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REVENUE MAXIMIZATION FOR EFFICIENT SERVICE DELIVERY: A CASE STUDY OF COUNTY GOVERNMENTS IN KENYA

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Abstract

The clamour for more budgetary allocation from the central government as well as an acceptable formula for revenue distribution has characterized the revenue debate since the introduction of the devolved system of government in Kenya. This is despite the fact that counties are endowed with various revenue resources that can be explored to increase local revenue for counties. The commission of revenue authority has continuously cited the under performance of counties in their local revenue collection efforts. This paper explores the revenue mobilization ecosystem in county governments with the aim of proposing a comprehensive revenue optimization model for increased local revenue to support both budgetary and service delivery needs.

Key words: revenue optimization, county governments, service delivery, improved livelihoods

1. Introduction

The Constitution of Kenya (2010) heralds a major shift in the system of government Kenya has been used to. One of the major changes introduced by the new constitutional dispensation is a new governance style of devolved government that has seen the introduction of different administrative units informed by the need to ensure that service delivery is brought closer to the people. Consequently the new levels of Government, mapped into 47 counties are made to ensure that power is devolved to the people through an equitable sharing of the national resources (Division of Revenue bill, 2013). A devolved system of government involves the constitutional creation of two or more levels of government with assigned functions and resources. The levels of government are co-ordinate, but not subordinate to each other. None of the levels of government is an agent or at the mercies of the other. Each is established and cosseted by the constitution, with the functions and resources to be used for their discharge being set out and defined by the constitution.

The devolved system combines self-governance and shared governance at the local and national levels, respectively. Among the shared responsibilities is revenue collection. Article 209 of the constitution assigns revenues at the two levels with the national government responsible for 95% of the total revenue collection. Sources of the 95% revenue are from Income tax, VAT, Customs duties, Excise tax, Fees and charges on national government services and others as assigned by parliament while County governments are in charge of property tax, entertainment , fees and charges on county services and others as assigned by parliament (CRA, 2014). The intention of the shared mandates was to collect revenues centrally and share. This leaves little of no accountability demands on the part of county governments for local revenue collection and such arrangements give incentives for lower local revenue collections. While the CRA stipulates such mandates, current revenue allocation concerns have exhibited gaps in the realization of obligations by the county governments and that

Over reliance on the central government has led to managerial challenges which have resulted to poor delivery of services, unpaid salaries for county employees, dissatisfied citizenry among other obligations. It is in this realization that County governments have resulted to measures of ensuring that there is efficiency in their internal revenue collection to cushion devolved functions from collapse as well as the political wrath associated with failed systems and by extension governments. Consequently the debate in Kenya's Senate over sharing of funds among the 47 counties pits two opposing views. One side argues that population size should be the main consideration in the allocation of funds. The other advocates that land size be the basis for division of funds. The formula recommended by Commission on Revenue Allocation (CRA) is based mainly on the principle of population. Under the current formula, population covers 45 percent, basic equal share (25 per cent), poverty (20 per cent), land area (eight per cent) and fiscal responsibility (two per cent. While review of the revenue allocation to counties is welcome, the overreliance on the allocation as well as the current stalemate occasioned by the disagreeing factions of senate members delays disbursement of funds to counties and in effect poor or no services at all to county citizens. Amongst affected deliverables by the current stalemate is the requirement for counties to meet a certain threshold in their preparedness for the

