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EFFECT OF SELECTED FACTORS ON REVENUE COLLECTION IN MACHAKOS

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ABSTRACT

The study aimed to assess four selected factors that affect revenue collection in Machakos County in Kenya: ICT, Training, Government Policy, and Organizational Culture. The study used a descriptive research design with primary data obtained through a structured questionnaire. The target population was 191 employees working in the Machakos County revenue department. A random sampling technique was used to sample 128 respondents. Data collected was analyzed into descriptive and inferential statistics through the use of the Statistical Package for Social Sciences (SPSS)tool. The research found that Information Communication Technology has a 55% great effect and 25% very great effect on revenue collection in the county by creating efficiency in revenue collection. Training has a 45% great extent and a 39% effect to a very greater extent. Government policy affects revenue to a great extent of 33% and a very great extent of 62%. Likewise, Organizational culture has a 42% moderate extent and a 17% effect to a greater extent. The study recommended that Machakos County should ensure the availability of proper ICT infrastructure and training on revenue collection to increase efficiency in revenue collection. The County government should also create suitable and relevant policies and regulations that govern the revenue collection process in the county while reviewing its organizational culture to be in a position to operate efficiently and meet the desired revenue targets. The findings also indicated that the selected variables only predicted a 38.5% of variance in revenue collection. Therefore, the study recommends a further study on the other factors (61.5% variance of revenue) that tend to affect revenue collection in counties and their correlation to ensure efficiency in revenue collection and management.

***Index Terms* – Revenue Collection, ICT, Training, Government Policy, and Organizational Culture.**

Introduction

The study looked at the impact of the selected factors affecting revenue collection systems in county governments, with Machakos County being the case study. The topic has outlined the background of the study, statement of the problem, research objectives and scope of the study.

Background of the Study

Revenue collection in any economy stands as a vital component in government activities' smooth running. It is displayed in tax collection, excise obligations, customs obligations, stamp obligations, government fees, and other sources (Enache, 2020). Taxation prevails as the leading avenue of revenue collection by all governments worldwide. Smith (2015) posits that tax is the mere process of mobilizing monies from citizens of a given country to facilitate public services. This activity is set to be exercised by all forms of government: national and county governments. According to legislative enactments, the tax being levied is neither a voluntary payment nor a donation to these governments but rather an enforced contribution (Akrani, 2011).

Globally, there are five significant sources of tax revenue. These are consumption taxes, social insurance taxes, individual income taxes, corporate taxes, and property taxes. Consumption taxes typically factor in a third of the total revenue, making it a relatively more important source. It is mainly realized through the value-added taxes on goods and services (Azevedo, 2019). However, individual income taxes have contributed a relatively more significant share for years. Most governments rely on it much for acquiring substantial revenue share, as at times, in line with policies, the consumption taxes have to be varied to enhance economic wellbeing.

Higher imposition of consumption taxes lowers living standards as a move that curtails the proper working of the economy due to constant public welfare conflict. Corporate taxes are imposed on the investment preferences of the country.

The country wants to attract more foreign investors, and it will lower its corporate taxes and vice versa. In most cases, it has not contributed to a significant amount of the overall revenue realized in the countries (Azevedo, 2019). On the other hand, property taxes, especially on residential housing, have been lenient, realizing lower rates in the overall contribution. With the increased advocacy, especially by the United Nations of proper housing, leniency has been enacted to facilitate proper housing plans. This has led to lowering rates to accommodate the dire need for proper housing and urbanization, a critical issue in many nations.

According to World Bank, many countries have trailed far behind in collecting substantial revenues to finance their developmental needs (Fantom & Serajuddin, 2016). There is a financial gap of about $ 2.5 trillion annually, which jeopardizes realizing Sustainable Development Goals. The bank advocates that this financial gap can only be met through increased and empowered private sector Investment in enacting sustainability. This will require the governments to create sound policies that create price incentives. Developing countries have targeted more revenues and sound policies for practical revenue realization and utilization. These are in line with those countries regarded as Fragile and Conflict-affected States (FCS) like Syria and Somalia, as they face steep challenges when it comes to revenue collection.

