

## **FACTORS AFFECTING REVENUE COLLECTION EFFICIENCY IN COUNTY GOVERNMENTS (A CASE OF KISII COUNTY), KENYA**

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### **ABSTRACT**

*Effective operation of devolved functions needs adequate resources. Currently the larger proportion of county government financial resources is sourced from the national government. This is attributed to the county governments' insufficient capacity to mobilize revenues within their jurisdictions. The low level of revenue mobilization and misapplication of funds by local authorities has been a source of concern especially the central governments. As a result budget deficits arise leading to ineffective service delivery by the county governments. This study aims to evaluate the factors affecting revenue collection efficiency of Kisii county government. The study objectives are: to determine the effect of staff competency on revenue collection efficiency and to determine the effect of taxpayer education and compliance on revenue collection efficiency. The study was conducted through a case study research design. The study focused on target population of 111 employees who were, Accountants, Revenue clerks and Revenue director of the county. The sample size was 111 respondents selected by census sample technique. A questionnaire was used to collect primary data while secondary data was collected from county financial reports. Data collected was analyzed using descriptive statistics and inferential statistics. The study shows that competence measures are used to improve the accountability of revenue. However, there is need to limit corrupt revenue collection clerks with tax officials in creating problems to the business community of the county. The results showed that it is not clear to taxpayers which tax they should pay to the county and national government. There are several incidences of tax noncompliance in Kisii County. The study revealed that use of technology as a factor to revenue collection tools is efficient in the county but they should be well designed with specific jobs for collection efficiency. Lack of requisite knowledge on tax laws by taxpayers and tax policies affects optimal revenue collection for economic growth. The study revealed that tax compliance enhances revenue collection.*

**Keywords:** *staff competency, revenue collection efficiency, taxpayer education and tax compliance*

### **INTRODUCTION**

#### **1.1 Background Information**

Revenue in form of taxation, licenses, customs, excise duties and other sources is very important in ensuring efficient running of government operations. Taxation is a major source of revenue to governments all over the world. It is thought that, most developed countries have developed advanced and successful tax collection policies which ensure enhanced optimal revenue collection (Bahigwa, 2004). However, developing countries have inefficient tax systems which hinder their tax collection efforts. Therefore this ineffective taxation system

leads to increased budget constraints which in return are likely to affect the Government's ability to perform its development functions through the budget. It is further understood that, when the county governments face budget constraints, the potential of their destabilization increases (Kayaga, 2007)

Ndung'u (2013) argued on factors affecting revenue collection. Ineffective tax structure and Corruption was identified to be the main challenge that inhibits revenue collection. The employees were also alleged to lack requisite competences for collecting revenue. The scholar recommended that integrating e-government technology and payment would enhance revenue collection. The inculcation of information and communication technologies is thus paramount in ensuring optimal revenue collection.

Revenue efficiency in a government context concerns with monitoring the success of public policy, programmes or projects in achieving their objectives and in securing the expected benefits. According to Transparency International Survey conducted in 2017 on County Governments revenue efficiency in Kenya clearly indicated that 61% of the Kenya populations from the 47 were unsatisfied with the performance of their Counties. Majority of the population measure revenue efficiency of their County Governments based on; Success for effective and efficient use of County revenue on development projects including infrastructure, health, education, trade and corporate social responsibility (Kariuki, 2010).

Kariuki (2010), budgeting is a process of planning the financial operations of business. Budgeting as a management tool helps to organize and formalize management's planning of activities. Budgeting as a financial tool is useful for both evaluation and control of organizations for the planning of future activities. Application of these tools can greatly impact the financial performance of an institution (Larson, 1999). Without lose its control and accountability mechanisms, modern budgeting can better support performance management by integrating known financial outcomes with frequent re-fore casting of the budget and linked to analysis of performance trends. Budget deficit arises when all the planned financial operations exceeds the planned budget. This deficit greatly impact government performance negatively.

