Constraints to Enhanced Revenue Mobilization and Spending Quality in Kenya

Nelson H. W. Wawire

Abstract

This study addresses constraints to enhanced revenue mobilization and spending quality in Kenya. The structure and growth of Kenya's economy and spending quality have a bearing on its taxable capacity. Constraints to enhancement of revenue mobilization and spending quality include the existence of a large informal sector; inadequate information on property ownership; perceived corruption; inefficient use of public resources; political interference; volatile election cycles; abuse of tax incentives; uneven transfer pricing; illicit financial flows; and untaxed online businesses, coupled with poor administrative capacity and tax policy design. Policy implications on revenue performance are (1) the National Treasury and Kenya Revenue Authority (KRA) should focus on property taxes and capital gains taxes to expand the tax base; (2) development partners are needed to direct technical assistance to the informal sector, to aid with transfer pricing, to monitor illicit financial flows, and to properly tax online businesses; (3) greater use of technology is needed to increase efficiency; (4) intervention by the Geospatial Information System is needed to link data on land and property ownership with tax information in the existing database; (5) a pay-for-results model needs to be deployed; (6) need to reduce tax expenditures; and policy reforms to be initiated in the agricultural sector. The policy implications on expenditure are (1) the need for efficient utilization of tax revenues; (2) the need for implementation of digital technologies; (3) the need to revisit an integrated financial management information system (IFMIS) configuration; (4) the need to adhere to long-term planning; and (5) adoption of the GFS 2014 reporting standard. Overall, an independent entity needs to be established that will set budget ceilings, monitor budget implementation, and carry out audits.

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Abbreviations and Acronyms

AfDB	African Development Bank
CAB	Current Account Balance
CAS	Chief Administrative Secretary
CBA	Cost Benefit Analysis
DPs	Development Partners
DRM	Domestic Resource Mobilization
e-ProMIS	Electronic Project Monitoring Information System
GDP	Gross Domestic Product
GGGD	General Government Gross Debt
GGOD	General Government Overall Deficit
GIS	Geospatial Information System
GNI	Gross National Income
ICMS	Integrated Customs Management System
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
MTEF	Medium Term Expenditure Framework
NSPP	National Social Protection Policy
NYS	National Youth Service
ODA	Official Development Aid
ODM	Orange Democratic Movement
OECD	Organisation for Economic Co-operation and Development
P4R	Program for Results
PAYE	Pay-as-You-Earn
PFM	Public Finance Management
PFMR	Public Finance Management Reforms
PNU	Party of National Unity
PPP	Purchasing Power Parity
PWD	People with Disabilities
SGR	Standard Gauge Railway
SME	Small and Medium Enterprises
TA	Technical Assistance
UHC	Universal Health Coverage
USD	United States Dollar
WDI	World Development Indicators

Foreword

In recent years, Kenya has experienced rapid economic growth, substantially higher than the average recorded by sub-Saharan Africa as a whole. However, the average tax-to-GDP ratio has barely moved in the past 17 years. This has meant that the recent scaling up of capital spending has partially been funded by borrowing and by squeezing spending on other critical sectors. Going forward, insufficient revenue growth is likely to threaten Kenya's debt sustainability and limit its ability to spend on the Sustainable Development Goals. Presently, Kenya's debt is estimated at 55 percent of GDP and nearly 20 percent of its revenues are consumed by interest on borrowed funds, with important implications for expenditure allocations for social programs.

The picture on the composition of tax collections is mixed. Receipts from both VAT and excises have fallen by over 1 percent of GDP since 2001, while those from income tax increased by 3 percent of GDP. Kenya is one of the few countries in the region that has raised its share of income taxes in the total tax collections, making the tax system relatively more progressive.

There is considerable scope for raising more revenues. This is evident from the revenue loss of over 6 percent of GDP owing to poor compliance. Tax concessions granted to entities for promoting local employment and content have caused revenues to leak further by 5 percent of GDP.

This paper is part of the five country studies commissioned by the Center for Global Development. Prepared by Professor Wawire, it identifies the political and institutional factors behind Kenya's relatively weak revenue performance in the past 17 years and lists several suggestions that could potentially help raise more resources domestically. We believe these suggestions are worthy of a broader public discussion as well as deserve a serious consideration by the Kenyan authorities. Prof. Wawire also assesses failings in Kenya's spending programs which if corrected have the potential of generating substantial resources for development and improving both economic and social outcomes. This study should be of interest to policymakers in sub-Saharan Africa in general, and in particular those belonging to the East African Community.

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Section 1. General Macroeconomic Background

The state of the Kenyan economy is informed by trends in macroeconomic indicators, such as gross domestic product (GDP) per capita, real GDP per capita growth, real GDP growth, the rate of inflation, current account balance (CAB), official development aid (ODA), general government gross debt (GGGD), and general government overall deficit (GGOD). These indicators are responsible for not only shaping the economic outlook but also the political economy (Mügge 2016). The trends in these key macroeconomic indicators that have a bearing on fiscal development in Kenya are summarized in the following table.

Table 1. Macroeconomic indicators, 2000–2002 and 2014–2017

	2000–2002	2014–2017	2017
	Mean	Mean	
GDP per capita (USD, PPP) (2011)	2,130.6	2,877	2,992.6
Real GDP per capita growth (percentage points)	-1.1	2.8	2.3
Real GDP growth (percentage points)	1.6	5.5	4.9
Inflation (percentage points)	5.9	6.9	8.0
Current Account Balance (percentage points GDP)	-1.7	-7.2	-6.3
Official Development Aid (percentage points GNI)	3.6	3.6	3.2
General Government Gross Debt (percentage points of GDP)	56.8	51.9	54.2
General Government Overall Deficit (percentage points GDP)	-1.0	-7.6	-8.7

Sources of data: World Bank; *World Development Indicators* (Various years); IMF (2018b) *World Economic Outlook*.

Gross domestic product per capita, real GDP per capita growth, and real GDP growth all show an upward trend. Growth rate remained relatively high, but revenues did not maintain pace with it. The average inflation rate increased, thereby eroding the purchasing power of the citizens and their capacity to pay taxes.

The current account balance worsened as a result of faster growth in imports, compared to growth in exports. This was due to increased imports of petroleum and food products, caused by rising oil prices and drought, respectively (Republic of Kenya 2018a; IMF 2018a). This was also due to increased imports of capital goods for use in infrastructure projects (Republic of Kenya 2018b and 2019a).

Official development aid, as a percentage of gross national income (GNI), stood at 3.2 percent by 2017, from an average of 3.6 percent in the years 2000–2002. This declining trend has left a revenue gap that needs to be filled through domestic resource mobilization (DRM). This is underscored by the fact that the general government gross debt (GGGD) stood at an average of 54.2 percentage points of GDP by 2017 (World Bank 2019; IMF 2018b).