The bank holds that 69% of the FCS countries and 48% of the blended countries have constantly recorded a collection of taxes in GDP less than 15% baseline (Azevedo, 2019). It is considered that with a realization of a collection of less than 15% in taxes of the GDP, it is at the worst point to meet the basic needs of the citizens and the business.

They are always required to up their activity through sound policing, given that taxes are regarded as an integral part bound in making growth sustainable and equitable. Since antiquity, the governments and their distinct state and county departments have used the monies collected to carry out their functions (Enache, 2020). Some of these expenditures include paying salaries to the state employees, enforcing the law and public order, financing warfare, protecting state and county governments' properties, infrastructural development (in all sectors of the economy), facilitating education systems, and many other functions.

The governance systems have assumed different structures and ideologies with different performance levels. This depended on the constitutional stipulations and the influence of their colonial masters. The overgrowing need to facilitate uniformity in development country-wide has seen the acceptance of devolution, especially in the developing countries (Lukman et al., 2018). Though the ideology may not be new, its benefits have been slowly accepted. The Kenyan constitution 2010 factored in the necessity of effectiveness in government operations through devolution. This saw 47 county governments' formation, with their structures, authority, and mandate being spelled out by the constitution.

The form states that counties were to have a revenue fund in the revenue clause. Monies raised or received by the county governments are to be paid except for those reasonably excluded by parliament's acts (Kenya, 2013). It further stipulated the sources from which they are to get revenue to finance their operations. Firstly, they will generate local form revenue to impose two types of taxes and charges, namely property taxes and entertainment taxes. Secondly, they will have an equitable share using the revenue sharing formula developed by the Commission on Revenue Allocation (CRA).

This fair share should not be less than 15% of the total revenue raised. The monies are unconditional, and therefore the counties can spend them without any restrictions. Thirdly, they are to receive conditional grants from the national government, which are conditional or unconditional based on whether restrictions are imposed or not. Fourthly, they are mandated to obtain loans from external sources or private sources, to which they are to pay interest. In the event of failure to service these loans, the national government must step in for them. Lastly, they seek donor funding from international donors who aid in loans and grants (Ambetsa, 2014).

The national government cap 497, 2006, pioneered the Single Business Permit (SBP) through trading activity. This activity was transferred to the county governments to cover the existing and upcoming *business units. According to Grava (2008), SBP is an economic ideology adopted to structuralize state demands. Therefore, for effective planning and decentralization, any business unit needs to obtain a permit from the county governments at a fee subject to renewal after a given duration.*

Objectives of The Study

General Objective

To determine the factors affecting revenue collection in county governments with a particular reference to Machakos County

Specific Objectives

a) To find out the effect of ICT on revenue collection in Machakos County
b) To examine the effect of training on revenue collection in Machakos County
c) To examine the effect of government policy on revenue collection in Machakos County
d) To determine the extent to which organizational culture affects revenue collection in Machakos County

Statement of the Problem

The constitution of Kenya, 2010, foresaw the establishment of devolved units in the national government where some national services got delegated. These devolved units known as county governments got the mandate to spearhead the success of these functions Own Sources Revenue (OSR) and an equitable Revenue share from the National Government.

The Public Finance Management Act, 2012 articulated the establishment of the county treasuries to oversee county budget formulation processes. It also gave directions on the establishment of the County Revenue Fund and maters affiliated with the operations of that fund. In funding the budget, the constitution laid down a proposition of 15% of the total revenue realized by the National government to be shared among the 47 counties in given criteria as per the Commission of Revenue Allocation. To finance their budgets fully (the remaining 85%), the County governments need to generate their Own Sources Revenue (OSR) and seek debt financing, either internal or external financing.

