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Determinants of Optimal Revenue Collection in County Governments in Kenya

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Abstract: ***Following the establishment of devolved governments, the county governments are expected to collect their own revenue to mitigate between allocation of revenue from central government and their own budget. Optimal revenue can be understood as the maximum amount of revenue, which can be collected during a financial year, therefore when the County Governments fail to optimally collect requisite revenues, the public will negatively be affected by being denied vital services and ultimately poverty will continue to grow among the citizens especially in the rural areas. The devolved system of government indeed has great promise but will have little to show unless surgical changes are made in order to benefit from a fully functional revenue collection system. This independent study sought to determine the extent to which accounting procedures are applied, whether budgetary allocations affect optimal revenue collection and the effect of competence of employees on optimal revenue collection in the County Governments. The study is anchored on optimal theory on taxation and revenue forecasting and budgeting theory in its theoretical framework. The methodologies involved in the various studies will also be looked into.***

Keywords: revenue means government collections

1. Background of the Study

For devolved units in Africa to deliver the services required efficiently and adequately, they ought to discover new ways and methods of collecting extra revenues. Gitaru (2017) points out that a sound revenue collection structure for decentralized governments is a basic pre-condition for achieving financial decentralization. The spirit of devolution is that decentralized governments should be in a better position than the national government to address local needs, and to deliver public services accordingly (Ataro et al., 2016). According to Burch et al. (2020), county governments cannot lead the implementation of the mentioned agenda without the resources to make the necessary investments. With this background, county governments are mandated to identify and collect revenues in form of property tax, rates, tolls, fines and fees among others from local sources to boost their financial base for development of their areas of jurisdiction.

Chauke and Sebola (2016) notes that aside from statutory grant provisions and other financial support from the central government, county governments in Kenya at the local level for development are unable to generate enough funds for supporting development at the local level. They depend greatly on the national government in supporting the development projects and programs in their counties. There has been a low level of resource mobilization and mismanagement of revenue at the county levels which has been a great concern for the national government. Having understood that revenue is a critical aspect in development, the county governments are encouraged to adopt several practices that will strengthen revenue collection in their area of jurisdiction.

This proposed study will seek to explain why the counties in Kenya, remain overly dependent on the central government in as far as the amount of equitable share to be disbursed from the central government to the county governments are concerned (East Africa and Tax Governance Network, 2014). The main purpose will be to assess the determinants affecting optimal revenue collection in county governments in Kenya which might explainthe cause for poor revenue collection levels in these units despite possessing adequate revenue sources.

1.1.1 Revenue Collection by county governments

The spirit of decentralization is that county governments should in general, be in a better position in identifying local needs and thus accordingly be able to deliver public services better than the central government. Given this background, County governments are supposed to raise revenue from local sources to ensure enhancement of its financial base for local development. Furthermore, the county governments are expected to come up with projects and programmes that knock out poverty in their local areas from the Internally Generated Funds (IGFs) (Karori et al. 2016).

The county revenue earnings are split into tax revenue and non-tax revenue which comprise among others taxes on assets. Income from activities that are ordinary for a particular company, corporation, partnership, or sole-proprietorship is referred to as business revenue. These revenues are essential for the accomplishment and enduring sustainability of infrastructure and service delivery in the county. Indeed the importance of these county revenues cannot be over emphasized particularly in counties where the revenues are used for employee remunerations, co-funding capital development projects, building administrative headquarters and providing bursaries. The Constitution of Kenya 2010 specifies that, several public services should be decentralized to the county governments. Typically, governments finance their operations and roles. Nevertheless, nearly all counties in Kenya are disadvantaged by insufficiency of fundamental financial resources mainly due to poor revenue collection. This is in spite of the county government largely depending on national treasury for financial support. Actually, there are legitimate allegations that the larger percentage of the cash paid out to the county governments is engaged in the recurrent expenses to the

benefit of development schemes such as infrastructure (Gitaru, 2017).

Insufficiency of funds is guaranteed to affect delivery of services to the public and also disrupt development at county levels. The circumstances are not only unfavorable to the inhabitants at county levels who lack the mandatory services and also protest among others, over-taxation, but also the county governance is likely to be backed out of their stations due to perception in the public eye of mishandling of public funds (Ataro et al., 2016).