The fiscal consolidation measures that began in 2014–2015, designed to reduce the fiscal deficit in order to achieve sustainable debt levels, have not borne fruit. The general overall government deficit worsened, despite the government's attempt to engage in fiscal adjustments in an effort to enhance mobilization of domestic revenues (Oguso, Mwega, Wawire, and Samanta 2018). The worsening of the overall deficit put pressure on the Kenyan government to raise more revenues or engage in more borrowing to fill the gap.

Section 2. Revenue and Expenditure Developments

2.1 Revenue Performance

The following table shows trends in revenue performance in relation to GDP and to total revenue for the periods 2000–2002 and 2014–2017.

Table 2. Revenue trends, 2000–2002 and 2014–2017

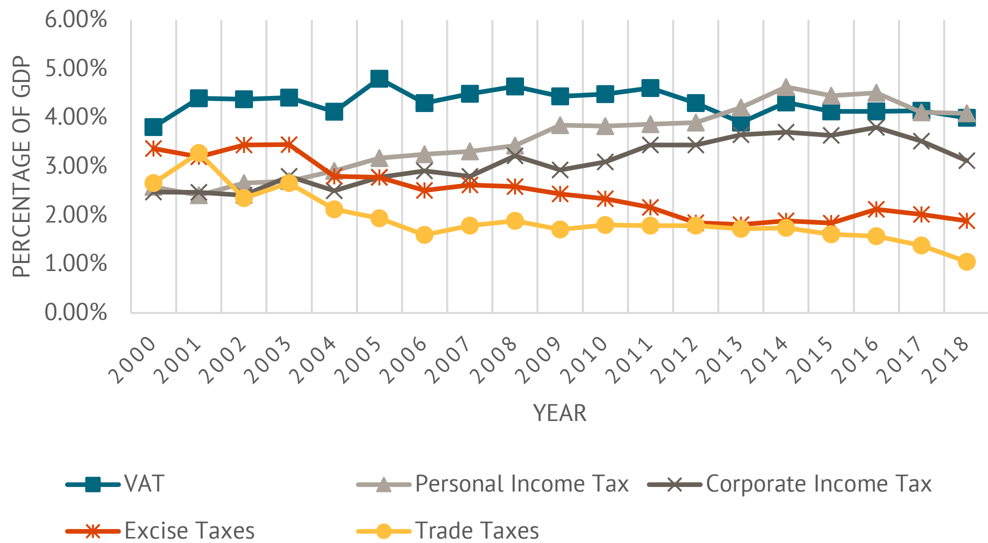
	In Relation to GDP		In Relation to Total Revenue	
	2000–2002	2014–2017	2000–2002	2014–2017
	Mean	Mean	Mean	Mean
Total Revenue	19.0	17.8	-	-
Tax Revenue	15.5	16.1	81.3	90.6
Income Tax Revenue	5.1	8.0	26.4	44.9
Personal Income Tax	2.6	4.4	13.4	24.6
Corporate Income Tax	2.5	3.6	13.0	20.3
Payroll Taxes				
Property Taxes	0.0	0.0	0.0	0.0
Goods & Services Taxes	7.7	6.5	40.3	36.3
General Taxes on Goods & Services (VAT)	4.2	4.2	22.1	23.5
Excise Taxes	3.3	1.9	17.6	10.7
Trade Taxes	2.8	1.6	14.6	8.8
Other Taxes	0.1	0.2	0.4	0.9
Resource Revenue	-	-	-	-

Source of data: International Monetary Fund (IMF). Available at data.imf.org. Viewed June 24, 2019.

Total revenue responded less proportionately to changes in GDP, while the average tax revenue-GDP ratio increased by only 0.6 percentage points. Therefore, various tax reforms that have been implemented by the Kenya Revenue Authority (KRA) in the past 18 years have not enhanced the buoyancy of the tax system (Wawire 2016; Wawire 2017; Ochieng, Wawire, Manyasa, and Kiguru 2014). These reforms include the Revenue Administration Reform and Modernization Program (RARMP) that began in fiscal year 2004–05 (KRA 2003) and was meant to improve efficiency in tax administration. The reforms also include the digitization of tax administration (Ndug'u 2017) and the public finance management reforms (PFMRs), launched in 2006 with the aim of enhancing the Kenyan government's responsiveness to fiscal policy priorities and improving accountability and transparency in operations (KRA 2010).

Figure 1 shows trends in the shares of individual taxes in GDP from 2000–2018.

Figure 1. Trends in the shares of individual taxes in GDP from 2000 to 2018



Sources of data: IMF, available at data.imf.org; Kenya Revenue Authority, 2018/2019 Annual Revenue Performance Report, Nairobi.

Income taxes performed exceptionally well in this period, with personal income taxes outdoing corporate taxes. This could be attributed to tax reforms that emphasize withholding taxes through the Pay-as-You-Earn (PAYE) system (KRA 2010; Wawire 2016), thereby broadening direct tax bases and improving tax administration through digitization (KRA 2015; Ndung'u, 2017). Compulsory filing of individual tax returns through the iTax system, along with the Kenyan government's concerted effort to fight corruption also very likely have contributed to this rise. The granting of various tax incentives designed to encourage companies to invest (KRA 2011) contributed to low performance of corporate taxes relative to income taxes.

Taxes on goods and services performed poorly in the last 18 years. Numerous goods are exempt from the value-added tax (VAT), and some are zero-rated, which makes the system even less productive. The VAT withholding system also has led to a buildup of refunds that has lowered taxpayer morale. However, this is currently being addressed by lowering the VAT withholding rate from six percent to two percent in the current budget, 2019–2020 (Republic of Kenya 2019b). For excise taxes, the declining trend in revenue could be due to inadequate annual inflation adjustment for excisable goods that are subject to a specific rate. It could also be due to the declining share of the manufacturing sector as companies close businesses and lay off employees. Examples include sugar factories that have closed or are operating below capacity, and companies in other sectors that have closed or relocated to other countries, thereby reducing the tax base.

Property taxes and other taxes did not register noticeable performance within the period under consideration. The International Monetary Fund (IMF) observed in 2018 that property as a source of revenue is not adequately taxed. The reasons could range from the difficulties experienced in tracing owners of properties to the lack of a legal framework for property taxation to inadequate resources for property valuation (KRA 2015; McCluskey, Franzsen, and Olima 2017).

Trade taxes also performed poorly, as was expected, because tariffs are not used specifically to raise revenue but rather for purposes of protection. Furthermore, with regional integration and the African Free Trade Agreement gaining momentum, the contribution of trade taxes in total revenue will continue to decline, due to gradual reduction of trade tariffs (Adam 2018).

2.2 Digitization and Structural Change

Performance of tax revenues, especially from direct taxes, was boosted by digitization of tax administration through the rollout of the iTax system and the Kenya Revenue Authority (KRA) M-Service. The iTax system was launched in 2013 and is a web-enabled application that allows the taxpayer to register, file, pay, and make queries (Ndun'u 2017). The KRA M-Service platform launched in 2014 and is a mobile phone application that enables taxpayers to make payments and access tax information using their mobile phones (Ndung'u 2017). Digitizing tax collection and payment has led to the introduction of excise taxes on financial services and mobile phone airtime, although the performance of excise taxes is still low. The application of technology also has reduced the level of undeclared economic activities, thereby expanding the tax base by bringing more small and medium enterprises (SME) into the tax bracket. The introduction of a digitized tax system also seems to have played a role in reducing corruption and in increasing efficient tax collection by eliminating face-to-face interactions.

