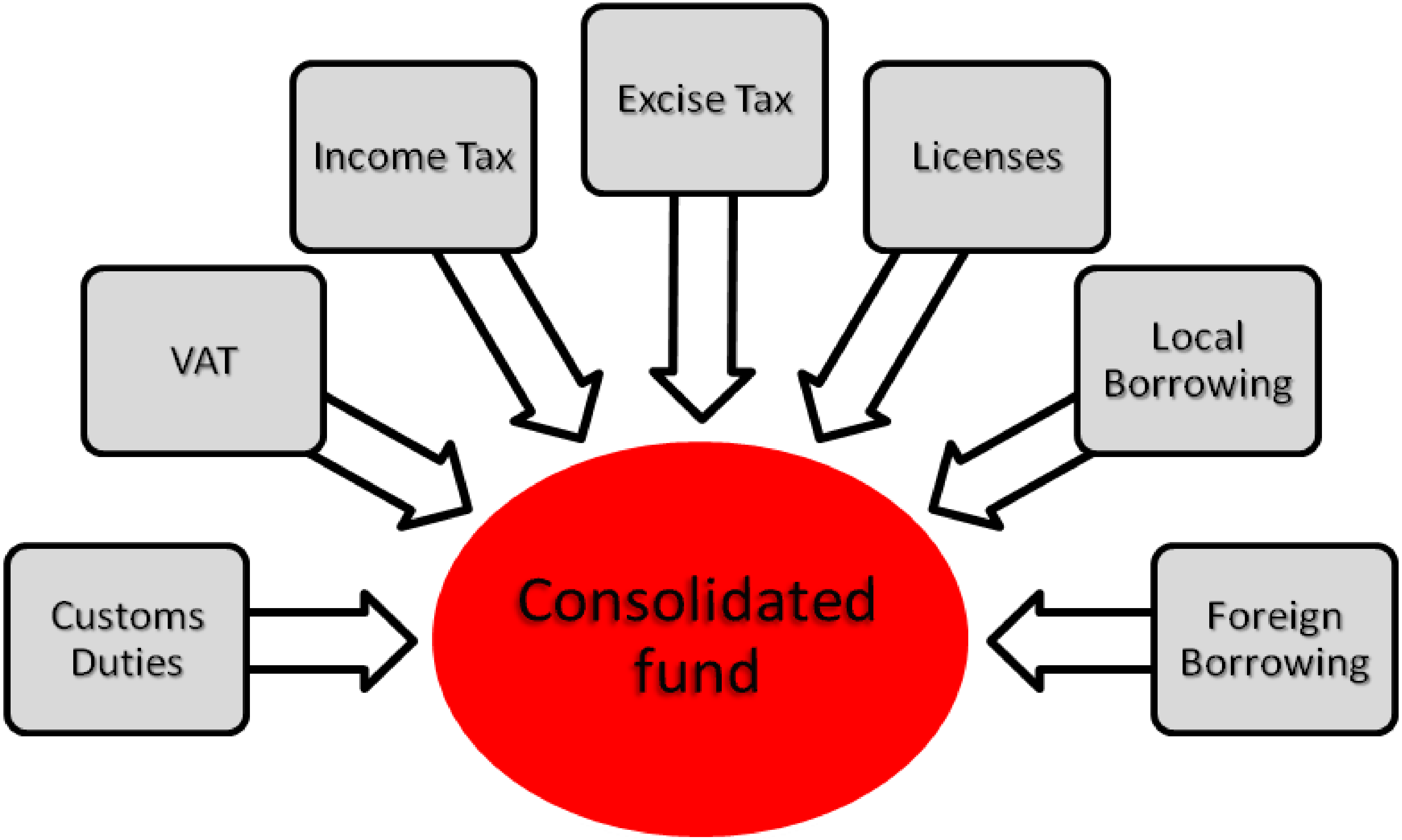
- Guiding principles of public financial management (PFM) (Article 201);

- Planning & budgeting must comply with these principles which include,
  a) **openness, accountability and citizen participation in financial matters, i.e. when raising, allocating and utilizing, public finances**
  b) **Promotion of equitable society in which, tax burdens fairly shared, and,**
  c) **burdens and benefits of public debt are shared equitably, and**
  d) **Public funds are used prudently and responsibly, and**
  e) **management of public finance is reported clearly and responsibly**