2. Statement of the Problem

The county governments get their income from taxes, permit payments, CESS, license fees and other sources. However, their over-reliance on the National Government for coffers to a point of calling for a national poll to have their share increased denotes that there exists countless of challenges in revenue collection at county level. Opposition from taxpayers and potential taxpayers as well lack of knowledge has also brought about strain in the collection of revenue for the county government. The preceding is a big problem due to the fact that, county government projects sometimes stall derail and even the workforce resorting into strikes as it has previously been witnessed. When the county government fails to optimally gather requisite revenues, the public is adversely affected by being denied vital services. In relation to this, it will be essential to analyze the setbacks that hamper peak revenue collection by the county government with a vision of coming up with findings and which if and when executed the county government will be financially self-sufficient.

A review of existing literature showed that this study area has not been investigated. For instance, Ngicuru, Muiru, Riungu, and Shisia (2017) conducted an empirical review of factors affecting revenue collection in Nairobi County, Kenya; Abuga (2016) assessed the influence of revenue collection efficiency on the operational performance of Kisii County Government, Kenya while Ali (2020) investigated the relationship between organizational practices and revenue collection in Garissa County, Kenya. The study did not focus on the determinants affecting optimal revenue collection in county governments in Kenya. In addition the study did not address the moderating effect of government policy on the relationship between the determinants under study and optimal revenue collection. It is against this background this study will be undertaken to fill the existing research gaps.

3. Objectives of the Study

General Objective of the Study

The main aim of this study will be to assess the determinants of optimal revenue collection in county governments in Kenya.

Specific Objectives of the Study

The study will be guided by the following objectives;

1) To examine the effect of personnel training and motivation on optimal revenue collection in County governments in Kenya.
2) To determine the effect of tax payer/public education on optimal revenue collection in County governments in Kenya.
3) To establish the effect of revenue monitoring on optimal revenue collection in County governments in Kenya.
4) To explore the effect of technology and automation on optimal revenue collection in County governments in Kenya.
5) To establish the moderating effect of government policy on the relationship between the determinants and optimal revenue collection in County governments in Kenya.

4. Research Hypotheses

The study will seek to test the following hypothesis:

Ho1 Personnel training and motivation have no significant effect on optimal revenue collection in County governments in Kenya.

Ho2 Tax payer/public education have no significant effect on optimal revenue collection in County governments in Kenya.

Ho3 Revenue monitoring have no significant effect on optimal revenue collection in County governments in Kenya.

Ho4 Technology and automation have no significant effect on optimal revenue collection in County governments in Kenya.

Ho5 Government policy has no significant moderating effect on the relationship between the determinants and optimal revenue collection in County governments in Kenya.

5. Literature Review

Kimutai, Mulongo, and Omboto (2017) assessed the influence of training in revenue mobilization in six county governments in the North Rift region. The study adopted a descriptive survey research design. The study found that training of county revenue personnel affected their output in revenue mobilization by enhancing their comprehension of the work they were tasked to do. The study found that through seminars and workshops, county employees were equipped with knowledge on diverse revenue mobilization strategies as well as revenue management. As result, the level of revenue collection in the counties was enhanced. The study recommended that it was crucial for employees concerned with county revenues to be trained and employed based on their qualifications.

Nyongesa (2014) explored the strategies applied by Mombasa County government in raising revenue. The study applied a descriptive case study design. The study found that the county had employed tax awareness creation strategies in raising its revenues. The study found that there was a high level of sensitization and monitoring by county staff and collection agents which had improved compliance. It was further revealed that the county intended to start a radio station which would be disseminating all crucial information to the residents of the county. This would enhance the sensitization hence making the residents understand the importance of compliance and penalties attached in case of failure to comply. Compliance would mean more revenue for the county government of Mombasa.

Gitaru (2017) sought to determine the influence of taxpayer education on tax compliance in Kenya in the case of SMEs in Nairobi Central Business District. The study applied a descriptive survey research design. The study found that electronic taxpayer education, print media tax payer education, and stakeholder engagement were positively and significantly related to tax compliance among the SMEs. The study discovered that taxpayer education was essential in increasing public awareness particularly in areas pertaining to tax laws, the role of taxes in the development of the nation and more on how and where the money collected through the taxes was spent by the government. By acquiring the right knowledge and information, the willingness of these SMEs to pay their taxes was enhanced.

Attah-Botchwey (2018) studied the role of internal control as a tool for efficient management of revenue mobilization at the Metropolitan, Municipal and District Assemblies in Ghana using a case study of Accra Metropolitan Assembly. The study found out that monitoring was positively correlated with revenue mobilization in the Municipal. The study found that the poor revenue mobilization in the Municipal was as a result of inadequate monitoring where the management partially failed to consider audit findings and recommendations and take appropriate action. The study found that lack of adequate revenue monitoring led to weak expenditure controls, increased the risk of misappropriation, and encouraged unauthorized borrowing of funds for private purposes and other cash irregularities. This in turn drained the municipal's revenues. The study concluded that internal controls were crucial in attaining improvements in revenue mobilization.

