



## PERCEIVED CONSTRAINTS TO EFFECTIVE COUNTY OWN SOURCE REVENUE COLLECTION IN TAITA-TAVETA COUNTY OF KENYA

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**Abstract:** This study was to examine perceived constraints to effective County own source revenue collection in Taita Taveta County of Kenya. This research had the following objectives; to analyse effects of human resource on effective County own source revenue collection in Taita Taveta County of Kenya; to assess the influence of process automation on collection of revenue; to interrogate the role of internal controls on effective collection of own source revenue collection in the county of Taita Taveta and to assess the influence of government policies on effective revenue collection. This study was underpinned on a number of theories. These included the agency theory, Resource-Based View Theory, Adam Smith's Canons of Taxation and the Expediency Theory of Taxation. Descriptive survey research design was deployed. The population targeted was 132 members of the County's Finance and Planning Department and 60 members of public. A questionnaire was used to gather primary data. The data was analyzed using both descriptive and inferential statistical methods. Descriptive analysis was done using frequencies, percentages, Inferential statistics involved the use of correlation analysis. The study revealed that County human resource greatly affected own revenue collection. Internal controls should be tightened to ensure revenue collected is adequately secured from embezzlement. The study recommended that there is need to revise the terms of service of the revenue collection staff so as not to have a significant number of them working on temporary basis as this could easily lead to severe compromises in the revenue collection system. The staffs should also be trained regularly on County own source revenue systems and procedures and the need to uphold the fidelity of the system for the benefit of the County Government. More resources should be invested for Information Communication Technology and New Technology Facilities should be acquired to facilitate revenue collection in order to realize long term benefits. There should be an effective and operational internal control system to ensure greater control of the revenue



collected by the county government and continual improvement through implementing suggestions and recommendations of the internal audit report. The County government needs to constantly review and set realistic County own source revenue collection targets and adopt strategies that would ensure high compliance.

**Keywords:** County own source Revenues, Revenue Mobilization Methods and Performance

### 1.1 Introduction

There has been increasing number of countries devolving fiscal, administrative and the roles of the central government to sub-national governments for improved service delivery (Robert, 2014). Among countries that have devolved are the United Kingdom and United States, Italy, Spain, Australia and India. Some African countries such as Nigeria and Kenya have also recently entrenched devolution in their governance structures. In Kenya, the regional government is basically the county government just as that of United States, in a country like Uganda, regional governments are named as local authorities whereas in South Africa regional government the name regional governments stick. The quest for devolution has been driven by the government's concern to make its services closer to its citizens, the growing reforms of the sectors in the public divide, the urge to feel represented and the fairness in allocation of resources both economically and politically (Cheema & Rondinelli, 2015).

Counties get funds mainly from two sources: their own revenues and national government transfers. Forms of revenue such as customs, tariffs, excise duties, licenses including others is basic in facilitating a smooth flow of the operations of government (Ndunda, 2015). The structure, authority, and mandate of county governments also vary from one country to another. Globally, number one in the ranking of revenues is taxa in terms of providing revenue to the government. However, the efforts of collecting revenue in developing nations is a challenge as a result of inadequate systems of collecting revenue (Kayaga, 2013). In most of the European Countries, performance in terms of collecting revenue is influenced by tax administration, evasion of tax as well as adjustments in legislation of tax (Mornseet, 2013). Even after various reforms, there is an inflated general budget shortfall Southern Saharan countries due to unreasonable development in mobilization of revenue in their local countries. Fjeldstad (2011) investigated openings and restrictions that confronts local revenue assembly in Anglophone Africa. The shortcomings in revenue collections are



mostly caused by inadequate administrative staff with mandatory skills, and ignorance among taxpayers and tax collectors.