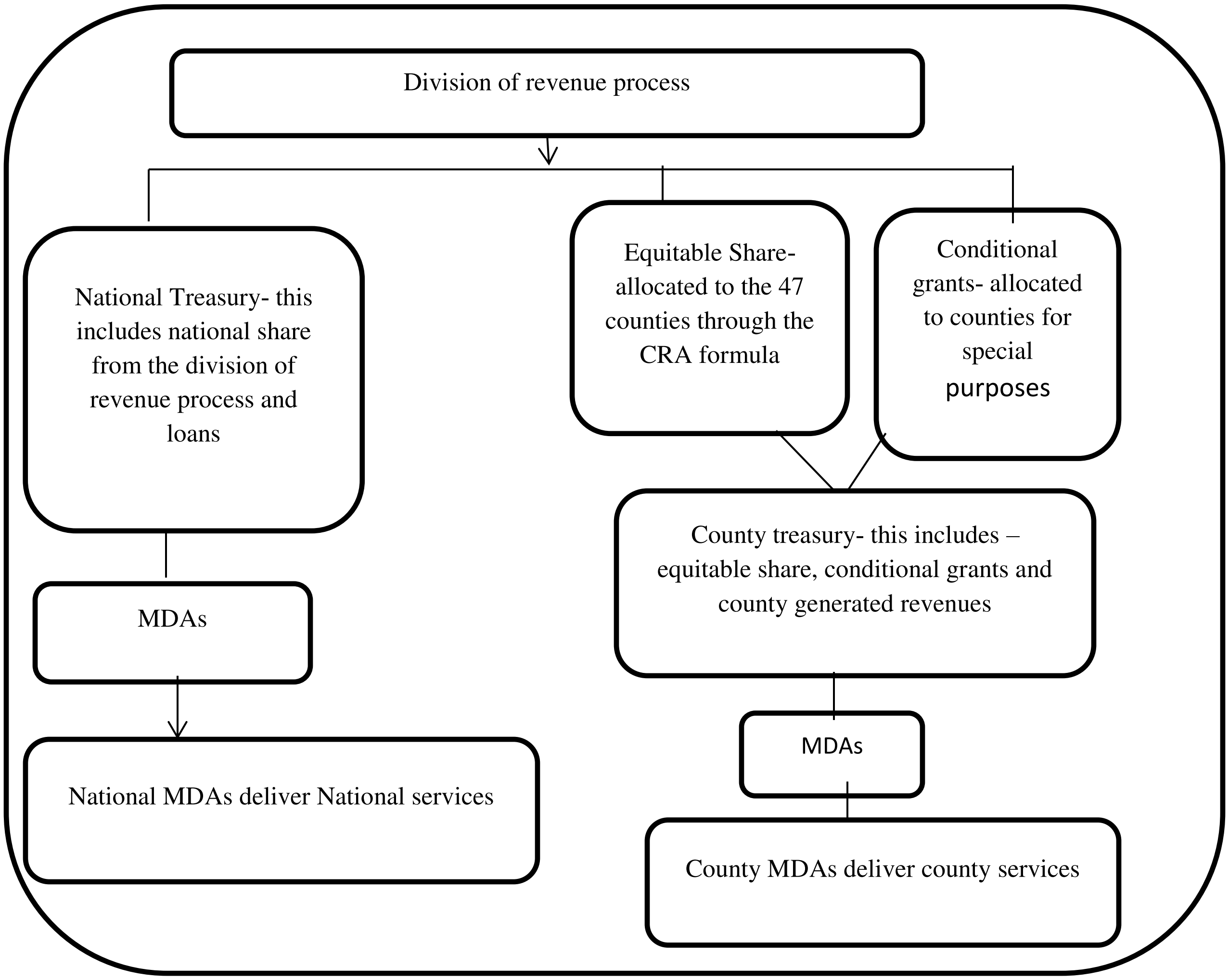
COVID 19 pandemic with governors citing lack of funds as the impediment for the preparedness.

Article 209 of the constitution mandates County governments to collect their own revenues and retain and utilize the same for their own local obligations. Among the requirements of County governments is to facilitate the compilation and availability of official data on county fiscal capacity and efficiency of revenue collection. The data will then inform the future decisions of revenue between the national government and the county governments (Division of revenue Bill 2013). Occasionally revenue collection has been riddled with various challenges among them inaccessible markets, corrupt revenue collection officials, duplicate receipts for payments (Rawlings Otieno, 2013), payments without issuance of receipts and money going to individual pockets, fines paid by tax payers and no county receipts issued for the same among other challenges. Among the reasons given by Nairobi deputy Governor Mr. Mueke for the Nairobi Parking fees going cashless was that the mode of payment would reduce corruption and increase the county's revenue base (Simon Ndonga, 2014).

The challenges occasioned by the various methods currently in use by counties across board to collect revenue have led to poor collection of revenues to a point where their performance falls below targets set by the defunct county councils from which counties were formed (CPAK 2013). The trigger effect has been poor service delivery, nonpayment of salaries for county workers, and lack of a backup kitty for county operations. These counties have resulted to relying on the central government for funds which sometimes do not come in handy as procedures of release of these funds are elaborate. In addition the CRA has clearly indicated that county governments are likely to need other resources to supplement revenue from the central governments which currently stands at 15% of the total national budget (CRA, 2014). County resources could act as a buffer for county activities so that when allocated funds are delayed counties can utilize their own reserves for emergency operational activities cushioning county residents and staff of duress due to strained circumstances.