In this study, the researcher focused on Machakos, the economic leader in SEKEB, with a GDP of millions of ksh.232 860. It is ranked seventh nationally, with a GDP in millions PPP of 4650. Since its incorporation nine years ago, Machakos County has massively failed in dispensing its services optimally, mainly blaming the national government through the national treasury for allocating insufficient resources to them and the delayed release of these funds to their accounts. In 2020/2021, the Machakos county government had projected a budget of 11.01 billion. Its receipts included Exchequer releases of 9.98 billion, grants of 239.6 million, borrows of 18.5 million, and a projected OSR of 1.7 billion. The county government managed to realize an OSR of 1.2 billion, exhibiting a deficit in its realization.

Though the deficit may be attributed to the adversities of the Covid-19 pandemic, the previous year's performance shows a continued deficit in the actual amount realized from its sources. Despite the county government having shown significant improvements in its OSR, it is yet to meet the set targets in any given financial year.

The overall performance in revenue realization where the set limits remain unmet establishes a gap that the researcher will seek to study, particularly the factors that influence revenue collection within the county.

LITERATURE REVIEW

Introduction

The chapter reviewed literature related to the factors affecting revenue collection and was consistent to the study's objectives. It consists of a theoretical review for the related theories, a critical review, a conceptual framework, and a summary for the discussion.

Theoretical Framework

Theoretical framework entails discussing theories giving explanations on the research problem studied. In this chapter, the theoretical framework discussed the following three theories: The Systems Theory, The agency theory and the Ability to Pay Theory; with reference to the revenue collection within Machakos County.

The Systems Theory

Systems theory came into being due to Ludwing Von Bertalanffy's research work in the 1950s. It makes the proposition that organizations such as County Governments are complex systems that participate in different trade methods with their environment (Ulemj et al., 2017). The theory emphasizes the connections among organizations and their current circumstances or environment and what happens inside them. The framework's hypothesis is chiefly worried about the issues of designs' connections, and the steady ascribes of items. The fundamental idea advocated by this theory is that the constituent components within these complex systems in their dissociative nature will not influence the whole making of the purported system (Teece, 2018).

An excellent example of the propositions can be attributed to baking a cake. Whenever the cake components are taken separately, they will lack the actual taste in their independent nature. However, whenever these components are mixed, the result is an excellent taste of a baked cake. Revenue collection is not a one-day off activity that an entity carries out and leaves for another. It is cumulative and associative in that it is carried out over a given period and embraces several components for its optimization. Several factors must synchronize correctly (Dong & Yang, 2020). These factors include identifying the key sources, the collection modes, management, and realization of the purposed work. The variables outlined in the research questions are among the factors that make up an effective revenue collection system. For optimal realization within these entities, the theory advocates for a collective combination of the variables in question favoring the underpaid goals.

The Ability to Pay Theory of Taxation

According to the theory, tax liability should be enacted on the taxpayers based on their ability to pay. It is glued on the assumption that individuals who earn more money stand at a better chance to pay more in taxes. This tends to place an increased tax burden on the individuals, partnerships, companies, corporate and other estates that register higher incomes.

The government imposes taxes on citizens, mainly to finance its activities such as infrastructure, policy administration, education, health, and governance. This theory overlooks the ideology of the services being used by taxpayers and subjects each taxpayer to payment of taxes, whether they use the services provided or not. Businesses realize different profit margins concerning their operations (Chauke et al., 2017).

The theory also argues on the focus on the businesses' ability to meet their dues without negative impact to the going concern aim of the businesses; failure to which dubious ways against the revenue collection system are incorporated in a bid to safeguard business interests. It calls for taxpayers' sacrifice of the resources within their entities. They are essential to follow up on how their sacrifice is being honored in the government's operations (Setterstrom & Pearson, 2019). With the sacrifices meant by the taxpayers bound by the tax obligation, the counties need to embrace a mechanism where they tap the available tax base to yield the needed revenue.