Structural changes, as reflected in the composition of sector share contributions to the GDP, also explain the changes in tax revenues. The following table shows percentage contributions to the GDPs of agriculture, manufacturing, and services sectors for both 2001 and 2017.

Table 3. Sector percentage contributions to GDP

Sector	2001	2017
Agriculture, Forestry, and Fishing	27.2	34.8
Industry and Manufacturing	9.8	8.0
Services	63	57.2

Sources of data: Republic of Kenya, Kenya National Bureau of Statistics, *Economic Survey* 2006 and *Economic Survey* 2019a. Nairobi: Government Printer.

The structure of the economy remained largely unchanged in the study period, with the services and agriculture sectors maintaining dominancy. The economy is largely service-driven, and yet service taxes are quite regressive and have a disproportionate impact on low-income people. Given the difficulty of taxing agricultural activities that are largely unrecorded, informal, subsistence, and rain-dependent, this could partially explain the low level of the domestic resource mobilization (DRM), especially from taxes on goods and services, as shown in Table 2. Data from sub-Saharan Africa (SSA) shows a tax revenue-to-GDP ratio decline, with an increase in the share of agriculture in the GDP (Ghura 2002). Therefore, given the dominant role played by agriculture, the tax revenue-to-GDP ratio is bound to decline as the agricultural share in the GDP increases, unless measures are taken to modernize and commercialize agricultural activities.

2.3 Expenditure Trends

The following table shows trends in expenditure in relation to GDP and total expenditure for the periods 2000–2002 and 2014–2017.

Table 4. Expenditure trends, 2000–2002 and 2014–2017

	In Relation to GDP		In Relation to Total Expenditure	
	2000–2002	20014–2017	2000–2002	20014–2017
	Mean	Mean	Mean	Mean
Outlays on goods and services	4.0	2.6	24.7	12.0
Compensation of employees	8.8	5.7	54.2	26.0
Interest payments	2.5	2.7	15.3	12.5
Social benefits	0.1	0.7	0.4	3.1
Capital expenditures	3.3	8.9	10.5	26.4
Other outlays	0.4	0.8	2.3	0.4

Source of data: IMF. Available at data.imf.org. Viewed on June 24, 2019.

The shares of outlays on goods and services and compensation of employees in the GDP and in total expenditure have declined over the years. The share of other outlays in total expenditure has reduced, too, which is a good sign of managing current expenditures. The results support the Kenyan government's objective of reducing current expenditures and increasing development expenditures.

Expenditures on interest payments to service the ballooning public debt have increased over the past 18 years and currently stand at approximately 2.7 percent of the GDP, thereby consuming a larger portion of the revenue receipts. The government also is spending increasingly more on social benefits, as it strives to fully implement the Social Assistance Act of 2013, through the National Social Protection Policy. The target groups of this program are orphans, vulnerable children, people with disabilities (PWD), and the elderly (Republic of Kenya 2013b).

Evidence indicates that an increasingly larger proportion of revenue is channeled to capital projects, which is in line with the Kenya Vision 2030 initiative (Republic of Kenya 2007) and with the Big Four Plan (Republic of Kenya 2018b). However, it should be noted that capital expenditure is one of the budgetary items that is easy to overprice and mismanage (Mauro 1998), as in addition to being a discretional line item it also allows for more opportunities for corruption, as compared to recurrent expenditures (Aregbeyen and Akpan 2013). Therefore, it is possible, given past instances of corruption in Kenya (Maina 2019), that project are overpriced

Section 3. Political and Institutional Constraints in Raising Domestic Revenues

3.1 Institutional Constraints to Raising Tax Revenue

Kenya has not realized its full potential in raising different taxes for the past 18 years (KRA 2018). Table 5 shows the tax compliance gaps for major taxes.

Table 5. Compliance tax gaps (in %) for various taxes

Type of Tax	Compliance Tax Gap (in %)			
	2015	2016/2017	2017/2018	2018
Corporate Income Tax	17.6			
Personal Income Tax		34.3		
Import Duty			35.6	
Excise Duty			15.2	
Value Added Tax				45

Source of data: KRA (2018). *Seventh Corporate Plan 2018/2019–2020/2021*, Nairobi: KRA.

The country is under-collecting tax revenues, given the large compliance tax gaps for most taxes identified by various studies (KRA 2018).

The compliance tax gap (the difference between the potential tax, given the tax policy at the time, and the actual collections in percentage form) implies that roughly 30 percent of taxes due are not collected, which translates to 6.6 percent of the GDP (KRA 2018). There is a huge potential in raising funds from taxes not covered by the compliance studies, especially given all the unpaid property taxes (McCluskey, Franzsen, and Olima 2017).

The political and institutional constraints that Kenya faces in raising tax revenues include the following:

1. *Institutional capacity and skill gaps* (KRA 2018). The Kenya Revenue Authority (KRA) lacks the capacity to carry out frequent random audits to detect taxpayer noncompliance and deter tax evasion. This has led to a high level of taxpayer noncompliance. The ratio of tax officers to taxpayers is inadequate. Moreover, the rent-seeking behavior of some tax officers, who take advantage of institutional

weaknesses, has led to revenue leakages, which thereby limit the potential of raising revenue from different taxes. Other institutional challenges that impede revenue collections include an inappropriate work environment at the border and other remote stations; the failure to institutionalize a risk-based compliance system; and the lack of integration across the KRA tax systems (for example, in the maintenance of both a domestic online tax collection platform (iTax) and an Integrated Customs Management System (ICMS)). Kenya also has witnessed the smuggling of goods by importers who evade customs, duty, and import taxes on their merchandise (Wawire 2017). Proliferation of counterfeiting; concealment of goods; underreporting of goods at points of entry; and the rampant printing and using of fake stamps purporting to be genuine stamps from the tax authority and the Bureau of Standards also is robbing exchequer tax revenues.

2. *Narrow tax base.* Inadequate effort has gone into expanding the tax base. The focus has been on raising tax rates and introducing new taxes on existing taxpayers, which still has not raised the tax-to-GDP ratio significantly in the last 18 years, especially regarding taxes on goods and services. Examples of initiatives to raise tax revenue include the 2002 increase of the excise tax on mobile phones from 5 percent to 10 percent, and the taxing of vehicles according to fuel consumption. Other examples of new taxes include the eight percent levy on petroleum products, and taxes on airtime and financial transactions through mobile money transfer platforms. Furthermore, to expand the tax base, the KRA announced tax measures in the fiscal year 2017–2018 that focused on landlords, professionals, high-net-worth individuals, and informal sector traders. Not much has been realized so far, however (KRA 2018), due to noncompliance and lack of cooperation from the county governments, especially for the property and presumptive taxes. These taxes, which took effect in January 2019 and were meant to replace the turnover tax that was underperforming (Republic of Kenya 20018c), have in fact already reverted to the turnover tax because so little revenue was being realized, due to the tax's poor design and poor compliance rate.