Revenue collected by the national government is divided between the national and county governments through the Division of Revenue process. Through the national budget process, money is allocated from the National Treasury to national Ministries, Departments, and Agencies (MDAs). Through the county budget process, money is allocated from the County Treasury to county Ministries, Departments, and Agencies (MDAs)

Fig. 1: The National Revenue Share



Source- Study

1.2 Tasks, Functions and Powers Devolved to County Governments

The Fourth Schedule - Distribution of Functions between the National Government and the County Governments, Part 2 explains in depth the devolved functions as: Agriculture, health services, cultural activities, public entertainment and public amenities, County transport, Animal control and welfare, Trade development and regulation, County planning and development, Pre-primary education, village polytechnics, home craft centres and childcare facilities.

Implementation of specific national government policies on natural resources and environmental conservation, including(a) soil and water conservation; and forestry County public works and services, Firefighting services and disaster management., Control of drugs and pornography, Ensuring and coordinating the participation of communities and locations in governance at the local level and assisting communities and locations to develop the administrative capacity for the effective exercise of the functions and powers and participation in governance at the local level.

These functions and powers contain a mixture of both straight-forward and complex responsibilities. It will be incumbent on the people of a County to setup a competent public service with adequate human resource capacity that can cope with and manage the devolved responsibilities. These devolved functions are key to quality life and improved livelihoods. It is therefore necessary that these functions are discharged with efficiency and effectively.

2.0. Problem Statement

While counties are faced with revenue challenges and over reliance on revenue allocation from the central government, each of the 47 counties is endowed with various resources; from businesses to agriculture, minerals to tourism, and land to human resources. Although it's the responsibility of the National government to allocate a certain amount of the total budget to the county government (CoK, 2010), the county governments also have a responsibility of ensuring that their own internal funds are collected to an acceptable margin of error. Several counties are generating less revenue than what the defunct local authorities that lay within their boundaries raked in collectively (CPAK, 2014). This has raised concerns over public finance management in the devolved units of government. Consequently the controller of budgets half year reports indicate that counties had targeted to cumulatively collect 67.8 billion in the 2013/2014 financial year but the actual amount collected was 9 billion representing 13.2 % of the annual target (Standard media, 2014).Weak revenue bases, absence of internal audits, poorly trained personnel; manual revenue collection systems and reluctance by some county revenue officers to embrace change are among challenges cited as causing the decline in revenue collection in counties. In addition, despite the fact that all the counties sampled by CPAK were found to have adopted the Integrated Financial Management System previously introduced by the national government, only half of them were using it proficiently. It is in response to the gaps noted that this paper seeks to propose an effective revenue mobilization pathway for increased revenue collection and optimization.

3.0 Purpose Of The Study

The goal of this study is to explore and understand the county revenue collection ecosystem with the aim of designing an all-inclusive citizen led county revenue collection model that ensures maximization of revenue for effective devolved units in Kenya.

3.1 Specific Objectives:

1. Identify factors that influence revenue collection at the county level
2. Evaluate existing revenue collection methods used by the counties
3. Establish the levels of awareness by citizens in regard to their role in the mobilization of county funds

4.0 Literature Review

Governments enter into a social contract with its citizens to collect taxes and manage those taxes responsibly by delivering services to them (Bigambo (2012). County governments undertake to mobilize taxes from citizens to meet some of their budgetary allocations. Successful revenue collection means that resources are readily available to undertake development projects for the good of the citizens. On the other hand, when counties fail to collect requisite revenues optimally, the public is negatively affected through denial of services. Consequently, if revenues collected are not managed prudently for the common good leading to spillage in the form of corruption, skewed development, ethnic biases, bloated workforce and other expenditures as well as poor planning; the effect is a dissatisfied citizenry. The clamor for increased revenue allocation from the central government to county governments as witnessed in Kenya by the council of governors and the underperformance in revenue collection as reported by the Controller of Budget has raised eyebrows amongst researchers. This study reviews relevant studies done in Kenya seeking to identify challenges, barriers to active revenue collection and maximization of revenue at the county level to provide solutions and identify best practices for increased resources for effective service delivery to the citizens at the grass-root level.