Agency Theory

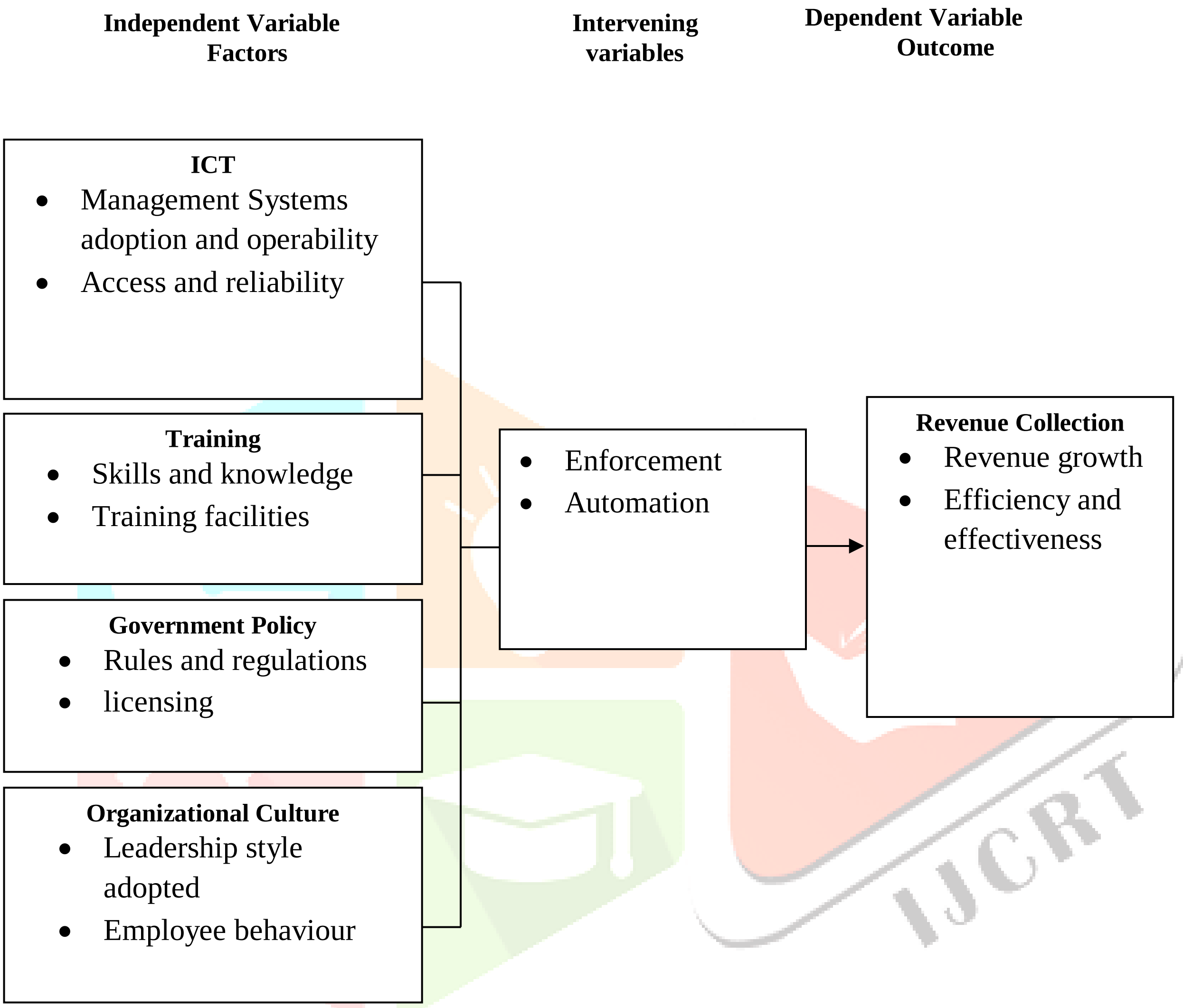
Agency theory came into being through Barry Mitnick and Stephen Ross as a problem-solving mechanism for agency relationships within the business environment. The theory argues that both the business principals and their representatives possess and pursue different interests. Each group focuses on meeting their interests at the expense of the other group, leading to possible regret between them (Payne & Petrenko, 2019).