3. *Low tax morale exhibited by the taxpayers*. Taxpayers and potential taxpayers have witnessed misappropriation and misuse of public funds by county and national governments, through kickbacks for contracts. This has negatively affected the willingness of taxpayers to pay their taxes and has resulted in both widespread noncompliance and low tax morale across the country (Oguso and Sila 2019; Maina 2019).

4. *Enforcement of tax policies*. Enforcement of tax policies and regulations raises challenges for the authorities, due to governance and integrity issues coupled with political interference in the implementation of certain budget proposals (KRA 2018). Poor design of new taxes (for example, the January 2019 presumptive taxes summarized above) also impedes collection. The introduction of the value-added tax of 16 percent on petroleum products, for example, elicited public boycott and civil strife in 2018, due to its violation of the constitutional requirement on public participation. Another impediment is that tax policy keeps changing, or is reviewed

every budget cycle, due to inherent design challenges and the influence of politicians. A good example of this is the turnover tax that was introduced in 2006 and was ineffectively replaced by the presumptive taxes in January 2019.

5. *The large informal sector*. The presence in Kenya of a large informal sector, and the shadow economy that remains untapped, pose tax administrative challenges and issues of tax compliance. The wealthy are slowly moving their wealth to this sector by buying motorcycles and employing youth to ferry passengers at a commission—and yet such businesses are typically staffed by low-income earners.

6. *Tax incentives*. There is rampant abuse of tax incentives, especially among companies operating in the export processing zones (KRA 2011), due to inadequate tax policy design. For example, a tax policy that allows government officials to generously grant tax holidays and exemptions to multinational companies is widely abused. Companies that operate within the tax-break window often close and move to different jurisdictions just before the full tax rate comes into effect, or frequently change names and start enjoying the tax holiday afresh as a new entity.

7. *Technology*. Technology is constantly changing, and the KRA is not keeping pace with it, despite its increase in tax receipts due to digitization (Ndung'u 2017). The changing state of technology has created a challenge in tapping revenue potential from the growing e-commerce and cross-border commerce sectors.

8. *A slowdown of economic activities*. Economic activities slow down during the election period, due to the "wait and see" attitude among investors, which in turn affects revenue performance. The turmoil witnessed in 2007 and 2017, both election years, for instance, led to a slowdown in economic growth (IMF 2018a) that resulted from low economic activities and in turn led to low tax revenues, especially from corporate and indirect taxes.

3.2 Political Constraints to Raising Tax Revenue

Electoral Cycles

Electoral cycles affect tax revenue-to-GDP ratios for individual taxes. Table 6 summarizes the effects of electoral cycles on tax revenue-to-GDP ratios.

Table 6. Effects of electoral cycles on tax revenue-to-GDP ratios

Type of Tax	Year			
	2002	2007	2013	2017
	%	%	%	%
Tax Revenue	-0.53	0.02	-0.4	-0.22
Income Taxes	0.19	0.26	0.53	-0.44
Personal Income Taxes	0.25	0.06	0.31	-0.34
Corporate Taxes	-0.06	-0.11	0.21	-0.12
Goods & Services Taxes	0.21	-0.45	-0.45	0.08
General Taxes on Goods & Services (VAT)	-0.02	0.19	-0.4	0.01
Excise Taxes	0.24	0.11	-0.04	0.18
Trade Taxes	-0.93	0.19	-0.07	-0.23
Other Taxes	0.0	0.02	-0.41	-0.08

Source of data: IMF (data.imf.org). Numbers inside the table are percentage changes in tax revenue-to-GDP ratios from those of one year before the election to those of the year when the election took place.

The election held in the year 2002 negatively affected the trade tax-to-GDP ratio more than other taxes, probably due to uncertainty about the incoming coalition government. The elections held in 2007 and 2013 affected taxes on goods and services the most, probably due to the post-election violence that followed the announcement of the results and the uncertainty of the new Jubilee government, respectively. The election held in 2017 affected income taxes more than other taxes. Corporate tax-to-GDP ratio was affected in three out of the four electoral cycles that were held within the study period, probably due to companies fearing the likelihood of violent eruptions and either relocating or shutting down activities altogether. In 2017, Kenya had a long electoral period, resulting from the nullification of the hotly contested August 2017 presidential elections that had to be repeated in October 2017 (Republic of Kenya 2019a). This affected personal income, trade, and corporate taxes-to-GDP ratios, in that order.

Tax Incentives, the Political Economy, and Corrupt Practices

Provisions on tax incentives are made with political considerations. They are decided and agreed upon by Parliament, without due regard to their effect on tax revenue. The cabinet secretary (CS) for the Ministry of Finance has the discretion to implement them. However, there is no clear documentation of the tax incentives provided (no tax expenditures register exists), hence it's difficult to make a conclusive judgment about the considerations that go into providing tax incentives in Kenya. Some of the tax incentive proposals are politically driven for self-gain, without consideration of their effect on tax revenue performance. Furthermore, some tax exemptions, especially exemptions on the consumption of basic commodities, have been influenced by strategic political decisions that strive to make the government popular.

According to the KRA (2011), tax expenditure has negatively affected revenue collection to the tune of about five percentage points of GDP. The highest amount of tax revenue lost was from the export processing zones (KRA 2011), due to tax holidays granted to the companies that operate in those zones. Still others deliberately employ workers and pay them below the Pay-as-You-Earn (PAYE) threshold, in order to avoid contributing to personal income tax revenue (KRA 2011).

Tax expenditures are highly influenced by special interest groups with strong negotiating power, and to an extent by the political economy. Politicians wield great bargaining power, hence have an influence on tax incentives. Negotiation is key in tax incentives, and currently the use of "local content," or the employment of a certain percentage of locals, is emphasized so as to create jobs. This has an impact on enhancing tax revenue.

Coalition-Building by the Government

Tax reforms are usually rolled out by the KRA in consultation with the National Treasury. However, some of the unpopular tax reforms require support from the political divide, in order to implement them. Politics also sometimes supersede policy (KRA 2018). With coalitions, tax reforms can be implemented easily, and with less opposition. For example, the levying of the 16 percent VAT on petroleum products, which had been rolled back earlier, after public boycott and civil strife in 2018, was not objected to in Parliament when the president intervened and suggested a reduction of the levy from 16 percent to 8 percent. This is one of the benefits of the "handshake approach" that enticed the main opposition leader to work with the government. This reduction in the VAT rate is still costing the exchequer 0.5 percent of the GDP. The bottom line is that the government cannot smoothly implement tax reforms without stakeholders' engagement. This is the very reason why the tax reform process should be consultative. Opportunities for public participation should be available in tax policy formulation, coupled with buy-in from members of Parliament.