4.1 Sources of Revenue for County Governments

Taxes are compulsory payments to the government without expecting direct benefit or return by the taxpayer. Taxes collected by the government are used to provide common benefits to all mostly inform of public welfare services. Taxes do not guarantee any direct benefit for the person who pays the tax. The government collects tax revenue by way of direct and indirect taxes; direct taxes include; corporate tax; personal income tax; capital gain tax and wealth tax. Indirect taxes **2**include custom duty, central excise duty, VAT and service tax (Blind, 2005).

The revenue obtained by the government from sources other than tax is called Non-Tax Revenue. The sources of non-tax revenue, such as Fees are other important sources of revenue for the government. Public authorities charge a fee for rendering a service to the citizens. Unlike tax, there is no force involved in the case of fees. The government provides certain services and charges specific fees. For example, fees are charged for issuing of passports and driving licenses. Fines or penalties are imposed as a form of punishment for breach of law or non-fulfilment of certain conditions or for failure to adhere to some regulations. Like taxes, fines are compulsory payments without quid pro quo. But while taxes are generally imposed to collect revenue, fines are imposed as a form of punishment or to prevent people from breaking the law. They are not expected to be a major source of revenue to the government (Eden, 2009).

Eissen (2010) suggests that the Government also gets revenue by way of surplus from public enterprises. In an article, Guldentops (2001) asserts that gifts are Voluntary contributions by individuals or institutions to the government. Gifts are a significant source of revenue during war and emergency. A grant from one government to another is an essential source of revenue in the modern days. Grants from foreign countries are known as Foreign Aid. Developing countries receive military aid, food aid and technological aid, among others from developed countries.

Other investments and existing natural resources are critical in influencing the capacity levels of the counties. They also predetermine the capacity of the counties to raise their own revenue for sustainability. The law is silent on the issue of entitlement to benefits from natural resources whose benefits are shared nationally or benefit more than one county. A good example includes the oil reserves in Turkana, The Maasai Mara Game reserve that is among the top tourist attractions in Africa, the Port in Mombasa, among others. There is a spirited move by local communities where these resources are located to control their perceived assets. While the local communities' participation in the management of natural resources is essential, there must be some oversight by the national government. This can be done through the county government. If the management of these natural resources is left entirely to the local communities, the country's macro-economic structure may be at risk.

The Mining Bill 2014 proposes to ensure that there is equitable sharing of resources between the National government, the County Government and the communities living in the resource-rich mining areas. The Bill provides that there shall be the sharing of benefits derived from the minerals, and further provides the exact percentage to be shared. This is similar to the principle of derivation that is practiced in Nigeria, as discussed under chapter 4. The Bill imposes strict conditions on the communities in order for them to receive their share of the national resources. The communities are to provide an annual report on the usage and the management of the resources. This is to promote transparency and accountability on the use of the resources.

The Constitution makes a provision for borrowing by County Governments under Article 212 subject to the loan being guaranteed by the National Government after being approved by the County Assemblies. The County Governments can borrow from the National Government, local financial institutions as well as foreign lenders. However, there is a need for regulation of these borrowing powers. Where sub-national Governments are allowed to borrow without restriction, decentralization may result in inefficiency as debt levels could grow to unsustainable levels. The Public Finance Management Act contains provisions that govern borrowing by the County Governments. The provisions of the Act with specific regard to borrowing by County Governments reflect the provisions of Article 213 of the Constitution that provides for an Act of Parliament to prescribe terms and conditions under which the National Government may guarantee loans. For loans to be guaranteed by the Cabinet Secretary in charge of Treasury on behalf of the National Government, a number of criteria must be satisfied. A county Government may make short term borrowing arrangements for purposes of managing cash flows. Longer-term borrowing may be made for capital projects such as infrastructure. The resolution must, however, take into consideration that the loan is in public interest, borrowers must be in an excellent financial position to repay the loan and accompanying charges and the loan must be directed at stimulating the County's economic growth. However loans must be paid and county governments can only access loans according to their capacity to repay. Therefore increased cash flow from efficient revenue collection will qualify counties for considerable loans that can enable them undertake huge development projects and therefore improve on the living conditions of its population.

4.2 Revenue Collection Methods and Management

The goal of any government is to raise enough revenues for a smooth execution of its functions. This 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. In addition, government must ensure that proper policies and procedures that are in harmony with the citizens to facilitate the smooth flow of activities and development initiatives are put in place. Ensure proper management of funds, efficient and effective internal control systems to maintain a fair play in the administration and management of county resources (GOK, 2004).