In Nigeria, corruption is one factor influencing inefficiency in tax administration and revenue collection and is practiced in different forms such as services that should be free are charged or to help taxpayers with complicated procedures the tax officials charge them or to get tax exemption qualification the tax officials charge the tax payers, failing to assess the nonregistered businesses, smuggling of goods into the country, overstating values, under assessing tax to importers and tax payers and loosing files (Child, 2014). In Uganda, Kajumbula (2013) explain several factors affecting Local Authorities revenue collections are like administrative inefficiency, political interference, unsuitable budgets and plans by the government and there are no issues of revenue mobilization challenges like collection rates, weather condition, revenue outsourcing and ineffective implementation of bylaws.

Devolution in Kenya is entrenched in the constitution 2010. As a result, 47 County governments got into place in March 4th, 2013. As per the constitution 2010, it put into place that County's would have sources of revenue they could rely on in order to make their work simpler and effective in terms of delivery of their services. Some functions previously performed exclusively by the national government are now devolved to the Counties.

In Kenya, the National Government transfers constitute 75% while the County own source revenues are expected to make up for the remaining 25% (PFM Act No. 18 of 2012). National Government transfers comprise of equitable shares which is essentially a non-conditional allocation to the county governments by the National Government - not be less than 15% of most recent audited revenue received as approved by the National government as stipulated by the Constitution. The counties also derive County own source revenues from specific revenue- raising measures authorized by Acts of Parliament. Counties are also allowed to borrow funds as long as it has been consented by National Government and approved by the county assembly in authority at that time. Finally, counties can get grants and donations from development partners (Ngundo, 2014).

While the availability of National Government transfers is almost certainly guaranteed for the financing of county budgets, the same cannot be said of County own source revenues collected by the county governments (Okongo, 2015). Records of the Controller of Budgets



office for the financial years 2013/2014, 2014/2015, 2015/2016 and 2016/2017 suggest that there has been at best marginal improvement in the County own source revenue collection in the counties

### **1.2 Statement of the Problem**

Taita Taveta County has a well-diversified revenue base comprising tourism, agriculture, mining, transport and real estate that could generate a lot of County own source revenue if the revenue collection system in the County was well implemented. However, the CoB Reports since the financial year 2013/2014 have consistently indicated that the County was only able to collect about half of its budgeted County own source revenue estimates. That is, 51.6%, 48.8%, 45.6% and 48.4% for the financial years 2013/2014, 2014/2015, 2015/2016 and 2016/2017 respectively. This was low compared to the National Average County own source revenue collection of

48.5%, 67.2%, 69.3% and 73.2% for the last three consecutive financial years and suggest that there were considerable challenges in County own source revenue collection.

Numerous studies have been prepared in the area of revenue collection. Cleland, (2014) notices that revenue miss the mark because of poor management, ineffectual planning, incorrect organizational design, lack of well-defined and delegated authority and responsibility, an disorganized system of monitoring, evaluation and controlling, waste of resources, ineffective emergency planning, narrow team input in the carrying out of revenue decisions, Impractical cost estimates and schedules, lack of customer obligation to revenues, limited customer management and insufficient management information systems. Ngotho & Kerongo (2014) found out that submission level affects collection of revenue by the revenue gathering body. Non-compliance to diminution of taxes has been a key cause of revenue collection.

The poor performance of revenue collection was posted despite investments in revenue collection systems that include increasing manpower within a proper structure from sub county level to county level, automation of revenue collection; human resource capacity building and designation of departmental accounting officers (CoB, 2015). The County own source revenues are almost entirely earmarked for the development of capital projects. Financing capital projects is important in ensuring service delivery as well as generating more income. Therefore, county governments need adequate County own source revenues



in addition to other forms of revenue. Therefore, it was important to critically examine the perceived constraints to effective County own source revenue collection in Taita Taveta County, Kenya.

