DETERMINANTS OF OPTIMAL REVENUE COLLECTION IN COUNTY GOVERNMENTS IN KENYA: A CASE OF BOMET COUNTY

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Abstract: **The purpose of this study was to conduct an investigation on determinants of optimal revenue collection in county governments in Kenya, a case study of Bomet. To achieve the overall goal of the study, four specific objectives were formulated and the respective variables were then presented in a conceptual framework. The study was quite significant as it established the determinants affecting implementation of the system hence assist the county in implementing them for sustainability of the revenue collection system. Literature reviewwere carried out in previous similar research works, websites, and published journals. A descriptive design was used to analyze how the various variables. A stratified sampling design were utilized .This was meant to enhance accuracy and validity of the data more so due to the fact that the population under study is heterogeneous in terms of job description, qualifications and experience. Questionnaire and an interview guide were administered to collect research data from respondents. The target populationwere 49 respondents and the respondents selected as per strata. Data analysis was done using a statistical package for social scientists (SPSS) and excel software package. The data was collected, cleaned, sorted and collated. Data were entered in a computer, after which analysis were done. Descriptive statistics in the form of tables were used to present the data. Then measures of association were used to examine the relationship between the independent and dependent variables. This was followed by analysis using inferential statistics such as Pearson correlation to examine the relationship between variables. The findings were used to formulate the conclusion and recommendations for further research works.**

Keywords: **investigation, determinants, optimal revenue collection, statistical package for social scientists (SPSS).**

1. BACKGROUND OF THE STUDY

Business organizations have become more competitive in the 21st century due to globalization and growing competition. The global marketplace, changes in customer values, rapid changes in technology, and increased economic pressures on national as well as county governments have led to an increased interest in revenue collection.

Developing countries face lower tax collection as compared to target amount due to inefficiencies in tax collection system. In today's competitive, fast-paced business landscape, getting the most out of available resources is not an option but rather a necessity. Organizations are taking a highly proactive approach to systems modernization and operations in an effort to increase efficiency and effectiveness in their operations. System automation allows firms to automate new platforms of their revenue collection systems in order to reap maximum benefits (Bahwan CyberTek, 2012). In present study various factors are identified that affect tax collection in Pakistan. Due to some major problems like political backwardness, poor economic development, undefined taxation policies and inappropriate institutional capacity, Pakistan is still not successful to implement an efficient taxation system. Tax administration system of Pakistan is usually in hand of corrupt officers, as during last ten years all selected governments in Pakistan were indulge in corruption either it is petty (small scale) or grand (large scale) corruption (Chaudhry and Munir, 2010).

In Pakistan the roots of corruption date back to the period when British government rewarded lands and titles to those people who were their loyalist. This was the starting of nepotism and corruption in the country (Awan and Bakhsh, 2004) .Public revenue collection is an integral component of fiscal policy and administration in any economy because of its influence on national government operations and the grassroots. It is the fuel of every government as it is the main instrument through which government funding is ensured.

Revenue Collection on a global perspective:

Governments are working towards maximizing on their revenue collection methods to ensure that they raise enough revenues to run and manage the affairs of the county government at the grassroots. According to the National Association of Counties (2014), in the United States, there are 3,069 counties which greatly vary in size and population from Loving County, Texas with just 71 residents to Los Angeles, California which is home to 9.2 million people. 48 out of 50 states in that country have operational county governments. Increase in revenue collection can be achieved through employing county revenue instruments for tax collection as well as exploiting and harnessing all available sources of revenue in their localities and devising a cost effective means of collecting revenues. Fjeldstad and Heggstad (2012) examined opportunities and constraints facing local revenue mobilization in Anglophone Africa. They addressed political and administrative limitations that various revenue instruments face and tax compliance by citizens. It was deduced that, as exemplified by numerous cases in Anglophone African countries, mobilization of revenue by local government authorities though necessary, is hitherto inadequate to develop and supply requisite services to the public.

Taxation is one of the leading avenues of revenue collection by governments all over the world. It is asserted that, developed countries have advanced and successful tax policies which enhance revenue collection. Nevertheless, developing countries often have inefficient tax systems which hamper their tax collection efforts (Kayaga, 2007). The author posits that, the sub-Saharan Africa tax structures in terms of tax types and rates have improved in the recent past. The increased overall budget deficits in countries to the south of Sahara reflect insignificant improvement on growth in domestic revenue mobilization after various reforms.