There are two main methods of revenue collection, automated (electronic) revenue collection and manual systems. Electronic Revenue Collection System (ERCS) is a comprehensive solution for the automated collection of government fees, taxes and customs duties (Agbeyegbe, Terence, Stotsky & WoldeMariam, 2004). This method serves as a means to achieve a cashless environment via the introduction of virtual funds and automates all revenue collection processes, allowing government agencies to exploit the full capabilities of the technology to transform its services to the public. ERC system provides various electronic methods that enable the government to collect all revenues related to the government services, customs and taxes, among others. Manual systems of revenue collection are centrally from one place and unlike the electronic systems of revenue collection; they inhibit autonomy when using manual receipts. Manual systems of revenue collection lead to high costs for collection, fraud, underpayment and leakages in revenue. County governments can apply effective revenue collection methods, for example, making an assessment of taxpayers and ascertaining the number of taxpayers for that year (Sen Gupta, 2007). This helps in determining the amount of tax to be collected from them annually in order to plan and budget for development agenda (Holger, 2009). A reminder notice is sent to taxpayers in a period of 2-3 weeks before taxes are due for collections in order to ensure that there are no tax arrears. This helps them to file returns on time and mitigate irregularities and inconsistencies on revenue collected and thus creating harmony between citizens and county government (Lymer & Oats, 2010).

Non-automated systems are manual systems of revenue collection which are centrally from one place. Before the introduction of automated systems of revenue collection, local authorities used manual systems of collections by using manual receipts. Problems such as high costs for collection, fraud, underpayment and leakages in revenue were worse by massively expanding the current taxable base without the use of adequate computerized solutions (Fjeldstad & Heggstad, 2012). Non-automated systems of revenue are attributable to problems of tracking and identifying fraud or rogue revenue collectors and are compounded by the usage of manual or centralized systems due to the resources and overheads needed to monitor and control such problems. Manual collection of payments at several service points lead to delayed customer service with a built-in risk of manual cash management with minimal payment channels. Separate payment applications and lack of integration to the back office applications bring about delayed and possibly erroneous analysis and reporting (Prichard, 2010).

An automated revenue collection system involves investing in modern technologies, for example, ICT in order to upgrade the revenue system to achieve integration and information sharing to enhance the efficiency and effectiveness of the system. All sectors of the County should put in place an effective and efficient revenue collection system and monitoring framework that ensures adequate supervision of the budgeted programs and project activities to enhance accountability and absorption of resources (Amin, 2013). Automation of revenue collection systems and structures is instrumental in improving and simplifying the administration of taxation through the utilization of modern technologies.

With a modern system of revenue collection, the County Government can mobilize additional revenue by increasing collection efficiency as well as by expanding its revenue base. With increased reach and fiscal depth, the many challenges facing governments can be addressed in some measures by merely having access to more financial resources. As such, the primary aim of computerized revenue collection must be to increase cash receipts in order to effectively sustain the utility and generate an acceptable return on investment related to the system. Leakages that occur because of untimely collection, fraud and under-collection could be reduced by streamlining and automating the revenue collection process. Penalties may be automatically applied to late payments. Daily reporting of cash receipts and due payments to be collected should be automatically generated by the system (Kamolo, 2014).

5.0 Methodology

The research adopted a descriptive survey method, specifically the cross-sectional survey and key informant interviews to collect primary data. Secondary sources were used to collect data on methods of data collection as well as actual figures for the study period. The sample frame was extracted from the 47 counties in Kenya. The study used 10% of the sampling frame to select 5 counties i.e Nairobi, Kisumu, Nyeri, Nakuru and Vihiga. The targeted population constituted key informants, revenue collection clerks and the taxpayers. The sample of the key informants was obtained purposively while that of the revenue collection clerks and the taxpayers was obtained through a stratified random sampling method using Nassiuma's (2000) formula. Primary data was obtained using questionnaires and an in-depth interview.

6.0 Findings, discussions and recommendations

The purpose of the study was to explore and understand the county revenue collection ecosystem with the aim designing an all-inclusive citizen led county revenue collection model that ensures maximization of revenue collection for effective devolved units in Kenya. Revenue maximization was the dependent variable of the study; therefore, the construct cut across all the specific objectives.