Matthew (2014) assessed the impact of integrated revenue collection system in Machakos County. The study adopted a longitudinal causal study design. The study found that implementation of integrated revenue collection had led to enhanced revenue collection in the county. The study found that integrated revenue collection system had helped in solving the issue of inconsistent revenue collection, which could not be justified by supporting real-time reporting of collection information and declaration of revenues collected on a daily basis. The study found that this system had improved the efficiency and effectiveness in the administration of revenues in the county. The study noted that it was crucial for the county government to deal with the issues constraining the effective implementation of the system for enhanced revenue collection.

6. Theoretical Framework

The proposed study will be found on the optimal tax theory, the agency theory, and budget theory and technology acceptance model. The main premises of the theories are outlined and their relevance to the study discussed.

Optimal Tax Theory

Ramsey et al. (1928) work laid a foundation on optimal tax theory. The theory of optimal taxation suggests that a tax system should be selected to maximize social wellbeing function subject to a set of constraints. The social planner is postulated as utilitarian: that is, the social wellbeing is a function of the utilities of individuals in the society. Optimal tax theory is interested with the best level and form of economic redistribution. The theory seeks to determine how the government can maximize social wellbeing through transfers and taxes, without increasing the sacrifice on the part of tax payers (Prichard, 2010).

Optimal tax theory embodies a resource egalitarian view of distributive justice to a large extent (Holniker, 2005). However, the reasoning behind the theory's principles emphasizes on efficiency, incentives and the information that choices reveal about individual welfare. This theory states that optimal taxation is a function of tax charge and how this tax is collected to ensure fair redistribution of wellbeing. Smith (2010) also emphasizes on how the taxes should be collected to determine economic inefficiency in order promote and provide income distribution fairly.

This theory of optimality will therefore be relevant to this study since it help in explaining how various practices within the county government such as use of technology and automation affect the efficiency in collecting taxes which are the major form of revenues for the county. This theory indicate that if such a practice reduced the costs and time in tax collection, it would also contribute to the taxes levied being optimal which would translate to enhanced revenue collection.

Technology Acceptance Model

Davis (1989) presented Technology Acceptance Model (TAM) aiming to predict and explain technology usage behavior, that is, what causes potential adopters to accept or reject the use of technology. Theoretically, TAM is based on the Theory of Reasoned Action (TRA). The model aims not only to explain key factors of user acceptance of technology, but also to predict the relative importance of the factors in the diffusion of technology (Davis, Bagozzi, & Warshaw, 1989). In TAM, two theoretical constructs, perceived usefulness and perceived ease of use, are the fundamental determinants of technology use, and predict attitudes toward the use of the technology, that is, the users' willingness to use the technology.

Perceived usefulness refers to the degree to which a person believes that using a particular technology would enhance their job performance, and perceived ease of use refers to the degree to which a person believes that using a particular technology would be free of effort (Venkatesh and Davis 2000). Technology Acceptance Model claims that users' adoption of technology is determined by intention to use, which in turn is driven by the users' attitude and belief about the technology. TAM further explains that perceived usefulness and perceived ease of use are helpful in explaining difference in users' intention. In short, it can be concluded that TAM emphasizes on three factors that can influence usage of technology, namely attitude, perceive usefulness and perceive ease of use. Attitude is a mental and neural state of readiness, organized through experience (Davis et al., 1989). TAM incorporates four influences (performance expectancy, effort expectancy, social influence, and facilitating conditions) on behavioral intentions, which then affect technology use.

If the technology is believed to enhance people's level of job performance, then it is likely to be adopted. On the other hand, a new technology will not be adopted if users believe that it would not enhance their job performance. Likewise, if users believe that the use of a particular technology is less tedious, then they are likely to adopt the technology as opposed to a situation where users believe that using a particular technology requires much effort from them. In this study, technology, automation, and their influence on revenue mobilization performance in County could be best understood by using the technology acceptance model. The model is relevant in explaining the motivation towards the use of and the actual effect of technology and automation in revenue mobilization processes in the county.