The basic assumptions underlying the theory are that both parties involved get motivated by their interests. These parties possess different risk preferences and approaches to different projects at hand (Khoreva & Wechtler, 2020). They tend to differ in the actions bound to undertake, brooding conflict between the parties. The differences in the approach to realize their distinct interests bring about the principal-agent problem exhibited within organizations. Within the context of revenue collection, the county government stands out as the Agents mandated to make redress to the economic demands within its territory. On the other hand, the residents and other interested parties like the national government act as the principals.

They expect the county government to generate enough revenue to execute their proposals outlined during annual budgetary processes. Such call for competence in all its systems to realize the laid down developmental tone by the County executive. However, the inability to realize the targets births many questions on the effectiveness of the process employed by the government towards maximizing efforts to garner the revenue required. A sense of mistrust creeps, in that, blames, get directed to the county governments for failure and constantly get accused of embezzlements and collusions.

CONCEPTUAL FRAMEWORK

This section shows the relationship between the independent, intervening and dependent variables in relation to the research problem



ICT

ICT has championed a new era across the globe in how organizational activities are executed.
It has seen the integration of key departments in an organization where resources are optimized for optimal organizational performance.
With proper data acquisition and management exercises, management systems must be tailored to specific organizational needs and synchronized to attain the overall goal. In order to realize the set goals, the system's accessibility is essential in that it bears the policy to support multiple users at a go. All the users need to have the desired access and experience in response to their needs. These users majorly include the employees and the general public. Management systems accessibility and reliability burden the management on the infrastructural requirements for full actualization. Management willingness and investment are never questionable for the full realization of the operability of the systems at hand.

Training

Training focuses on imparting skills and knowledge to the employees to enhance their work ethic. Goal setting comes as a challenge to the workers in that it stretches their ability for its realization. It requires new sets of skills and know-how to gain a clear understanding of the tasks and the manner through which they will be executed.

It calls for regular training sessions that focus on building the capacity of the employees to be able to tackle tasks beyond the limit. The critical issue is the organizational consciousness of the set goals and objectives that must be realized within the set duration. The organizational commitment dictates the training sessions' establishment and execution until the training goals are realized. Training exercises and performance improvement are two different things yet remain entirely intertwined.

The efforts put into the training exercise need to be replicated in the over performance within the organization. This calls for performance measure that is far from exaggerations to understand the effectiveness of the pieces of training and their instrumentalism to the organization. Adequate infrastructure is vital in executing the training needs and performance measurements in gauging the suitability of the training sessions adopted within the organization. The right training personnel, environment, and materials need to meet the desired delivery.

In line with the training needs are qualifications held by the training personnel and the employees within the organization. The training personnel possess the required know-how and are experienced, they will make timely and quality deliveries geared to improve the organizational status. Likewise, the status of the employees has to meet the training dynamics exhibited within the field. Where impartation is necessitated, they need to possess the capability to grasp the new know-how and put it into implementation accordingly.

Government Policy

Government activity is vital in the operability of the critical functions within the national and the local units. It offers essential guidelines inform of policies that act as stepping stones and points of reference in formulating key aspects to be undertaken at the department levels. This comes by informing of rules and regulations which offer boundaries of the operability zone s as to avoid unnecessary conflict with the key stakeholders.

Given their fundamentalism in the direction of critical departments, such policies need to be on point and as insightful as possible to offer the most incredible help possible.

In line with this is the issue of compliance with the global demands on the regulations of the critical aspects. This calls for the continued organizational understanding towards the necessitated change within the organization in the manner it is managed to full implementation. The stipulations of leading global bodies keep getting regular updates. The policies laid down have to embrace such changes for efficient and effective service delivery within the devolved units.