In Kenya, there are 47 county governments whose structure, authority and mandate are the same as provided in the Constitution. According to the Constitution of Kenya 2010, the clause on revenue funds for county governments states that, there shall be established a Revenue Fund for each county government, into which shall be paid all money raised or received by or on behalf of the county government, except money reasonably excluded by an Act of Parliament (GoK, 2014). As stipulated in the Constitution, the Counties get their revenue from various sources. Statutory provisions empower the county governments to devise appropriate methods to mobilize revenue and put in measures to prevent non-compliance and revenue leakages. County system of governance requires adequate finances to enable them cope with the numerous developmental activities within their jurisdictions.

According to controller of budget report, only two counties met their local revenue collection targets in the last financial year. It has emerged that billions of shillings in government revenue remain uncollected with only Marsabit (107.3 per cent) and Turkana (103.5 per cent) surpassing their targets in the 2016/17 financial year. In a report on county spending, Controller of Budget Agnes Odhiambo said only Sh32.5 billion of the annual target of Sh57.7 billion was collected. During the period under review FY 2016/2017, Nairobi generated Sh10.9 billion followed by Mombasa and Kiambu at Sh3.2 billion and Sh2 billion respectively. Those that generated the least amounts are Wajir, Mandera and Tana River at Sh75.9 million, Sh55.8 million and Sh27.4 million respectively. Busia, Garissa, Isiolo, Kajiado, Kakamega, Kilifi, Kirinyaga, Kisii, Kitui, Machakos,

Mandera, Nyamira, Taita-Taveta, Tana-River, Tharaka-Nithi, Trans Nzoia, Vihiga and Wajir Did not meet half of their revenue targets.

According to the report by Kisii County, During the FY 2016 /2017, the County received Kshs.3, 023,697,397 as the national equitable share, collected Kshs. 171,819,011 from local sources. The local revenue collected during the period under review accounted for 14.23 per cent of the annual local revenue target.

## **1.2 Statement of the Problem**

As the implementation of devolution goes on in Kenya, Each county is supposed to devise appropriate methods to mobilize revenue and put in measures to enhance efficiency in revenue collection by prevent non-compliance and revenue leakages to promote integration as provided in Kenyan constitution 2010. However, according to Transparency International Survey conducted in 2014, debates on whether funding from National Exchequer is adequate or not still exist (Kippra, 2014).

Taking into consideration the related studies such as Bahiigwa (2007) the Influence of Change on Revenue Collection by local governments, Kariuki (2012) Survey of Revenue Enhancement Strategy by Local Authorities, Kieleko (2006) and Muriithi (2009) tax Reforms and Revenue Mobilization in Kenya have dealt with various initiatives being undertaken by regional governments, none has evaluated the factors affecting revenue collection efficiency by the different county governments in bridging the gap between revenue targets and actual collections in the county governments, This study sought to fill this gap by evaluating the factors affecting revenue collection efficiency of Kisii county government.

## **1.3 Objectives of the Study**

The general objective of the study was to evaluate the factors affecting revenue collection efficiency of Kisii county government.

### **1.3.1 Specific objectives**

- i. To determine the effect of staff competency on revenue collection efficiency.
- ii. To determine the effect of taxpayer education and compliance on revenue collection efficiency.

## **LITERATURE REVIEW**

### **2.1 Theoretical Review**

This is an economic theory proposed by British economist John Maynard Keynes in 1930. The theory is based on the concept that in order for an economy to grow and be stable, active government intervention is required. This theory argues that the budget deficit results in an increase in domestic production which makes private investors more optimistic about the future courses of the economy resulting in them investing more. This theory permits that some economic resources are unemployed. It also presupposes the existence of a large number of liquidity constrained individuals. It guarantees that aggregate consumption is very sensitive to changes in disposable income (Kayaga, 2014).

The main plank of this revolutionary theory is the assertion that the aggregate demand created by households, businesses and the government and not the dynamics of free markets is the most important driving force in an economy (fowler, 2002). So given that taxation forms the bulk of government revenues used to fund budgetary

expenses, the obvious solution of a government to fund its budget deficit is to increase taxes on consumer goods. Additionally the government might be forced to pay tax.

## 2.2 Conceptual Framework

This section presents the scheme of variables used to achieve the set objectives and constructing the questionnaires. In this study the variable factors that affect the objectives are presented in a conceptual framework. The independent variables are the revenue collections which affect the objectives as dependent variable in terms of revenue efficiency.