7. Proposed Research Design, Methods/ Procedures

Research Design

A research design is a road map or a plan of research to be used to answer the research questions and research objectives. It is the structure or framework to solve a specific problem. It gives direction and systematizes the research. It refers to the process that the investigator will follow from the inception to completion of the study (Cooper & Schindler, 2011; Kothari, 2011; Mugenda, 2012; Mugenda & Mugenda, 2003).

This study will adopt a descriptive, cross-sectional survey research design in view of the research problem highlighted earlier and research philosophy adopted. A descriptive research design reports what happened or is happening to the variables in their current situation. It is used to obtain information on the status of the phenomena to describe what exists with respect to variables or conditions in a situation as they naturally occur (Frankfort-Nachmias & Nachmias, 2008). According to Cooper and Schindler (2003) and Letting (2011) if a research study is concerned with what, when, and how much of a phenomenon, a descriptive research design is appropriate. Descriptive research design involves surveys or interviews to collect data.

Target Population

A population is defined as an entire set of individuals, cases or objects with some common observable characteristics (Mugenda & Mugenda, 2003). This study's population comprises of all forty-seven (47) counties in Kenya. Cooper and Schindler (2011) contend that a population of study should possess characteristic that meet a researcher's study interests.

Sampling frame, Sampling Technique and Sample Size

In research, the list of the population of interest which is referred to as sampling frame needs to be identified and appropriately listed. According to Mugenda (2008), the list may be obtained from a source or generated by the researcher. The list of the population or sample frame is where the sample is drawn. In this study, the sampling frame is drawn from the lists of 47 finance directors, 47 senior internal auditors, and 47 procurement directors in county treasuries that will be obtained from the Human Resource Departments of the respective county governments.

According to Kothari (2004) the size or the number of the study population is the major determining factor of the unit of analysis. In the event the study population is significantly small ($N < 100$), all the constituents of the study population should comprise the unit of analysis. In this respect, therefore, which is also in tandem with the present study ($N = 47$), a census design will be adopted. In addition to tallying with the aforementioned criteria, the choice of census design is premised on the fact that it enhances the generalization of findings to the study population since it eliminates both the sampling error and sampling bias.

Data Collection Instrument and Procedures

The study used both primary and secondary data. Primary data will be gathered using semi-structured questionnaires containing both open and closed-ended questions. The choice of questionnaires will be informed by the easy in designing and administering the questionnaires and did not require a lot of resources since the researcher had time and resource constraints. A secondary data collection template will be used in collecting data pertaining to revenue collection in Counties, which will be used to complement the primary data collected.

8. Data Collection Methods and Procedures

Data Collection Methods

In undertaking the data collection exercise, the researcher engaged two trained research assistants who will assist in collecting data from the respondents. The data will be collected in a span of two weeks and continuous follow ups will be conducted to ensure adequate response. Consent from the different employees and authorization to conduct the study from the relevant bodies namely the university, the National Commission for Science, Technology and Innovation (NACOSTI) and the county management were sought prior to the data collection exercise.

Data Analysis and Presentation

After data cleaning and processing, both qualitative and quantitative methods will be applied in analyzing the data. The information gathered from the open-ended questions will be analyzed using thematic analysis. Themes emerging from the responses will be coded and simple summaries extracted. As for the quantitative data, coding and entry into SPSS (V.20) resulting to the creation of a data sheet/template will be undertaken in preparation for the analysis of the data. Descriptive statistics particularly frequencies, percentages, means and standard deviation meant for giving a description of the basic features of the data that will be gathered will be generated.

Pearson's correlation coefficients and multiple regression coefficients comprise the inferential statistics. The reason for using a multiple regression model will be to enable the researcher to establish the direction and strength of the relationships between the study variables by quantifying the effect of each and every predictor variable on the dependent variable. All tests in this study will be undertaken at 95% confidence level (0.05 significance level). The model that will be used to link the variables is shown below;

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$ ….model without moderator effect…….Model 1

$Y = \beta_0 + (\beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4) Z + \varepsilon$.....model with moderator effect……Model 2

Y = Optimalrevenue collection rate, α = constant; β_1, β_2, β_3 and$\beta_4$represent régression coefficients, X_1, = Personnel training and motivation; X_2=Tax payer/public education; X_3= Revenue monitoring; X_4=Technology and automation; Z = Financial reporting (S) and Ɛ is the error term.

In order to test for causal relationship between the dependent and predictor variables, evaluation of the R^2statistic, F statistic, and beta coefficients for significance will be assessed using p values. The analyzed data will be presented in frequency tables and charts as per the study objectives.

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