Organizational Culture

Organizational culture sets the tone of the overall work ethic to be employed by the employees. The organization is best known for in that every employee gets tuned to and works effortlessly to realize the set tone within the organization. In order to meet the set goals, employees need to conduct themselves in a manner that enables them to get adapted to the set culture. In this case, the employees know what to do, what duration, and how to maximize the available opportunities without losing any.

Intervening Variables

The researcher sought to study only four selected factors affecting revenue collection within Machakos County. The selection of these four does not conclude that they are the only factors affecting revenue collection, thus insinuating that several other factors collectively affect revenue collection. In this study, the researcher appreciates that and opined on enforcement, automation, and political goodwill.

While the County Legislature continues making new laws, a concern is on their enforcement, especially within the revenue context. Proper enforcement will ensure that the desired end is achieved, thus improving efficiency in the operations, including expansion of the tax base within the County. Automation embraces e-revenue collection, which far limits revenue leakages and instigates more desired ethical practices in meeting revenue targets.

RESEARCH METHODOLOGY

This paper used a descriptive research design to collect data on the selected factors affecting revenue collection in Machakos County. The choice of the descriptive research design facilitated the collection of original data necessary to achieve research objectives (Lambert & Lambert, 2012). It entailed gathering information and coordination, arrangement, and discussion of the analysis afterward.

RESEARCH FINDINGS

The findings revealed that the majority of the respondents (80%) held that ICT affects revenue collection in the county governments of Kenya. A mean of 4.1167 and a standard deviation of 0.83196 was obtained, signaling the great effect on revenue collection. The greater majority (83%) indicated that it affects revenue collection on training. Overly, a mean of 4.2083 and a standard deviation of 0.87827 was realized, depicting a great effect on revenue collection. Also, the findings held that government policy has a very great effect on the collection of the revenue in the County. A mean of 4.5667 and a standard deviation of 0.59030 was recorded. Finally, the greater majority (63%) of the respondents opined that organizational culture affected the County's revenue collection.

CONCLUSION

ICT

As per the study results, factors such as ICT infrastructure, ICT leadership approach, and employee's beliefs on ICT approach, ICT reliability and management systems, as well as operability, affect the revenue collection process in Machakos County. They need to be considered in streamlining the operability of the ICT departments in the County.

Training

Training on revenue collection in the County was a core factor that affects revenue collection in the County. Some of the main factors of training that are essential in the revenue collection process include the level of skills obtained from training, training equipment used, curiosity and innovativeness of employees on revenue collection training and employee qualifications obtained after revenue collection training. These factors affect their performance and efficiency in the revenue collection process.

Government Policy

The study findings revealed that Government policy affected how revenue is collected. The specific point of emphasis is on various government policy factors which contributed to the overall effect. This includes the rules and regulations on the revenue collection process, the economic conditions that influence decision-making in revenue collection and licensing of revenue collection systems. Also, it encompasses the public opinion on the revenue collection process, compliance with the international framework and government policies on technological change within the County.

Organizational Culture

Organizational culture factors such as work systems in the county influence the overall revenue collection process. The employees' work ethics built in the County affect the process of revenue collection, and it is depicted during the process. Employee behavior and attitudes as engraved by the organization affect its revenue collection process since employees would mostly behave in a certain manner as tolerated by the County. Organizational values, traditions, and leadership styles available in the County also influence revenue collection in the County either positively or negatively, affecting the overall revenue collection performance.

RECOMMENDATIONS

The study has found that the training, organizational culture, government policies, and ICT factors affect revenue collection in Machakos County. Therefore, the study recommends that: Machakos County ensures there is proper ICT infrastructure available to aid in revenue collection in the County. It should also carry out continuous training for its employees in revenue collection to increase the efficiency of the revenue collection process. The county government should make effective policies and regulations that govern the revenue collection process in the County in order to achieve efficiency and effectiveness. Additionally, revenue collection employees need to be well equipped through proper training to ensure they have the skills needed to use ICT facilities in the County's revenue optimization. Also, the county government should review its organizational culture to be in a position to operate efficiently.

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