3.3 Capacity Constraints and Support by Development Partners

Technical Assistance

Development partners (DPs) have provided support in revenue mobilization, especially in the areas of automation, digitization, and policy formulation (KRA 2018). Some of the DPs involved include the Japan International Cooperation Agency (JICA), Trade Mark East Africa, IMF, the Swedish Government, the African Development Bank (AfDB), the World Bank, and the Organization for Economic Cooperation and Development (OECD). The IMF, World Bank, and the African Development Bank have been providing capacity-building, policy, and economic advice to national and county governments to enhance revenue collections. For instance, the IMF worked with the KRA to carry out VAT gap analysis. The World Bank also has carried out studies on improving tax policy on VAT and corporate income tax.

Past IMF advice has included, for example, fiscal consolidation while pursuing a shift in government expenditure composition, implementation of devolution, and use of treasury single account (TSA). Budgeting, and expenditure management through the Integrated Financial Management Information System (IFMIS) are areas that have also received advice.

The electronic Project Monitoring Information System (e-ProMIS) has a module designed to track all technical assistance (TA) provided to the government for all the programs, although it is not yet operational.

Technical assistance was adequate to a great extent. However, this is an ongoing exercise, owing to the evolving nature of economic activities and emergence of new areas, such as e-commerce, illicit financial flows, and transfer pricing. Development partners, such as the IMF and the World Bank, have provided assistance in key areas, such as in the formation of semi-autonomous agencies to improve tax administration efficiency; in the categorization of taxpayers by size and by sector, for purposes of providing sector-specific advice; in audits, especially in transfer pricing issues; in compliance risk management; in tax administration diagnostic assessment tools, which guide tax administration on best international practices across various functions; and in embracing technology in operations.

Technical assistance disbursements were not timely in most instances, which led to delayed program implementation. According to the World Bank (2013), the bank has been blamed for being bureaucratic and imposing technocratic solutions, with no regard to the politics of the country. Furthermore, it is very important to have coordinated technical assistance, in order to avoid duplication of efforts and offer better yields. It is also very important to ensure that technical advisers are experienced in the field in which they are offering guidance. Moreover, Kenya as the country receiving the advice should have the freedom to choose the areas that require technical assistance, so that it is demand-driven and not supply-driven.

Proper sequencing that involves putting basic systems first is essential to achieving results (World Bank 2001). The technical assistance was sequenced in the right way, since a dedicated division at the National Treasury coordinates the technical assistance process. Furthermore, all the relevant stakeholders, including the KRA, are usually involved in determining the kind of technical assistance being provided. There is, however, room for improvement in the coordination among the various technical advisers, in order to avoid duplication and also to have specific amounts designated for special areas, to enable proper tracking.

The government has prioritized improvement in tax administration, with the aim of improving domestic resource mobilization (DRM). Given the development level and the technical and human resource capacity constraints, however, this has been slow. It is also important to note that both national and county governments have challenges ranging from limited human resources to administrative weaknesses that must be addressed via technical assistance (World Bank 2015). Some of these challenges have been addressed through the provision of technical assistance, leading to gradual improvement in the tax system. These include improvement of the "Simba" system to a more modern integrated customs management system (iCMS), as well as continuous improvement on the iTax system. The iCMS, for example, was financially supported by Trade Mark East Africa. The advice is therefore usually appropriate, but the accompanying resources are not always adequate to implement it.

Kenya, to a great extent, has the capacity to absorb the advice. Tax administration departments at the KRA have very skilled and expedited tax experts in different areas of operations, and more technical officers have been hired by the National Treasury, an effort that is ongoing. However, some technical assistance provided by development partners requires more training of staff, to ensure that Kenya can implement the advice on its own, without requiring future technical assistance. Furthermore, capacity constraints at national and county governments make it hard to fully implement the recommendations given by the development partners (World Bank 2015). In such cases, staff capacity is enhanced through training and workshops, as well as through outsourcing service providers from developed countries. In addition, government officials visit other countries for benchmarking, with the aim of improving service delivery. However, some advice, such as the advice given on fiscal consolidation, could not be absorbed fully, due to pressing government expenditure needs (Oguso et al 2018; Republic of Kenya 2019a).

Practical and Political Challenges

Considering that the objective of the National Treasury is to have sufficient tax revenue mobilized by the KRA, the advice did not quite square with the practical challenges the Ministry of Finance (MF) faces, which are persistent budget deficits. The government addresses practical challenges through program-based budgeting, and has established a project implementation unit in the National Treasury that coordinates implementation of government projects. In addition, the government operates a treasury single account (TSA), and the IFMIS. The capabilities of the IFMIS have been questioned, however, in light of complaints from the county governments and the auditor general's office about "budgeted corruption." It is worth noting that some of the tax policy recommendations given by development partners do not take into account the political will required for their success. For example, a reduction in the current expenditure has not been heeded, and instead new positions were created in the government after the 2017 general election that increased current expenditures.

Kenya needed hands-on support to implement the technical advice, through staff training and working hand-in-hand with technical advisers to achieve required results. The hands-on support was provided in order to implement the technical advice, especially in forecasting, automation, and training of personnel at the National Treasury, the budget control office, and the audit offices. Visits to county governments have shown that they have implemented the advice to a great extent (Republic of Kenya 2018b).

Only technical assistance that the Kenyan government had the capacity to implement was implemented. Examples of initiatives fully implemented include the IFMIS, the TSA, and the shifting expenditure composition toward spending on capital projects. Those that are yet to be implemented relate to adding a new personal income tax slab of 35 percent for upper-income individuals, as advised by the IMF (IMF 2018a), and the e-ProMIS module for tracking all technical assistance provided to the government. Technical assistance was not implemented fully, due to capacity constraints and the pressing expenditure needs of the government, coupled with inadequate public participation and noninvolvement of elected leaders.

Political Considerations

Political considerations have influenced the actual choice of tax and expenditure measures proposed by development partners, to some extent. For example, development partners want the interest rate cap in Kenya to be removed, but it is proving to be a challenge, due to lack of political goodwill. Furthermore, any form of technical advice that may hurt the political class—for example, the proposal to pursue property taxes to mobilize more revenue—may not receive the support it needs to succeed. Technical advisers also support reduction of tax incentives. However, some of the tax incentives proposed and passed by Parliament are politically driven, and therefore Parliament may not support their reduction (KRA 2011). On the other hand, the political class can come together and pass unpopular laws. For instance, a VAT on petroleum products that came into force during the 2017–2018 fiscal year, after being delayed since 2013 due to public outcry, was passed by Parliament after intervention by the president.

Technical assistance was sustainable to some extent because most of it was requested by the KRA or the National Treasury. The advice sought is usually in consultation with tax managers, to ensure that it is easily implemented. Part of the advice may be implemented immediately, part of it in the medium term, and part of it in the long term. It should be noted that the KRA and National Treasury only accept technical assistance from reputable organizations, hence there are very low chances of reversal. In cases of reversals, they may be politically driven, without consideration for the best international practices of handling the matter. Some cases in point are the flouting of advice on removing the interest rate cap; the lowering of the VAT on petroleum products; and the resistance to some recent tax measures (for example, the January 2019 presumptive tax). In this last case, a tax of 15 percent on the value of a single business permit or trading license fees for residential businesses whose turnover did not exceed USD 50,000 in a year of income was not fully implemented, despite the inclusion of the tax in the 2018 Finance Bill. Moreover, sustainability depends on resources allocated for development partners of the supported projects (World Bank 2001).