6.1. Revenue Maximization

The questions sought to determine the respondents' perception of the level of revenue maximization in the devolved units based on their levels of agreement with the concepts asked. The results were presented in Table 1

Table 1: Descriptive statistics on revenue maximization

Statement	1	2	3	4	5	Mean	SD
The activities that generate revenue are clearly earmarked.	16 (4.0%)	17 (4.2%)	69 (17.2%)	137 (34.1%)	163 (40.5%)	4.16	2.704
All stakeholders know the county rates, levies, services and other products.	20 (5.0%)	42 (10.4%)	65 (16.2%)	110 (27.4%)	165 (41.0%)	3.89	1.196
The community is involved in the county budgeting process through public participation	16 (4.0%)	16 (4.0%)	43 (10.7%)	164 (40.8%)	163 (40.5%)	4.1	1.011
Existing of County budgets affect revenue collection.	20 (5.0%)	13 (3.2%)	40 (10.0%)	177 (44.0%)	152 (37.8%)	4.2	2.735
Please rate the effectiveness of the county plans in enhancing revenue collection	13 (3.2%)	13 (3.2%)	44 (10.9%)	197 (49.0%)	135 (33.6%)	4.07	0.919
Existence of a service charter which stipulates among others turnaround time around service delivery	12 (3.0%)	27 (6.7%)	61 (15.2%)	154 (38.3%)	148 (36.8%)	4.01	1.011

The first item of the dependent variable sought to determine whether activities that generate revenue are clearly earmarked. The majority (40.5%) of the respondents strongly agreed, 34.1% agreed, 17.2% were uncertain, while 4.2% and 4% disagreed and strongly disagreed respectively. On average (mean=4.16), the respondents were considered to have agreed that revenue-generating activities are clearly earmarked in their units. Next on this variable, the respondents were asked whether the county rates, levies, services and other products are known by all stakeholders. To this question, the majority (41%) of the respondents strongly agreed, 27.4% were in agreement, while 16.2% were uncertain. Only 10.4% disagreed, and 5% strongly disagreed with this statement. The mean response was found to be 3.89, implying that the clerks are on average in agreement to this.

Regarding how involved the communities are in the county budgeting process, a majority (40.8%) of the respondents agreed while 40.5% strongly agreed that their communities are involved in the county budgeting process through public participation. There were 10.7% of the respondents who were uncertain while 4% disagreed and another 4% strongly disagreed to this. The respondents were also asked whether the existence of county budgets affects revenue collection to which the majority (44%) of the respondents was in agreement and 37.8% in strong agreement. Only 10% of the respondents were uncertain, 3.2% in disagreement and 5% in strong disagreement. This resulted in an average response (mean=4.2) of agreement that the existence of county budgets affect revenue collection. This was commendable considering that the citizen requirement was a new concept and the study recommends continued involvement of tax payers to enable them own the process and increase compliance.

It was also observed that the clerks on average rated the effectiveness of the county plans in enhancing revenue collection to a score of 4.07 out of 4. Majority (49%) of the respondents gave a rating score of 4, 33.6% a rating score of 5, 10.9% a score of 3, 3.2% a score of 3, and 3.2% of the respondents rated the effectiveness of county plans in enhancing revenue collection to a score of 1 out of 5. This rating however does not compliment the high rating of citizen participation. There is need for need to assess the effectiveness of the citizen participation involvement. It is also reported that while barazas are held for citizens to give their views, the county clerks either start the process late or come with already prepared documents that are adopted without giving the citizens a chance to contribute. There is need for constructive participation of citizens as ownership of the process would lead to a higher degree of compliance and hence increased revenue for effective service delivery.

Consequently it was also noted that the citizens were not clear on what activities they were required to pay taxes for and that the county clerks reviewed taxable activities and rates without their knowledge. This generated an outcry from the respondents as levies that were not anticipated were imposed on them. There was need therefore for taxable activities to be interrogated before taxes were levied on citizens. A mechanism of communicating to tax payers early in advance in regard to amounts due was necessary for planning purposes.

6.2. Other ways of increasing revenue collection at the county level

The respondents were asked to indicate which other ways would increase revenue collection at the county level. Table 2 indicates that E-payment was the most recommended way of increasing revenue collection with 17.4% of the total respondents, 13.0% of the respondents said setting targets was one of the major ways of increasing revenue collection, 8.7% enforcement of tax collection, 8.7% transparency among the tax collectors, 4.3% public participation, 4.3% increased staffing, 4.3% giving incentives, 4.3% giving waivers, 4.3% expansion of taxpayer bracket, 4.3% staff rotation, 4.3% performance contracts, 4.3% strict supervision, 4.3% increasing public awareness and 4.3% frequent training on revenue collection.