### Independent variables

### Dependent variable

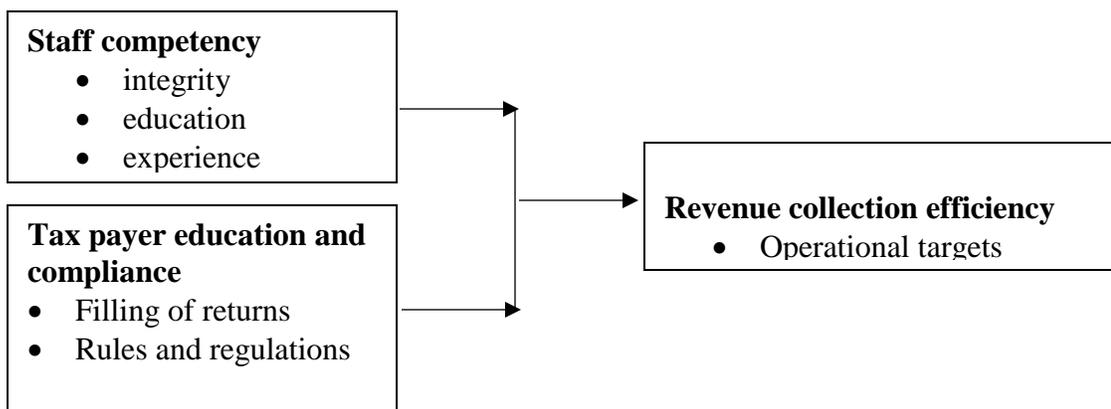


Figure 1 Conceptual Framework

## 2.4 Taxpayer education and compliance

Muriithi (2006) observed tax authorities should pay more attention into taxpayer re-education, compliance and tax audits. With complex tax laws, taxpayers have to be are additional costs in order to interpret the law and process tax returns. This tends to give the taxpayers an incentive to evade tax and, therefore, provides a rationale for aggressive taxpayer reduction. In South African, the municipals revenue collection system relies on taxpayers assessing their own tax liabilities and paying the correct amount of tax to the municipals through the municipal Administration. Fundamental to this system of self-assessment is that taxpayers must have sufficient knowledge in the tax laws and procedures and confidence from taxpayers that the tax administration will act fairly and treat taxpayers according to their individual circumstances.

Olowu, D & Wunsch, J. S (2003) Local Governance in Africa: The Challenges of Democratic Decentralization. In Uganda, the local governments have created an impact in increasing tax compliance and the level of awareness through intensive taxpayer education programs such as proactive information dissemination. Various strategies have been adopted such as seminars, workshops, tax clinics, live radio talk shows, tax literature and Uganda local government website. More professional tax collection techniques have been imparted onto staff to ensure efficiency and effectiveness in revenue collection. The local governments have further adopted modern systems to ease tax compliance, reduce compliance costs and minimize the cost of tax collation thus changing taxpayers 'attitude to tax payment.

## 2.5 Staff Competency

Baurer (2005) failure to deal with corrupt tax administration employees can create problems for the business community. Bird (2003) argues that, weaknesses in revenue collections occasion inadequate tax collections. Developing countries according to the scholar faces a problem of inefficient tax administration. The foregoing problem is attributed to with insufficient administrative staff with requisite skills, and high level of illiteracy among taxpayers and tax collectors. Kayaga (2010) further notes that, financial constraints has led to hiring of tax officials who lack understanding of the tax laws they are administering, and the concept of the concepts of accounting that are requisite to analyzing returns. The scholar further posits that, the problem of inexperienced and unqualified personnel is aggravated by lack of training facilities and opportunities.

## 3.0 METHODOLOGY

The study was conducted through a case study research design. The design was employed in order to describe the views of the respondents regarding the variables of the study. The case study method was appropriate because it explored and described the relationship between variables in their natural setting without manipulating them. The case study aimed at obtaining information that was analyzed, patterns extracted and comparison made for the purpose of clarification and provision of basis for making decisions.