### **1.3 Objectives of the Study**

The main aim of this study was to examine the perceived constraints to effective collection of revenue in Taita Taveta County in Kenya. It specifically intended to:

- i. Analyse the effects of human resource on effective County own source revenue collection in Taita Taveta County of Kenya
- ii. Assess the influence of process automation on effective County own source revenue collection in Taita Taveta County of Kenya
- iii. Interrogate the role of internal controls on effective County own source revenue collection in Taita Taveta County of Kenya
- iv. Assess the influence of government policies on effective County own source revenue collection in Taita Taveta County of Kenya

### **1.4 Research Questions**

- i. What is the role of human resource on effective County own source revenue collection in Taita Taveta County of Kenya?
- ii. To what extent does process automation affect effective County own source revenue collection in Taita Taveta County of Kenya?
- iii. What is the role of internal controls on effective County own source revenue collection in Taita Taveta County of Kenya?
- iv. What is the influence of government policies on effective County own source revenue collection in Taita Taveta County of Kenya?

## **2.0 Literature Review**

This sections review the theory reinforcing this study and empirical literature on County own source revenue collection.

### **2.1.1 Agency Theory**

It was established by Jensen and Meckling in 1994 while trying to ascertain that due to the conflict of interests of government parties, corporations no longer work in accordance with the principle of maximization (Jensen & Meckling, 1994). The relationship existing among the owners and control in big organizations stimulates agency theory. The theory was, thus,



essentially developed as a platform for analysis of conflict of interests among major stakeholders (Tipuric, 2013). In the context of the present study, the principal is the County Government while the agents are the revenue officers. The theory describes the agent to principal relationship, where the agent performs roles delegated to it by the principal like the County Government formulates revenue collection policies, determine rates and set targets and delegates the task of implementing the actual revenue collection to the revenue officers.

#### **2.1.2 Resource-Based View Theory**

The RBV theory aims at being successful in competitive which arose in 1980s and 1990s. Those in support of the theory suggest that organizations are supposed to look at the inside of their organizations and discover sources of competitiveness rather than observing its environ. The RBV assumes that every organization collects unique capabilities and resources. That is the basis of an organizations strategies and potential to gain returns that are beyond average. Thus, in the present study, the resource based view provided insight into how the County governments strategically utilize the resources at their disposal to effectively collect County own source revenue.