Table 2: Other ways of increasing revenue collection at the county level

	Responses	
	N	Per cent
Public Participation	1	4.3%
Increased Staffing	1	4.3%
Service Delivery	1	4.3%
Transparency	2	8.7%
E payment	4	17.4%
Set targets	3	13.0%
Motivate revenue collectors	1	4.3%
Giving waiver	1	4.3%
Expansion of taxpayer bracket	1	4.3%
Giving incentives	1	4.3%
Enforcement	2	8.7%
Staff rotation	1	4.3%
Performance contracts	1	4.3%
Strict supervision	1	4.3%
Increasing public awareness	1	4.3%
Frequent training	1	4.3%
Total	**23**	**100.0%**

It was clear from the responses that citizens understood the need for payment of taxes through the suggestions on how the process would be improved on. It was therefore necessary for county governments embrace the goodwill and invest in making the undertaking friendly to the tax payers and efficient for the clerks.

6.3 Factors influencing poor collection of revenue

The respondents were requested to indicate the factors that amounted to poor collection of revenue within the county. Table 3 indicates that dishonesty of revenue collection clerks was a major factor resulting to poor revenue collection at 9.3%, 8.9% of respondents said it was poor sensitization on tax payment obligation, 8.1% dishonesty of taxpayers, 8.1% hostile taxpayers, 8. 1% poverty, 7.6% poor collection methods, 7.6% lack of motivation of revenue collection clerks, 7.6% strained economic actives due to non-performing economy, 7.6% lack of people with skills to deal with taxpayers, 7.2% lack of citizen participation in setting tax rates, 6.8% interference by external forces for their interests, 5.5% poor accountability of taxes, 3.8% tax exemption, 3.4% limited tax base, and 0.4% setting high tax leading to tax evasion. County governments needed to invest in revenue collection systems that would curtail dishonesty of tax collection clerks. A revenue collection system would ensure that citizens accessed the payment module throughout facilitating flexibility of payments through part payments. Citizen sensitization campaigns also needed to be continuous as this would foster a good relationship between the citizens and the clerks. There was also need to train revenue collection clerks on how to deal with tax payers considering that most of them were struggling to make ends meet with the strained economy as noted form the responses. There was also need for a thorough audit of the taxable activities to avoid presumed profits where nonexistent and coming up with commensurate taxes for activities citizens were engaged in. straining to pay taxes either led to noncompliance or giving up on the business. Besides reduced revenue, such a move contributed to increased poverty and therefore dependency as livelihoods were threatened. These two outcomes did not auger well for maximization of revenue for effective service delivery and therefore needed to be addressed with urgency.

The responses given indicate that the citizens did not entirely appreciate the role they play in the county to ensure there is sufficient public participation in the county budgeting process, and the institutions for revenue collection is ineffective. The study also concludes that the process employed by the counties in enacting relevant policies for revenue collection is not adequate and has failed to address critical areas.

Table 3: Factors influencing poor revenue collection

	Responses	
	N	Per cent
Lack of citizen participation in setting tax rates	17	7.2%
Poor sensitization on the tax payment obligation	21	8.9%
Lack of motivation for revenue collection clerks	18	7.6%
Poor collection methods	18	7.6%
Dishonesty of some of revenue collection clerks	22	9.3%
Dishonesty of taxpayers	19	8.1%
Hostile taxpayers	19	8.1%
Interference by external forces for their own interests	16	6.8%
Strained economic activities - non-performing businesses	18	7.6%
Poverty	19	8.1%
Tax exemptions	9	3.8%
Limited tax base	8	3.4%
lack of peoples skills to deal with taxpayer	18	7.6%
poor accountability of taxes	13	5.5%
setting high taxes leading to tax evasion	1	0.4%
Total	**236**	**100.0%**

6.4. Methods of revenue collection

Through Interviews with revenue collection officials, the study established that collection of county funds was done at two levels. County Governments maintained bank accounts where citizens were required to pay taxes billed on yearly basis using invoices manually generated by county clerks and take the receipts to the county government offices for receipting. On the other hand, the informal sector and other temporary payments are collected manually as these payments are irregular depending on whether the clients access the services or not. According to the official, while both categories have their own challenges the latter category is the most difficult to manage and calls for a determination of alternative strategies to mitigate on the various challenges.