Development of a medium-term revenue strategy has not been considered by the Kenyan government. Medium-term revenue projections are done through the budget review and outlook paper. Some of the strategies in the medium-term revenue strategy paper are already being implemented by the KRA through the authority's in-house three-year corporate plan (KRA 2018). Currently, the authority is implementing the seventh corporate plan for fiscal years 2018–2019 and 2020–2021, developed without the input or support from the international community.

Modalities Used by Development Partners to Support DRM

The modalities used by development partners (DPs) to support revenue mobilization include providing technical advice on enhancing tax compliance by coming up with a compliance framework; and technical support by carrying out comprehensive studies and analyses, such as tax gap analysis and tax expenditure analysis. Other modalities include providing online training to tax administrators and training staff in technical areas, such as transfer pricing, in order to equip them so that they can audit multinationals and deal with issues of shifting profits to other tax jurisdictions. Program-for-Results (P4R), and providing financial resources, which have the greatest value compared to technical assistance (World Bank 2001), are also important modalities, especially in the implementation of technology used in tax administration. Other critical areas include implementation of key automation and transformation projects, assessment of tax systems and processes against best practices, and general tax policy advice.

On the expenditure side, the modalities used by DPs to support efficiency improvements include P4R, technical assistance, training, workshops, technical analysis, and general support. Training for National Treasury officials was conducted on budgeting, public finance management (PFM), and automation. Through training, the Kenyan government has benefited from a smooth budget-making process, budget implementation, execution, and PFM, as well as the provision of additional loans and grants by DPs for various development programs. It should be noted, however, that an increase in external grants may lower tax revenue-to-GDP ratios (Ghura 2002). Furthermore, the training may not have been adequate, given the issues county governments have raised on the operation of the IFMIS. Therefore, frequent training and retraining should be offered, in order to address the emerging issues at the National Treasury and in the 47 county governments.

To a great extent, the modalities were effective, but monitoring and evaluation is critical to measuring the extent to which the increase in revenue mobilization could be attributed to the technical advice provided. Moreover, some gains from technical advice can only be realized in the long run, upon tax administration attaining the maturity level based on international best practices. Whichever way one looks at it, modalities seem to be effective in informing the Kenya Revenue Authority data governance and tax base expansion strategies.

The Conditionality of DPs

Development partners conditionally supported the implementation of reforms meant to improve the domestic resource mobilization (DRM). Some of the conditions that have supported reforms have been in the areas of rationalization of tax incentives; the fight against corruption; the fight against tax evasion; the push for tax base expansion; the automation of the Kenyan tax system; the push for increased tax collection; and the move toward reforms in public finance management (PFM), as contained in the PFM Act of 2012 (Republic of Kenya 2012). Most of the conditions set by DPs are usually met before funds are disbursed, especially from the World Bank and the IMF. Furthermore, the advice of DPs seems to have been consistent; for example, the proposal by the IMF and the World Bank to rationalize tax incentives. However, proper monitoring is needed to ensure that the conditions are fully followed.

Section 4. Spending Quality

4.1 Spending Areas with Scope for Improving Efficiency

The following table shows spending trends by function, in relation to GDP and total expenditure, for the periods 2000–2002 and 2014–2017.

Table 7. Spending trends by function

	In Relation to GDP			In Relation to Total Expenditure	
	2000–2002	20014– 2017		2000–2002	20014–2017
	Mean	Mean		Mean	Mean
Education	4.7	4.0		27.4	17.0
Health	1.0	0.7		5.8	2.4
Interest Payments	2.5	2.7		15.3	12.5
Social Protections	0.8	1.0		4.5	3.7
Defense	1.4	1.6		8.2	5.7

Source of data: IMF (data.imf.org).

Education: The expenditure on education-to-GDP ratio decreased in the last 18 years, despite the enrollment in primary, secondary, and university education institutions, increasing from 6,155,500, 753,953, and 42,508, respectively, in 2000 (Republic of Kenya 2002), to 10.4 million, 2,830,800, and 520,893, respectively, in 2017 (Republic of Kenya 2018a). The increased enrollment is attributed to government funding of free primary education, free secondary education day school, and the establishment of new public universities, from 6 in 2000 to 31 in 2017. This is evidence of increased quantity and quality of human capital in the country. The gradual reduction of expenditure for public universities, however, has hurt the provision of quality higher education, evidenced by several stalled projects.

Health: Health expenditure declined in the last 18 years, both as a percentage of GDP and as a percentage of total expenditure. Despite the decline in health expenditure, however, the infant mortality rate, the child mortality rate, and the maternal mortality rate, which are standard measures of health outcome, have declined over the 18-year period. In 2000, the infant mortality rate, the child mortality rate, and the maternal mortality rates were 64, 104.5 and 759, respectively. By 2017, infant mortality rates and child mortality rates were 33.6 and 45.6, respectively, while the maternal mortality rate declined to 510 by 2015, which is a great improvement. However, the health sector still faces a barrage of challenges, such as not enough beds, overcrowding, and a lack of drugs in government-run hospitals. The situation may change soon, because a whopping 57.7 percent of total revenue expenditure in 2019–2020 will be channeled to the health sector, under the Universal Health Coverage (UHC) program (Republic of Kenya 2019a).

Infrastructure: The government is spending more on capital projects than before, as well, especially in the transport and energy sectors, thereby adhering to advice from DPs on fiscal rules (Republic of Kenya 2018b; IMF 2018a). The outcomes in these two sectors have been impressive. Total earth-gravel and bitumen roads were 55,260 and 8,660 kilometers, respectively, in 2001, and had increased to 144,417.6 and 17,033.9 kilometers, respectively, in 2017 (Republic of Kenya 2006 2019a). The increased spending on infrastructure and development has accelerated movement of goods, thereby improving their distribution and facilitating trade. Total local energy production was 194,300 tera joules in 2001, and increased to 937,221.5 tera joules in 2017 (Republic of Kenya 2019a). Public infrastructure projects have a scope for improving efficiency as long as proper valuation and land compensation is carried out. Standard Gauge Railway (SGR) is an example of a project where overvaluation of land occurred, which led to delayed compensation. Kenya also has witnessed rent-seeking behavior in mega projects, leading to misappropriation and waste of public funds. Some projects don't even get underway, due to corruption, or else are never completed, despite billions of Kenyan shillings being sunk into them (Maina 2019).

Social protection: Expenditure on the social protection-to-GDP ratio increased within the last 18 years. In 2016–2017, the number of beneficiary households were 314,504, 352,000, and 1,200 for older persons, orphans and vulnerable children (OVC), and persons with severe disabilities, respectively (Republic of Kenya 2019a). However, the mechanism of monitoring transfers to ensure proper targeting, in order to avoid waste, misappropriation, and embezzlement of funds is inadequate (National Gender and Equality Commission 2014). There are instances where transfers are paid through loans, instead of grants or budget allocations, thereby creating a heavy debt burden to the citizens, which affects tax compliance.