#### **2.1.3 Adam Smith's Canons of Taxation**

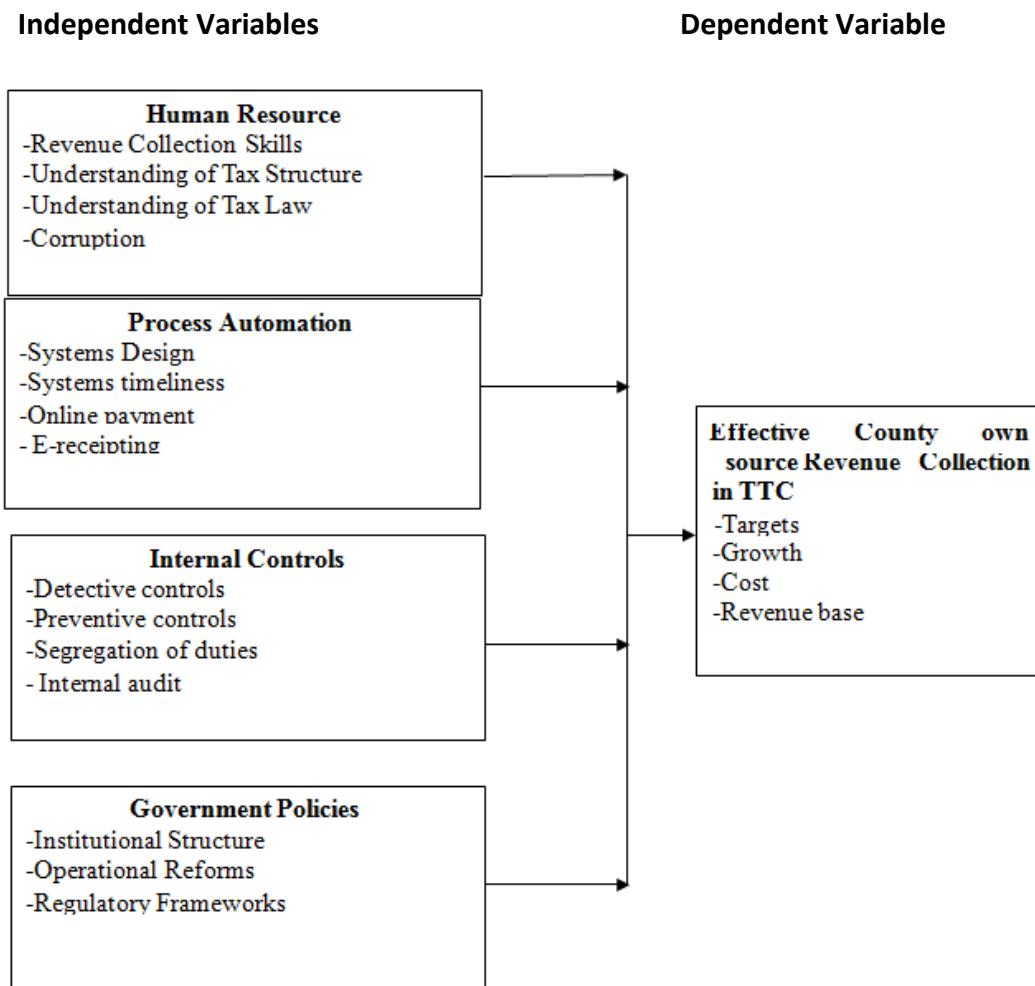
The canons of taxation are largely attributed to the Adam Smith between 1723 and year 1790. The canons of taxation attributed to him were; the canons of equity, simplicity, certainty, convenience and tax elasticity to adjustments in tax base (Haggarty, 2013). In this study, the canons of simplicity and economy will be considered in examining how revenue collection strategies are built around them to maximize revenue collection. Thus, in the current study, it was important to appraise the effectiveness of the County own source revenue system at the county collection level in terms of its simplicity and economy.

#### **2.1.4 Expediency Theory of Taxation**

This theory was developed by Arthur Bowen in 1961. According to Bowen, well organized provision of services needs that decision-making is conceded by the extent to which the government neighbors the citizen. If at all there are variances in charges and tastes, clear benefits from bringing services right at home-grown level. The principle also suggests that spending roles are supposed to be administered to higher administrations in case it is

proven capable of being carried out the purpose more competently as compare to lower levels (Bargozzi, 2013).

## 2.2 Conceptual Framework



Source: (Author, 2018)

## 3.1 Methodology

A descriptive survey was adopted as the study research design. The study aimed at describing the state of affairs of revenue collection performance as it is over a wide area and, hence, descriptive survey research design was considered as the most appropriate for this study. The present study populace comprised of 132 members of the County's Finance and Planning Department and 60 members of public. The sample size was then proportionately distributed across the four County's Ministry of Finance and Planning departments. A total of 60 members of the public were also purposively included in the study. The size of the sample obtained was illustrated in the following table.



**Table 1. Population of the study**

Representation	Population of the study	Sample Size
Chief Officer	1	1
Director Accounting Services	1	1
Accountants	11	6
Clerical Officers	8	4
Director Budgeting	1	1
Deputy Director Revenue	1	1
Sub County Revenue Officers	4	2
Revenue Officers	28	15
Revenue Clerks	77	40
Member of the public	60	31
<b>Totals</b>	<b>192</b>	<b>100</b>

Source: Researcher (2017)

In order to collect primary data, the respondents were each approached randomly and the purpose of the study explained to them after which the questionnaires were given to them to fill and then hand over to the researcher. The respondents were given a duration of approximately 2 hours to fill in the research instrument. Then all the research instruments were gathered by the researcher for analysis. This method was chosen so as to maximize the instrument return rate. The secondary data was collected from published records in print and electronic form and also from the Taita Taveta County revenue office. Primary data from the field was cleaned before getting coded on SPSS. Data was analysed using both descriptive and inferential statistics. Descriptive data was presented using tables, figures, frequencies and percentages. On inferential analysis, variable correlation analysis was done to establish association of the challenges identified in the study with the actual revenue collection.