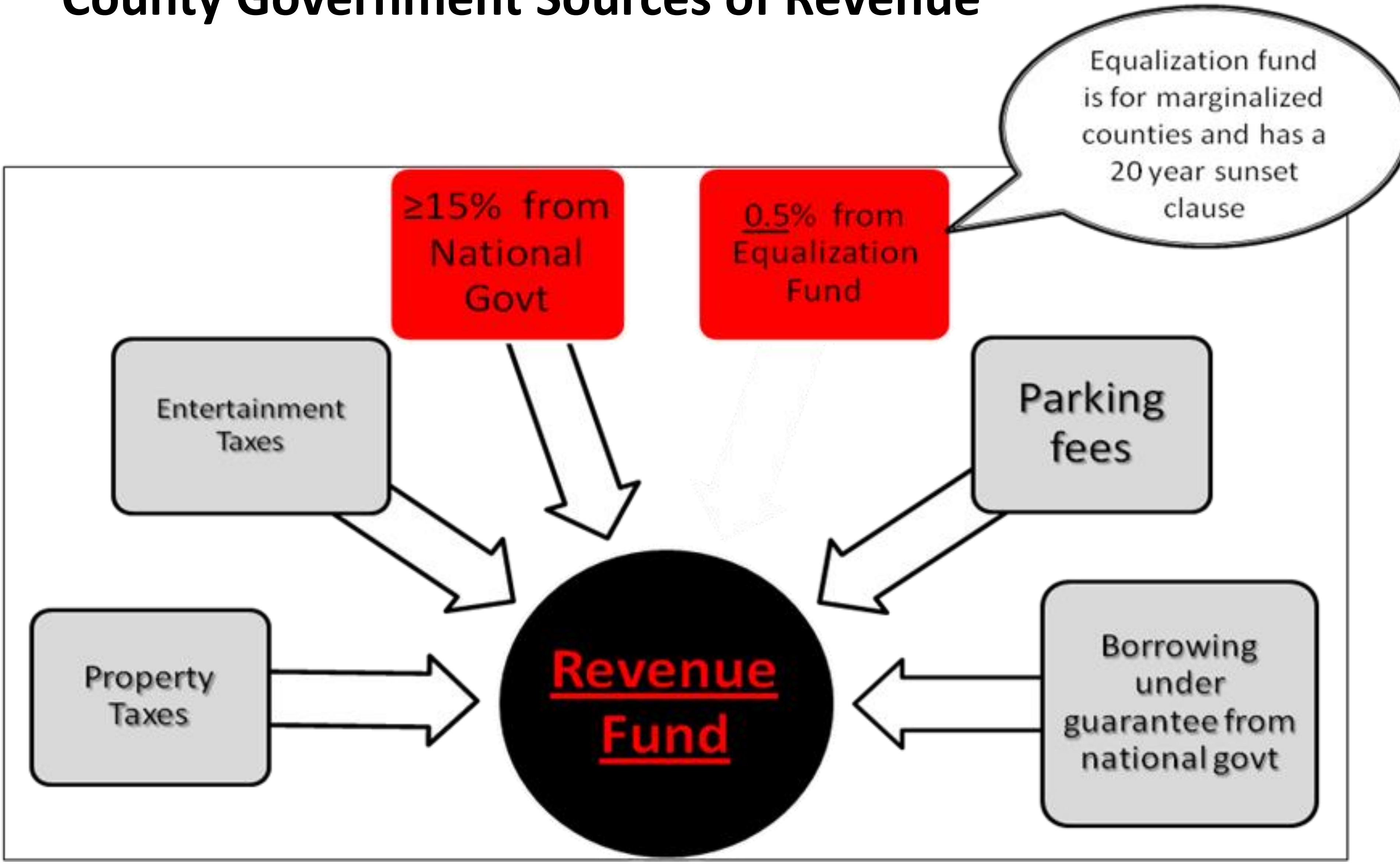
- Budget to incorporate the principles, & provisions of Article 209 and 220.
- Criteria for sharing covered under Article 203, and tax powers & limits in 209

SOURCES OF REVENUE

National Government Sources of Revenue



County Government Sources of Revenue



Constitutional Provisions on County Revenue

- Art.202- Provides Fiscal transfers;
- Art. 203 The revenue raised nationally shall be shared equitably among the two levels of government and among 47county governments;
- Art. 209- Counties with the powers to raise taxes;
- Art. 215- CRA to make recommendations concerning the basis for the equitable share;
- Schedule 4 assigns the responsibility for trade development and regulation to County governments;

Revenue Generation Avenues for County Governments

- Single Business Permits;
- Game park fees-
- Boost main economic activities to spur regional trade;
- Property rates;
- Other sources: advertising fees and planning approvals, public health and wastage charges, administrative charges, fines and interests;
- Economic diversification through energy-solar energy harvesting;
- Prudent utilization and management of resources(Art.201)

COUNTY BORROWING

Power of Cabinet Secretary to guarantee loans

- PFM Act (section 58) grants the CS powers to guarantee loans
- The CS may guarantee a loan of a county government on behalf of the national government;
- That loan shall be approved by Parliament
- The PFMA sets preconditions for loans Guarantee

Preconditions for Guarantee Loans

- The loan is for a capital project;
- the borrower is capable of repaying the loan, and paying any interest or other amount payable in respect of it;
- The financial position of the borrower over the medium term is likely to be satisfactory;
- The terms of the guarantee comply with the fiscal responsibility principles

Fiscal Responsibility Principles

- over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;

- short term borrowing shall be restricted to management of cash flows & shall not exceed 5% of the most recent audited county government revenue.

- The county debt shall be maintained at a sustainable level as approved by county assembly;

- fiscal risks shall be managed prudently

Fiscal Responsibility Principles Contd

- The county government's recurrent expenditure shall not exceed the county government's total revenue;
- over the medium term a minimum of 30% of the county government's budget allocated to the development expenditure;
- The county government's expenditure on wages & benefits shall not exceed a percentage of the county government's total revenue;
- a reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained.

Roadblocks to sufficient County Resourcing

- Weak accountability and by extension governance structures;
- Unpredictability of local revenues due to a lack of information, poor planning and implementation of the plans;
- Lack of capacity skills in counties to collect and effectively account for local revenues;
- Over dependence on National Government transfers;

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Roadblocks to sufficient County Resourcing(Contd)

- Lack of awareness by the small business enterprise on county taxation
- Limited research and innovation on the new tax sources
- Lack of appreciation of value by the tax-paying public in the services provided by the County Governments – **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**.

Possible Solutions

- **Revenue enhancement studies:** analyze the tax agents; collection points, potential gaps e.t.c
- Increase the political willingness and to support the tax systems reforms
- **Inter-County collaborative development initiatives**
- **Expenditure rationalization**
- **Leverage on private capital**
- **Development of the land resource**
- **Industrial revolution at the counties**

Possible Solutions(Contd)

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

THANK YOU