Revenue Collection in Bomet County:

Following the establishment of devolved governments, county governments are expected to collect their own revenue to mitigate between allocation of revenue from central government and their own budget. This has called for automation of revenue collection systems from Local Authority Integrated Financial Operations Management System (LAIFORM) to Integrated Financial Management Information System (IFMIS). This is intended to enhance collection from multiple revenue streams including single business permits, market stalls, parking fees, real estates, land rates, and to achieve real time transaction reports on a secure central server that must be accessible on web and mobile platforms. One major administrative problem today for many county governments is their inability to cost effectively collect fully the revenues due to them. Here emphasis will be on the cost-effectiveness of revenue collection in county governments (UNCTAD, 2008).

One major administrative problem today for many county governments is their inability to collect the revenue .There are huge gaps between reported and projected revenues Despite the internal controls that exist in Bomet County, collection remains below target and resources are poorly managed. Bomet County has never achieved its annual revenue collection target for the last three years. This has triggered the need to research on the factors that could be hindrances to this county's collection system hence forth determine measures that minimises revenue leakages, ensures adequate information to the County customers, maximizes on revenue collection to support the Bomet County Government's development agenda and services delivery to her citizens

Statement of Problem:

There are huge gaps between reported and projected revenues despite the internal controls that exist in Bomet County, collection remains below target and financial resources are poorly managed. Bomet County has never achieved its annual revenue collection target for the last three years most notable is FY 2015/16 when the target was 274 million and the actual amount collected was 165.7 million. This has triggered the need to research on the factors that could be hindrances to this county's collection system hence forth determine measures that minimises revenue leakages, ensures adequate information to the County customers, maximizes on revenue collection to support the Bomet County Government's development agenda and services delivery to her citizens. This study seeks to fill this gap by evaluating the factors influencing revenue collection efficiency in Bomet County.

2. LITERATURE REVIEW

Control Theory:

Control theory has been described as "an inter-displinary branch of engineering and mathematics that deals with the behavior of dynamical systems with inputs. The external input of a system is called the reference. When one or more output variables of a system need to follow a certain reference over time, a controller manipulates the inputs to a system to obtain the desired effect on the output of the system.

The objective of a control theory was to calculate solutions for the proper corrective action from the controller that result in system stability, that is, the system will hold the set point and not oscillate around it. Systems have inputs and outputs to bring a product after processing and so inputs and outputs of a control system are generally related by differential equations.
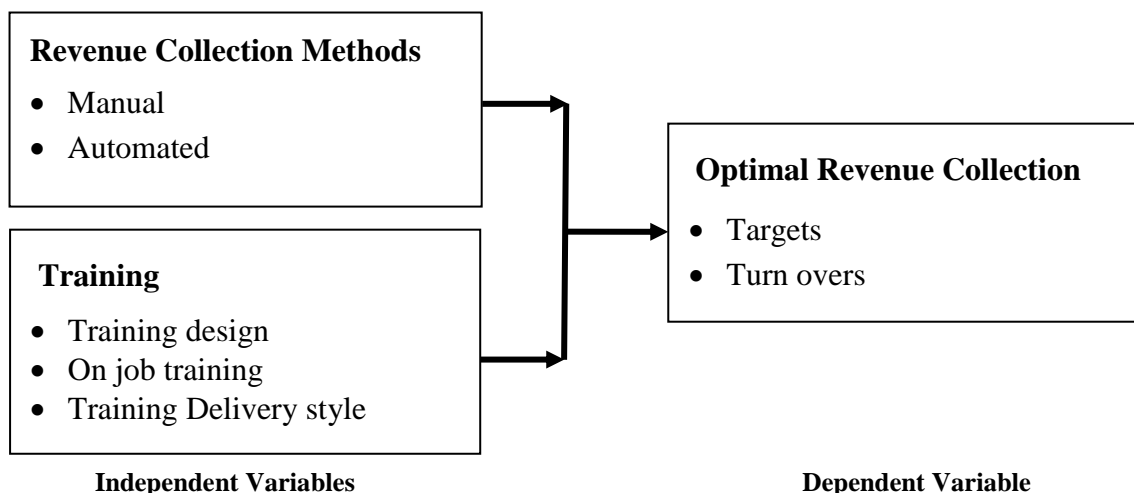
Setting objectives, budgets, plans and other expectations establish criteria for control. Control itself exists to keep performance or a state of affairs within what is expected, allowed or accepted. Control built within a process is internal in nature. It takes place with a combination of interrelated components-such as social environment effecting behavior of employees, information necessary in control, and policies and procedures. Internal control structure is a plan determining how internal control consists of these elements.