#### **4.1 Research Findings**

##### **4.1.1 Ranking of Revenue Collection across the four Sub-Counties**

It was important to establish how the four sub counties; Voi, Mwatate, Wundanyi and Taveta ranked in regard to the highest amount of revenue to the County Government.

**Table 2: Ranking of Revenue Collection across the four Sub-Counties**

Sub County	Ranking by Respondents			
	First	Second	Third	Fourth
Voi	60	35	3	2
Taveta	33	57	6	4
Mwatate	2	4	84	10
Wundanyi	5	4	7	84
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>



The findings in Table 2 suggest that Voi Sub County was the highest ranked by most respondents (60%) as being the highest revenue contributor to the Taita Taveta County Government. It was followed by Taveta (57%), Mwatate (84%) and Wundanyi (84%) in that order.

The study also sought to establish the main sources of County own source revenue collected in Taita Taveta County.

**Table 3: Main Sources of County own source Revenue Collected in Taita Taveta County  
(2016/2017)**

Department	Target	Actual	%Variance	Percentage
Administration & Devolution	8,617,314	8,667,053.62	1%	5%
Agriculture, Livestock & Fisheries	10,301,563	3,038,228.61	-71%	2%
Environment	27,034,742	12,751,746.6	-53%	7%
Finance	40,375,158	15,878,365.4	-61%	9%
Health	88,444,669	32,859,326.7	-63%	19%
Lands and Mining	63,636,304	12,947,453.4	-80%	8%
Public Works & Housing	55,563,552	38,006,384.9	-32%	22%
Trade & Commerce	61,357,108	47,868,553.1	-22%	28%
Water and Irrigation	57,245.74		-100%	
<b>TOTALS</b>	<b>355, 387,656</b>	<b>172,017,112</b>		<b>100%</b>

The results in Table 3 suggest that the County government derived its County own source revenue mainly from the trade and commerce sector (22%). Most of the revenue was derived from single business permits, market fees and renewal of single business permits (Appendix IV). Public works and housing (22%) and health (19%) were also among the highest contributors of County own source revenue in the County with the highest amount of revenue for the two departments being generated from reserved parking fees and public hospitals respectively. However, it can also be observed that overall almost all departments could have contributed high amounts of revenue if the constraints to revenue collection were mitigated.

#### 4.1.2 Types of Revenue Collection System

The first part of this section was to determine the revenue collection systems used by the County Government. The cardinal responsibility of a county government is to collect revenue and provide public services equitably. This requires effective systems to enhance on the same. The research findings on types of revenue collection systems are given in Table 4.



**Table 4: Types of revenue collection system in uses in Taita Taveta County**

Type of Revenue Collection System	Frequency	Percentage
Automated	27	32
Manual	42	49
Both	16	19
<b>Total</b>	<b>85</b>	<b>100</b>

As indicated in Table 4. above, almost half of the County own source revenue collection in Taita Taveta County was being done manually (49%). Automated revenue collection accounted for 32% of the revenue collection while a combination of both systems was used to collect 19% of the County own source revenue. These findings imply that the revenue collection system in the county was still relying on the manual methods which were quite cumbersome and encouraged pilferage.

#### **4.2 Correlations Analysis**

Correlation shows the extent to which the independent variables correlated to the independent variable. Pearson is the most commonly used in academic studies and it exhibits the direct relationship between study variables.