4.2 The Influence of Politics on Expenditure Efficiency

Politics has influenced expenditure efficiency over the last 18 years, and prioritization of spending is fundamentally political. Expenditure and budget decisions are therefore approved by politicians through Parliament, instead of by technocrats who would consider value for money in approving budgets. Politicians set priorities, based on their understanding of the preferences of their key constituencies and, as a result, expenditure is not directed to where it would make most impact to society. Moreover, because of intense lobbying by politicians and other key actors in the economy, corruption is enhanced, thereby compromising the quality of services provided by the government. Nothing, it could even be said, is provided, even after spending billions of Kenyan shillings (Maina 2019), and in some cases, critical projects are abandoned or left incomplete, while less deserving projects are implemented.

Politics derail efficiency of public spending, as those involved in corrupt practices might be holding political offices or have connections with the political class. Those who misappropriate public funds tend to do so in collaboration with politicians for political protection, and some eventually join politics to make the economic crime cases against them look like political persecution, which in turn makes it difficult to prosecute them. Politicians act as a shield for state officers, to prevent them from accounting for expenditure inefficiency happening on their watch. In some cases, the government creates positions to accommodate politicians. For example, the government created a position of chief administrative secretary (CAS) after the 2017 general election, with full knowledge that this would increase the wage bill. The recurrent expenditure now stands at 78.9 percentage points of total revenue expenditure (Republic of Kenya 2019a). The high public sector wage bill is attributed to political economic factors, such as recruitment of more civil servants, as happened during the PNU-ODM government coalition between 2008 and 2012 (Republic of Kenya 2013a), and the Jubilee government after the 2017 general election.

4.3 Effect of Corruption on the Achievement of Economic and Social Outcomes

Kenya's corruption perception indicator was 12.69 percent and 15.38 percent in 2000 and 2017, respectively (World Bank 2018), implying a slight improvement, but still too low. Kenya loses up to a third of its annual public budget and about one percent of its GDP to corruption (Maina 2019), which negatively affects economic growth. The tax revenue-to-GDP ratio decrease, due to corruption, is a trend that is often witnessed in sub-Saharan (SSA) countries (Ghura 2002). The ability of Kenya to fully implement certain programs or projects that confer social and economic benefits to citizens is affected by corruption, and corruption likewise negatively affects outcomes of programs in health, education, infrastructure, and social protections. Gupta, Davoodi, and Tiongson (2002) found that countries with higher corruption levels tend to have higher child mortality rates, and that corruption is also associated with school dropout rates and low school enrollment. The lesson is that improvements in health and education outcomes do not necessarily require high government spending, but rather a reduction in corruption.

Economic growth is affected by corruption, in that many projects have either stalled or not been completed in time, or have been completed with very high cost variations, due to corruption (Oguso et al 2018) and awards to undeserving project overseers (Maina 2019). Implementation of projects that do not serve their intended purposes have been witnessed throughout Kenya. Furthermore, misappropriation of funds is a problem that has hindered redistribution of resources, which is a key function of government. Cases in point are the Anglo leasing, Eurobond (Maina 2019), and National Youth Service (NYS) scandals. The projects were meant to provide jobs to Kenyan youth, and thereby lower unemployment, but that was never fully realized. All these corruption episodes have largely contributed to hindering efficient service delivery and the achievement of 10 percent economic growth, as envisioned in the Kenya Vision 2030 initiative (Republic of Kenya 2007).

The government is in control of the budgeting process, which is expected to be transparent to public scrutiny, as required by law (Republic of Kenya 2010; 2012). However, the final budget is decided upon and approved by Parliament, without due regard to public input in most cases. Furthermore, due to weaknesses in the expenditure management process and the existence of corruption, not all budgeted amounts are used for their intended purposes, an argument that is shared by Ghura (2002) in a study that covered SSA countries. Off-budget transactions are left to the discretion of the donor and the beneficiary, which erodes transparency. Therefore, all budget transactions should be done through the IFMIS, in order to instill transparency and reduce corrupt practices. The fight against corruption must succeed in order for the Kenyan government to enhance efficiency in resource allocation, redistribute wealth, improve service delivery, and attract direct foreign investments (Republic of Kenya 2018b).

4.4 Electoral Cycle and Change in Expenditure Composition

The presence of an electoral cycle permanently changes expenditure composition. With the approach of the general election, DPs fear disbursing funds, due to uncertainty, or lose funds through embezzlement and misappropriation, thereby negatively affecting project implementation. On the other hand, the government is in a hurry to complete pending and lagging projects in order to attract votes, an argument shared with Gupta, Jalles, Mulas-Granados, and Schena (2017). The incoming government makes over-ambitious promises to the public, which, if fulfilled after the election, change expenditure composition permanently. There is also the risk that the incoming government will change expenditure allocation from key sectors that were viewed as growth-enhancing by the previous regime, thereby disregarding the Medium-Term Plan and the Kenya Vision 2030 initiative (Republic of Kenya 2007). The current government, for example, is focusing on food security, manufacturing, universal health coverage (UHC), and housing (Republic of Kenya 2018b). The previous governments, on the other hand, focused on infrastructure development and education.

Section 5. Conclusion and The Way Forward

5.1 Conclusion

Domestic resource mobilization (DRM) is affected by the structure and growth of the economy, and this has a bearing on taxable capacity. The existence of a large informal sector, and property with inadequate ownership information, further complicate taxation. Perceived corruption, inefficient use of public resources, and lack of public awareness on the benefits of paying taxes compromise taxpayer compliance. Political interference, electioneering activities, abuse of tax incentives, transfer pricing, illicit financial flows, and untaxed online businesses all contribute to low DRM. Technical assistance from development partners (DPs) has, to some extent, helped address these issues by providing funds, technical advice, technical support, and training, but this is not enough.

5.2 Way Forward

Revenue Reforms

- *Types of taxes to focus on*: The Kenyan government should focus on capital gains taxes, property taxes, VATs on luxury goods, and excise taxes. To bring the unreported tax sector into the tax base, presumptive taxes should run hand-in-hand with turnover taxes, in order to gauge the presumptive tax's revenue-generating strength. Further, Kenya Revenue Authority should apply the Geospatial Information System (GIS), in partnership with relevant institutions, to link data on land, property ownership, and development with tax information in its database, in order to trace properties for taxation purposes. This will enhance transparency in property ownership, reduce political constraints, and improve tax compliance.

- *Scope for progressive taxation*: There is limited scope for progressive taxes in Kenya, given the political considerations that come into play during the tax policymaking process. This is exacerbated by the political class, which is likely to be affected, since they earn more income and are the main owners of properties. Therefore, pursuing a progressive tax structure in Kenya is diminished by the country's politics, since political goodwill is critical to reaching taxation objectives (KRA 2012). Middle- and upper-income citizens also are not ready to pay progressive taxes, due to low tax morale caused by revenue misappropriations and unsatisfactory provision of public goods and services. This reality is made worse by the public's entrenched perception of corruption (Maina 2019), a point that is emphasized by the finding of Ghura (2002), which shows that taxpayers' willingness to voluntarily pay taxes increases when they reap actual benefits from their tax contributions.