Transaction Cost Theory:

According to Khan and Hildreth (2004), transaction cost theory is a promising perspective for financial management theory for two main reasons: the ambiguity of transactions, and the widely accepted value of efficiency in this area. In principle, revenues could be collected with three different types of contracts between the revenue collecting authority and the revenue collector: wage, share and fixed-rent contracts. Wage contracts mean that the government hires revenue collection agents on fixed wages, and the revenue collection agents agree to turn over to the government all the revenues they collect. Share contract occurs when in lieu of a wage payment, the revenue collection agent holds on to a pre specified share of the revenues collected. Before the 19th century, the fixed-rent contract was the dominant form of revenue collection. The wage contract is the dominant form of revenue collection in modernized systems, so much so that other methods of collecting revenues are seen as anomalous.

Many issues in expenditure management also are contracting, expenditure management is a three stage administrative process that is determination of the policies, objectives, and resources needed, allocation of resources needed for those objects and assurance that specific tasks are carried out economically, efficiently and effectively. Transaction costs (bargaining and decision costs) are involved in determining expenditure policy because such policy is essentially an expenditure contract between elected officials (with assistance of central budgeting bureau, or CBB) and spending agencies which occurs in creating expenditure, a "political transaction cost" (Rabin & Mathew, 2002).

Conceptual framework of study:

Revenue Collection Methods		
- Manual		**Optimal Revenue Collection**
- Automated		- Targets
Training		- Turn overs
- Training design		
- On job training		
- Training Delivery style		

Independent Variables   Dependent Variable

Research gaps:

According to the National Association of Counties (2014) , in the United States. Increase in revenue collection can be achieved through employing county revenue instruments for tax collection as well as exploiting and harnessing all available sources of revenue in their localities and devising a cost effective means of collecting revenues

Ndyamuhaki (2013) carried out the study on "Factors affecting revenue collections in local government, case study: Isingiro district local government" Makerere University, Uganda. Franzen"s (2007) study on Property Taxation in Anglophone Africa conducted in Dar es Salaam, Tanzania indicated that, public officials are more effective as revenue collectors that their private counterparts. Fjeldstad and Haggstad (2012) on their study on Local government revenue mobilization in Anglophone Africa. concluded that, measures are required to improve the accountability of revenue collectors and elected officials.

Locally; Kariuki, (2002). "A Survey of Revenue Enhancement Strategies by Local Authorities." It was observed that to enhance revenue collection by local authorities, political will, reforms, taxpayer education and incentives to those involved are required so as to enhance the revenue mobilization effort. . The study of Mercy (2013) "Factors affecting revenue collection in local authorities in Kenya" narrowed on effects of government policies and regulations, local authority information financial and operations management systems, revenue enhancement plans and employee skills on revenue collection. Mwambingu, (2002). "The Influence of Change on Revenue Collection by KRA". In this research it was observed that according to responses given by the various KRA Departments on the influence of change on revenue collection, the change that had the greatest influence on the amount of revenue collected by the Authority was the introduction of targets, performance appraisals, the introduction of taxpayer education and information initiative, computerization of the administrative systems and change in corporate culture. Simiyu (2010) in his study on Challenges affecting collection of turnover tax in Nairobi County pinpoints that governments ought to generally simplify tax administration for businesses.

From the literature examined as in empirical review above, studies show inadequacies in the way provides a theoretical analysis of the Hindering factors on failure to achieve full potentiality on tax revenue collection However, their coverage as far as public institutions are concerned is not adequate as every county /institution has its unique way on how the revenue collection efficiency is affected. Most researches done earlier did not cover Bomet County.

3. RESEARCH FINDINGS AND DISCUSSION

Response Rate:

Populations of 49 respondents from County Government of Bomet in the Revenue Department were selected to participate in the study. This population consisted of senior management employees, middle level employees and revenue clerks. Out of these 49 respondents, 48 returned their responses which was a 97.9% response rate.

Table 1: Response Rate

Issued questionnaires	Returned	Response Rate
49	48	97.9%

Babbie (2011) suggested that a response rate of 60% is good while a response rate of 70% is very good. The response rate for this study was very good and the findings presented relate to the 48 responses received. All those received questionnaires were found to be fit for analysis.

Reliability analysis:

The value of the Cronbach's alpha of well above 0.7 implied that the instruments were sufficiently reliable for the measurement. As most item total correlations were reasonably high, the construct validity of the instruments was considered reasonable (Brown, 2000). Table below illustrates the results of the reliability analysis. It involved questionnaires from respondents.