**Table 5: Correlations Coefficient Table**

Variables	r	Sig
<b>Dependent Variable</b>		
Effective collection of own source revenue		
<b>Independent Variables</b>		
Human Resource	0.653	0.00
Process Automation	0.633	0.002
Internal Control	0.602	0.002
Government Policies	0.648	0.00
<b>N</b>	<b>100</b>	

From this results, it shows that the correlation coefficient was strong and positive between challenges to effective collection of own source revenue and human resource as indicated by 0.653 factor of correlation, the correlation was termed significant since the value obtained was  $0.000 < 0.05$ . It was also found out that there existed a positive relationship between determining challenges to effective collection of own source revenue and process automation, as given by 0.633, the significance factor was  $0.002 < 0.05$ , hence a strong and positive relationship between examining challenges to effective collection of own source revenue and internal controls as given by 0.602 coefficient, this was also significant at 0.002. Finally, the study found strong positive correlation between examining constraints to



effective collection of own source revenue and government polices as given by 0.648 correlation at 0.000 levels of confidence.

### 5.1 Conclusion

This study makes the following conclusions based on the above findings:

This study makes a conclusion that competency of County human resource greatly affected collection of own revenue. The study also concludes that putting in place tough laws to sensitization, check evaders, educating the frequent taxpayer and adapting methods of solving inaccuracies as well as misconceptions by the public and provision of information in a customer- focused way to cut down errors.

From the findings, revenue collection automation is supposed to be put into place to enhance capturing of transactions of revenue collecting. The study concludes that collection of revenue is greatly affected by technology. Further, all revenue collectors seem to enjoy working with modern technology which have not been devised by many organisations.

Based on the findings of the study, it is concluded that internal controls have a greater influence on revenue collection. Internal controls play a significant role in enhancing revenue collection and as the internal controls goes up, also goes up the revenue collected. Therefore, internal controls should be tightened to ensure revenue collected is adequately secured from embezzlement.

The study finally concludes that government policies, rules and regulations should be followed in order to ensure that county staff reduces leakage by performing surprise audits to improve the control processes, compliment self-assessment procedure, and put efforts to inject a serious penalty for non-adherence.

### 5.2 Recommendations

According to the findings of this study, the researcher recommends the following:

It is necessary to revise the terms of service of the revenue collection staff so as not to have a significant number of them working on temporary basis as this could easily lead to severe compromises in the revenue collection system. The staffs should also be trained regularly on County own source revenue systems and procedures and the need to uphold the fidelity of the system for the benefit of the County Government. The county government should come up with comprehensive staff development policy of training, monitoring and evaluation of their performance to ensure they meet up to the needs of the revenue collection process.



Reliance on the manual system observed in this study could not guarantee high integrity of the County own source revenue collection system. Therefore, it is high time the County government revisited the issues of automation and rightly equipping staff and made substantial investments in them so as to ensure high compliance through a reliable system. More resources should be invested for Information Communication Technology and New Technology Facilities should be acquired to facilitate revenue collection in order to realize long term benefits.

There should be an effective and operational internal control system to ensure greater control of the revenue collected by the county government and continual improvement through implementing suggestions and recommendations of the internal audit report.

Payment offered by the county government; elevation of proper planning and administration are reliant on the potential of counties to cut on costs of revenue collecting through advancements in the tax collection procedures by simplification of the administration. Easy parking fees systems, electronic payment by Matatu owners Saccos, land rates, single business permits and market rates, penalties, payment for development permits and many more. Such revenue collection systems need to be done in an integrated form to enhance efficiency timely revenue collection, enhance management integrity and provide clear records among other factors.

The County government needs to constantly review and set realistic County own source revenue collection targes and adopt strategies that would ensure high compliance. This means the County government may have to borrow a lot from other sister counties that have been consistently posting high County own source revenue collection so as to enable it revise and modify its strategies.

### 5.3 Way Forward

For further, studies, this study makes the following recommendations; the effect of automation strategies on the performance of revenue collection in Taita Taveta County and the effect of strategic management practices on revenue performance in Taita Taveta County.

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