- *Deployment of a pay-for-results model*: Development partners should deploy a pay-for-results model to help Kenya increase its tax revenues. Funding for tax administration activities should be based on an agreed percentage of revenue collected. This would encourage tax administrators to be innovative in generating more revenue and would also reduce corruption in instances where contractors are paid upfront.

- *Application of technology to enhance tax revenue collection*: There is great scope in using digital technologies to enhance tax revenue collection. This scope can be widened by using digital technologies to improve tax compliance and taxpayer services. The proper application of technology also could reduce tax administration costs by lodging and processing customs documents and integrating personal bank accounts (not just the G-Pay and IFMIS systems) (Ndung'u 2017) with the Kenya Revenue Authority.

- *Need to reduce tax expenditures*: There is need to make tax expenditures transparent and accessible to the public for scrutiny with regard to what they are and how much they cost annually. The ministry of finance should prepare tax expenditures as part of the annual budget, publish a list of the beneficiaries including their regional distribution, and embed tax expenditures in the law to prevent agencies or government officials discretion in granting them (Gupta and Plant, 2019). The national treasury's capacity and analysis of tax expenditures could be strengthened through advice from the development partners.

- *Development partners' technical advice on the tax system*: Technical advice on the tax system should, in the future, tackle the issue of tax base expansion, focusing on the digital economy and how to ensure online businesses are fully taxed. Other needed improvements include designing an evaluation framework for property taxation; reducing tax incentives; and tackling transfer pricing and illicit financial flows.

- *Policy reforms to be initiated in the agricultural sector*: Policies are needed that will address issues of informality, subsistence, and rain-fed farming in the agricultural sector. This will improve resource generation in the sector via commercialization of agricultural activities. Since agriculture is a devolved function, the national government should help county government to hire more extension officers who should encourage digitization, transfer of technology, and mechanization of agricultural activities.

Expenditure Reforms

- *Expenditure priority areas include:*

    - Infrastructure development: The government should focus on spending on infrastructure development, in order to create an environment where private investments thrive (Wekesa, Wawire, and Kosimbei 2017). Private investments will expand Kenya's tax base and in turn increase tax revenues for the government. Providing irrigation infrastructure and services should also be a priority, given the ability of viable agriculture to create jobs and reduce unemployment and poverty levels. Infrastructure development should therefore be prioritized and used as a catalyst for economic growth (Akpan, Simpasa, and Chuku 2018).

    - Manufacturing: Another critical area of focus for government spending is manufacturing, which is one of the Big Four Plan items (Republic of Kenya 2018b). The manufacturing sector's contribution to Kenya's GDP is set to increase from about 10 percentage points to 15 percentage points by 2022. The government should not levy punitive taxes on this sector, such as the proposed 1.5 percent contribution tax by employers to housing projects, since the levy would increase the cost of manufacturing.

    - Social services: Government spending also should focus on social services, such as education and health, which have a direct impact on society and a great impact on the economy by improving the productivity of human capital. In education, government spending should not only be on basic education and tertiary training but also on technical and vocational education, in order to equip learners with hands-on skills to help them become self-employed. More resources also need to be channeled into county governments' health services, under the UHC program. This will improve infant, child, and maternal mortality rates.

- *Efficient use of public resources:* Efficient use of public resources by the government wins the trust of taxpayers, in other words, and taxpayers need to see value for the money they pay. The government needs to carry out effective cost benefit analyses (CBAs) on projects, in order to assess their viability before their implementation, and the government also needs to scrutinize and prioritize projects and budgets, so as to avoid waste.

- *Adopt the GFS2014 reporting standard:* This will provide information on the wage bill that is internationally comparable and make available comprehensive information on the size of government spending to facilitate a fuller public debate on spending efficiency.

- *Address weaknesses in the public expenditure management:* The weaknesses in both public expenditure management and governance must be addressed, as these drain funds that could otherwise be spent on public services. There should be oversight of tendering and procurement processes, in order to discourage the practice of awarding contracts to expensive firms with no capacity to deliver, while denying opportunities to firms that are both technically qualified and cost-effective. Taxpayers also need to see corrupt leaders brought to justice for siphoning public resources, a process that has not yet occurred, although it is currently underway (Republic of Kenya 2018b).

- *Strictly adhere to fiscal responsibility principles and regulations:* National and county governments should strictly follow the fiscal responsibility principles and regulations under the Public Finance Management (PFM) Act of 2012. The principles require development expenditure allocation to be a minimum of 30 percentage points of total national expenditure or, in case of a county, 30 percentage points of the county government budget (Republic of Kenya 2012). Fiscal rules should be instated (with repercussions on failure to adhere to the rules) to reinforce the principles and regulations under the PFM Act of 2012.

- *Development partners' technical advice on government spending:* Technical advice on government spending should focus on conducting feasibility studies, project design, implementation, monitoring, and evaluation. Technical assistance also should be directed toward security enhancement and integration of different government systems (IFMIS, e-citizen, iTax, the Integrated Customs Management System, county government systems, and the registration of businesses).

- *Application of technology to enhance efficiency in public expenditure.* Although efficiency in public expenditure has been enhanced by tracking government payments through IFMIS, the current controversy over IFMIS and its production of county government audit reports with queries points out its weakness for "budgeted corruption." The loopholes of IFMIS need to be sealed, and all government transactions, including social transfers, should take place on an upgraded platform. A system should be in place, as well, to ensure that government officials are prevented from siphoning money. Even Kenya's auditor general claimed that IFMIS was doing a poor job of oversight, and while launching a report titled *State Capture: Inside Kenya's Inability to Fight Corruption* (Maina 2019) suggested designing and operating two IFMISs—one for the national government and the other for county governments.

- *Overcoming the impact of political cycles on expenditure.* The impact of political cycles on expenditure allocations can be overcome by adherence to long-term planning, which goes beyond a single political regime. In the case of Kenya, strict adherence to a government-planning blueprint (Kenya Vision 2030) and the Sustainable Development Goals initiative (SDGs) is needed when preparing the medium-term expenditure framework (MTEF).

- *Legislation requiring political parties to align their manifestos to long-term planning.* Legislation should be passed by parliament requiring political parties to align their manifestos to long-term and medium-term development priorities. This would reduce the impact of political cycles on expenditure allocations. The law would enhance compliance with fiscal rules by allowing the Kenyan government to directly control expenditure targets, an argument shared with Cordes, Kinda, Muthoora, and Weber (2017). The law also would reduce "tooth and nail" fights by people who want to be elected to Parliament for reasons of pursuing their own priorities outside the MTEF.

- *Establishment of an independent fiscal authority*. The government should establish an independent body or institution (an independent fiscal authority) to set budget ceilings, execute, monitor, and evaluate budgets at a national and county level. For this to happen, political goodwill is necessary.

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