Table 2: Reliability Analysis

Variable	Cronbach's alpha	No of items
Revenue Collection Method	0.752	3
Staff Training	0.734	2

Source: Author (2017)

Optimal Revenue Collection:

The study wished to establish the status of revenue collection and its improvement and in particular how revenue collection method influence optimal revenue collection in Bomet County. The majority (47.9%) were of the view that revenue collection was good while 2.1% were of the view that revenue collection is poor and very poor. However, 37.5% of the respondents were of the view that revenue collection in the county was average with 10.4% of the respondents believing to be excellent. The results agree with Controller of Budget Agnes Odhiambo which noted that despite Bomet County collecting revenue of Kshs 207.7 million in the financial year 2015/2016, it was rated as being among those counties with lowest proportion of actual revenue to annual target which still has low target verses its capacity to collect more. The results have been summarized in table below

Table 3: Optimal Revenue Collection

Ratings	Frequency	Percentage
Excellent	5	10.4
Good	23	47.9
Average	18	37.5
Poor	1	2.1
Very poor	1	2.1
Total	**48**	**100.0**

Source: Author (2017)

Training:

The study sought to know whether or not Training affects optimal revenue collection. 100% of the respondents agree that it does as given in the table below.

Table 4: Training and Optimal Revenue Collection

Respondents	Frequency	Percentage %
Yes	48	100.0
No	0	0.0
Total	**48**	**100**

Source: Author (2017)

The study aimed at assessing the extent to which training affects optimal revenue collection. The majority (62.5%) rated as very great. This means that training is a determinant in optimal revenue collection and thus training revenue collectors should be emphasized since revenue is the backbone of the County's activities without which the community involvements as well as the budgets and projects cannot be implemented. The summary is given in table below.

Table 5: Extent to Which Training Affect Optimal Revenue Collected

Respondents	Frequency	Percentage
Very great	30	62.5
Great	16	33.3
Moderate	1	2.1
Low	1	2.1
Very low	0	0.0
Total	**48**	**100**

Source: Author (2017)

Training of staff involves training design, on job training and training delivery style.

4. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENTATIONS

Revenue Collection Method:

There was a positive significant relationship between optimal revenue collection and method used in collecting revenue. The majority (47.9%) were of the view that revenue collection was good while 2.1% were of the view that revenue collection is poor and very poor. However, 37.5% of the respondents were of the view that revenue collection in the county was average with 10.4% of the respondents believing to be excellent. Most respondents agreed very greatly that

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revenue collection method affects the revenue collection. Majority (70.8%) acknowledged that the automated method is commonly used to collect revenue. Though, they stated that non-automated method or manual methods (14.6%) are used at some point. The respondents noted that automated method is the best since it can easily be monitored by the management. Another relative number of respondents agreed that collection methods greatly affect the revenue collections. 43.8% of the respondents rated to a greater extent while 22.9% rating to be very great extent.

Training:

The fourth objective sought to know whether or not training affects optimal revenue collection. 100% of the respondents agree that it does. The study further aimed at assessing the extent to which training affects optimal revenue collection. The majority (62.5%) rated as very great. This means that training is a determinant in optimal revenue collection and thus training revenue collectors should be emphasized since revenue is the backbone of the County's activities without which the community involvements as well as the budgets and projects cannot be implemented.

Conclusion:

Looking at the variables collectively, it's evident that 53.9% of the variations in the determinants of optimal revenue collection by county governments can be explained by the identified independent variables: Method of Revenue Collection and Training. The optimal revenue collection was found out to be greatly influenced by the independent variables of method used to collect revenue and the least staff trainings conducted.

Recommendations:

The research study found out that in order to optimally collect revenue in county governments, the following recommendations are necessary:

i. There is need to ensure 100% automation. Automation seals all leakages and can enable real time reporting of the revenue transactions. Manual processes are difficult to track and besides that, can be manipulated easily.

ii. Chapter 6 of The Kenya Constitution, 2010 to be invoked every time new revenue staff are being employed. This will ensure unethical practices are addressed early. For that already in employment, Human Resource department together with relevant agencies such as Ethics and Anti-Corruption Commission can train staff.

iii. The county management and staff should continuously receive education and training on revenue. This can be carried out within Bomet County or by other authorized training institutions like the Kenya School of Government. Involvement of revenue staff in Training Needs Analysis (TNA) can also be done.

Suggestions for Further Research:

This research study focused on factors determinants of Optimal Revenue Collection in County Governments In Kenya: A Case Of Bomet County. Comparative study may be appropriate in future to make evaluation on the factors amongst different Counties. Future research could focus on how these factors differ among various partners such as managers, ICT specialists, vendors, and consultants. Additionally, assessment e-revenue can be a field of further research.

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