The study was limited to Kisii County Government staff attached to the revenue collection department. They included; Accountants 10, Revenue clerks 100, revenue director 1. In total Target population was 211 employees.

**Table 1**

	POPULATION	SAMPLE SIZE
Revenue director	1	1
Accountants	10	10
Revenue clerks	100	100
TOTAL	111	11

### Recent statistics of Kisii County (2018)

The sample size was 111 respondents selected by census sample technique. A census eliminates sampling error and provides data on all the individuals in the population. In addition, some costs such as questionnaire design and developing the sampling frame are fixed, Cooper and Schindler (2003), state that the size of as ample should be a function of the variation in the population parameters under study and the estimating precision needed by the researcher. Data collected was analysed using descriptive statistic and inferential statistics. Descriptive statistic involved use of percentages; mean weights, standard deviation and frequency tables. Inferential statistics involved correlation analysis and regression analysis.

## 4.0 FINDINGS AND DISCUSSIONS

### 4.1 Gender Characteristics

The respondents were asked to indicate their gender, to enable the researcher to understand their demographic distributions on the questionnaire as presented in table 2.

**Table 2 Gender Characteristics**

	Frequency	Percent
Male	49	60
Female	33	40
Total	82	100.0

The study showed that 49(60 percent) were male and 33 (40 percent) were female. The low number of female in the county 33 (40 percent) is characterized to the attitude towards access to revenue collection. This revealed that all categories of employees were involved in revenue collection is important in determining the extent to which county have knowledge in revenue collection services.

### Factors affecting revenue collection efficiency

#### 4.2 Staff competency

The researcher asked the respondent to indicate their level of agreement with the following statements that relate to staff competency.

**Table 3 Staff competency**

Factors	N	Mean	Variance
There are elements of corrupt revenue collection clerks	82	3.49	1.364
The problem of unqualified staff is as a result of lack of training by the county	82	4.01	.555
There are measures used to improve the accountability of revenue.	84	4.05	.745
Corrupt revenue clerks and tax officials create problems for the business community	82	2.83	1.403
<b>Total</b>	<b>82</b>	<b>14.38</b>	<b>4.067</b>

The study shows that there are measures used to improve the accountability of revenue had a mean of 4.05 and variance 0.745, the problem of unqualified staff is as a result of lack of training by the county had a mean of 4.01 and variance 0.555, there are elements of corrupt revenue collection clerks had a mean of 3.49 and variance 1.364 and Corrupt revenue clerks and tax officials create problems for the business community had a mean of 2.83 and variance1.403. This implied that there are measures used to improve the accountability of revenue. However, there is need to limit corrupt of revenue collection clerks with tax officials in creating problems to the business community of the county.

#### 4.3 Taxpayer compliance and education

The researcher also examined the level of agreement with the following statements that relate to taxpayer compliance on the respondents. The results was presented in table 4.

**Table 4 Taxpayer compliance and education**

	N	Mean	Std. Deviation
There are several incidence of tax noncompliance in Kisii county	82	4.15	.650
The county government experience high compliance cost	82	2.65	1.104
Noncompliance is caused by lack of requisite knowledge of the tax law by the taxpayers	82	2.71	1.128
It is not clear to taxpayers which tax they should pay to the county and national government	82	4.33	.500
<b>Total</b>	<b>82</b>	<b>13.84</b>	<b>3.384</b>

The results showed that it is not clear to taxpayers which tax they should pay to the county and national government had the highest mean of 4.33 and Std. Deviation .500, There are several incidence of tax noncompliance in Kisii County had the second highest mean of 4.15 and Std. Deviation .650, Noncompliance is caused by lack of requisite knowledge of the tax law by the taxpayers had the mean of 2.71 and Std. Deviation 1.128 and The county government experience high compliance cost had the mean of 2.65 and Std. Deviation 1.104. The study revealed that it is not clear to taxpayers which tax they should pay to the county and national government had the highest mean of 4.33 and Std. Deviation .500. However, there is need to establish the county government experience high compliance cost.

**4.4 Regression analysis**

In order to establish the relationship between independent variable and dependent variables, multiple regressions was analyzed. The study revealed that 37.8% of revenue collection efficiency could be explained by the variables under study. From this study it is evident that at 95% confidential level, the variables produce statistically significant values and can be relied to explain revenue collection efficiency in the county government.

