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Local Government Property Tax Administration and Collaboration with Central Government: Case Studies from Kenya

Summary of ICTD Working Paper 95 by Rose Wanjiru, Anne Wanyagathi Maina and Eldah Onsomu with Graeme Stewart-Wilson

1. Introduction

Property taxes are an important revenue source for subnational governments. Across sub-Saharan Africa collection of property taxes is made up of several distinct processes, some situated at the national level, and some at the local level. Thus, inter-organisational cooperation and institution-based trust are essential for the successful implementation of property taxation. Because of the common centre-local tensions, there is now widespread acknowledgement that in sub-Saharan Africa property tax systems are not leading to the desired cycles of public investment and local government empowerment (R. W. Bahl and Bird 2013; R. W. Bahl, Martinez-Vazquez, and Youngman 2008; Cirolia and Mizes 2019; Collier 2016).

Recent experiences in Kenya, including the adoption of a new constitution in 2010 that radically devolved responsibility to county governments, provides a novel opportunity to examine some of the challenges and opportunities facing property taxation in sub-Saharan Africa. The new constitution decentralised powers and responsibilities from central government to 47 new county governments. The study was conducted in three counties; Kiambu, Laikipia, and Machakos. Although the main source of funding for county governments is fiscal transfers from the national government, property taxes constitute the dominant revenue stream for most counties. County governments have the power to determine their own tax bases, property rates, and tax rates.

2. Property tax administration at county levels and central-local government cooperation

2.1 Outdated valuation rolls and other administration challenges

The relatively poor property tax performance in Kenya can be explained by a variety of factors. First, there is limited observance of statutory valuation cycles – most valuation rolls reviewed by the researchers were outdated. Outdated valuation rolls undermine the property tax base and the legitimacy of the rates levied. Second, most counties have limited technological support, including both computer hardware and software. Third, tax officials pointed to weak linkages between property tax and service delivery. Improvements to property tax administration should be accompanied by improvements to service delivery as evidence to citizens that their taxes are being used in a productive way.

2.2 Automation infrastructure and cashless system

Rating officers still rely on manual registers that are maintained at the county land office. Payments can be made via *M-pesa* or through the bank; in all three counties cash payments are not accepted. All three counties are currently in on-going discussions to consider the development of new systems to automate the process of revenue collection and reporting. Kiambu County is the only studied county that is currently fully automated. They use a system called *County Pro* for billing, reconciliation and reporting of revenue. Through the implementation of this automated system, the county recorded an improvement in revenue collection from KSh800 million (US$8 million) in 2013 to KSh2.5 billion (US$250 million) in 2016.

Despite the successes recorded in Kiambu, most counties have found that the costs associated with automation – particularly on-going maintenance costs – are untenable. Counties have incurred huge automation expenses with minimum noticeable changes in reducing leakage, increasing revenue, and improving reporting and accountability. Key to this challenge is the lack of requisite capacities within counties to effectively manage procurement and implementation of the automation process. A lack of clear guidelines from the national agencies has left the counties vulnerable to unscrupulous peddlers of underdeveloped and ineffective revenue management automation systems. For example, Machakos County was forced to discontinue its procured automation system (BCX) when it lead to no changes in revenue collection.

2.3 Memoranda of understanding

In 2017, Laikipia and Kiambu both signed memorandums of understanding (MOUs) with Kenya Revenue Authority (KRA) to collect specific revenue streams on behalf of the county governments. Signing the MOUs was motivated by the fact that KRA is generally perceived to have the required professional skills, personnel and technical resources to undertake revenue collection for the county governments. For both counties, the revenue streams to be collected by KRA included land rates and SBPs. The county governments were responsible for determining the collectable revenue, and KRA was responsible for delivering bills and collecting payments. As part of the agreements, KRA was also responsible for training county revenue unit staff on the features and operation of the iTax revenue collection system. The county governments and KRA were to operate a joint enforcement team. A property tax module was to be developed for the iTax platform, and integrated with the 37 banks that KRA works with to ensure that revenue is collected in a transparent and accountable manner (Wainaina 2017). Despite these seemingly beneficial agreements, neither MOU has been implemented and no property tax revenue has been collected by KRA on behalf of the counties. Both MOUs have been challenged in court for lack of public participation, delaying implementation.

Machakos County has not signed an MOU with KRA, but during the study period discussions on the matter were on-going in the county administration. Interviewed tax officials stated that although an internal revenue collector would be preferred, a number of persistent issues remain for even relatively simpler revenue collection processes, such as for parking fees. Researchers also observed that property owners were not included in discussions regarding a potential MOU with KRA, as well as lower level revenue unit staff.

3. Policy implication

3.1 Share an integrated and automated property database

Counties have no integrated system for managing property ownership. Both national and county government should work to design and institutionalise the use of a standard property database that is easily accessible to both of them. The database currently maintained by the national government is comprehensive and captures all documented property owners. County governments, however, rarely have access to this database and must rely on their own incomplete, outdated and manual databases. Counties thus do not have access to updated information on new land owners, land divisions, or any other changes that have been reported at the national level but not the local level. Ideally, the harmonisation of property tax databases will help to promote efficiency, effectiveness, accountability and predictability in property tax administration.

3.2 Build capacity and provide technical support

The national MoL has the relevant technical capacity to support counties with valuation, surveys and digital mapping, amongst other practices. The county governments have not taken full advantage of the information and capacity that is currently made available from the national level. At the same time, the various national government ministries and agencies have not been proactive in collaborating with the counties and in building county government capacity. National ministries, departments and agencies should seek to better communicate and to share key information with relevant counties. County governments, with support from KRA, should invest in structured capacity development programmes for revenue (including property tax) collectors and their supervisors. Counties should also invest in effective revenue collection operations, including field transport, logistics and security, and ensure the cost effectiveness of deploying revenue collectors and supervisors.

Further reading

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Credits

This paper was written by **Rose Wanjiru**, **Anne Wanyagathi Maina**, **Eldah Onsomu** and **Graeme Stewart-Wilson**.

Rose Wanjiru is a development practitioner who has been involved in promoting good governance with a particular focus on public financial management through research, capacity building and evidence-based advocacy.

Anne Wanyagathi Maina works in tax administration and has a keen interest in research on tax policy for development.

Eldah Onsomu is an economist whose research interests include the social sector and public financial management. She is also involved in public finance and policy analysis and evaluations.

Graeme Stewart-Wilson is an ICTD editor.

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IDS Institute of Development Studies

ICTD is based at the Institute of Development Studies, Brighton BN1 9RE UK.