**Table 5 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.614 <sup>a</sup>	.378	.354	.46158

a. Predictors: (Constant), Taxpayer Compliance And Education, Staff Competency

From the analysis, the study revealed that independent variable (factors) in this study has influenced 37.8% variation in revenue collection efficiency in the county government as explained by R Square 37.8%.

**4.5 Analysis of Variance**

Analysis of Variance was used to determine the mean differences between two independent variables. The study shows how the researcher has conducted inferential statistics with p-value (sig' for significance influence on the criterion variable. The p-values less than 5% are generally considered significant. This study the researcher observed the relationship between factors and revenue collection efficiency in the county government. The results were presented by ANOVA table.

**Table 5 ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10.082	3	3.361	15.773	.000 <sup>b</sup>
	Residual	16.619	78	.213		
	Total	26.701	81			

a. Dependent Variable: Revenue Collection Efficiency

b. Predictors: (Constant), Taxpayer Compliance And Education, Staff Competency

From the ANOVA results, the p-value 0.000 shows that regression model was statistically significant in predicting the relationship between factors and revenue collection efficiency in the county government and the predictor variables as it was less than 5%. By use of the F\* test table (5%, 3) tabulated value was 3.361 less than the calculated f=15.773 imply that the model was significant.

The study also conducted regression coefficient to test the relationship between each independent variable.

**Table 6 Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.612	.407		3.965	.000
	Staff competency	.021	.134	.019	.153	.878
	Taxpayer compliance and education	.312	.067	.486	4.645	.000

a. Dependent Variable: Revenue Collection Efficiency

The researcher conducted regression analysis to determine the relationship between independent variables and Revenue Collection Efficiency in Kisii County. The following regression equation was established;

$$Y (\text{Revenue Collection Efficiency}) = 1.612 + .021X_1 + .312X_2$$

From the regression model obtained above, holding all other variables constant Revenue Collection Efficiency in Kisii County. The regression equation revealed that there is direct relationship between factors and Revenue Collection Efficiency in Kisii County. The analysis was conducted at 5% significance level. The criterion for correlating the corresponding predictor variables were significant in the regression model which was through p-values 5%. If the p-value is less than 5%, then the predictor variable is significant. Therefore, from the above analysis factors was significant in the model as its corresponding predictor variables Revenue Collection Efficiency in Kisii County were less than 5%.

## 5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

### 5.1 Conclusion of the study

The chapter presents the summary of the study findings on the factors affecting revenue collection efficiency in county governments. The study had targeted 111 and only 82 respondents' responded which were considered

adequate. The collected data was analyzed using spss, and the findings were presented based on the following objectives; to assess the influence of staff competency, to determine the effect of taxpayer education and compliance and to determine the effect of technology and to determine the effect of tax policies on revenue collection efficiency.

### **5.2 Staff competency on revenue collection efficiency**

The study concluded that there competence measures improve revenue collection efficiency had a mean of 4.05 and variance 0.745, the problem of unqualified staff is as a result of lack of training by the county had a mean of 4.01 and variance 0.555, there are elements of corrupt revenue collection clerks had a mean of 3.49 and variance 1.364 and Corrupt revenue clerks and tax officials create problems for the business community had a mean of 2.83 and variance 1.403. This implied that there are measures used to improve the accountability of revenue. However, there is need to limit corrupt of revenue collection clerks with tax officials in creating problems to the business community of the county.

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### **5.4 Recommendation of study**

From the findings there is need to improve compliance in order to improve revenue collection efficiency. The study recommended that taxpayers should pay more tax to reduce non compliance. Revenue collection officer should be trained to acquire requisite knowledge of the tax law to the taxpayers. The county government experience high compliance cost. There is need to establish the county government experience high compliance cost.

### **5.5 Recommendations for further study**

The study suggested for future researcher to conduct a study on the effect of tax evasion on taxpayer's economic growth. The study concentrated of taxation on revenue collection, there is need to conduct a study on the impact of necessity of taxation on service delivery by county government. Staff competency Technology and information system.

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