The informal sector in Kenya is estimated at 34.3% and accounting for 77% of employment (Institute of Economic Affairs 2012) meaning that the sector provides support to county governments through payment of service charges for their business set ups. The informal sector is synonymous with man-hours counting for productivity, meaning than an hour spent going to county offices to pay taxes means lost man hours and consequently lost income. This notwithstanding the fact that county officials may not be able to collect taxes from all establishments within their boundaries in time, this leads to loss of revenue even from citizens who would have liked to pay the same. Consequently using humans to traverse the whole county collecting funds leads to human error and occasionally those in inaccessible areas end up not paying anything year in year out. In addition the complication of manual collection of revenues leads to officer's inability to reach out to all areas during the stipulated time leading to fines being loaded onto the principal payments for establishments. Most of the times fines charged are at the discretion of the revenue collector and occasionally no receipts are issued for the same. Sometimes the time county officials visit an area, residents are found without the funds required for issuance of receipts leading to business people being bundled into county vans until the same is paid.

A number of counties hade automated their revenue collection docket; however the county officers still issue receipts manually. Other counties have automated some services while others are still manually done. Full automation of the revenue collection process is the surest way of dealing a blow to corruption and ensuring that majority of the tax payers oblige. Full automation is consequently one way of fostering a cordial relationship with county staff as this reduces one on one dealing which sometimes become personal and therefore taint the image of county officers in the tax collection docket.

Using secondary data, Table 5, below provides the average amount of money collected by all counties using different modes of collection. From the table, M-pesa was the most (55.25%) used the mode of collecting money with more than half the money collected via this method. Followed by 30% of the money collected that was by cash, then 8% by cheque and finally, RTGs had the least amount collected, which was 7% of the total money collected. The findings also clearly show that citizens prefer paying their taxes through m-pesa as this gives them an opportunity to pay from anywhere and not waste business time in banks or queuing. With the developments on the m-pesa system, this can be enhanced through a revenue collection system that allows payments to be made against a system generated invoice

Table 5: Mode of revenue collection

Mode of collection	Amount	Percentage
Cash	1,447,924,630.38	29.87%
Cheque	387,753,212.00	8.00%
RTGS	333,325,887.00	6.88%
M-pesa	2,677,910,629.27	55.25%
TOTAL	4,846,914,358.65	100.00%

6.5 Sources of revenue in Counties

The study used secondary data to support results obtained from primary data. Secondary data was retrieved from existing records showing total revenue collected in each county and the sources of the revenue for the financial years 2014/2015, 2015/2016 and 2016/2017. The structure of the secondary data collected was multilevel longitudinal data with both cross-sectional across the counties and over time. The sources studied were schools, hospitals, markets, parking and other unspecified sources. From the findings in Table 4, revenue from other sources account for 72% of the total revenue, hospitals accounted for 9.3%, parking had 14.1%, markets 4.2% and revenue from schools is only 0.3%. While unspecified sources could include loans and grants, it also indicates that there is potential in tax sources that are not clearly mapped and therefore there is need to identify these sources and tax guidelines formulated to avoid over or under taxation, lost revenue or corruption.

Table 4: Summary of the sources of revenue for all the counties

Sources of revenue	N	Minimum	Maximum	Mean	Proportion
Schools	11	551,000.00	41,200,032.00	16,339,343.45	0.3%
Hospitals	44	490,250.00	606,816,533.00	130,125,170.11	9.3%
Parking	42	420,950.00	2,037,870,304.00	207,134,983.07	14.1%
Markets	45	971,910.00	236,040,211.00	57,177,536.42	4.2%
Others	48	28,432,843.00	8,980,638,376.00	929,253,271.85	72.2%
Total	48	55,843,625.00	11,417,412,109.00	1,287,122,369.58	100%
Valid N (listwise)	11				

6.5.2 Sources of Revenue per county

Figures 3,4,5,6 & 7 reflect the sources of revenue collected by counties. Sources of revenue per county examined and the results presented in a clustered bar for each county. It is observed that across the counties, other unspecified sources of revenue collectively form the larger proportion of total revenue collected. However, different counties maximize collection from different sources. Nakuru and Nyeri have had more collection from hospitals over the 3 periods with Nakuru maximizing this in the 2015/2016 period. Nairobi and Vihiga, on the other hand, collect more revenue from parking than other sources. Figure 8, shows the total revenue collected in in all the counties in the financial years 2014/2015, 2015/2016 and 2016/2017. The results show that Nairobi has always had high revenue collection than other counties over all the periods. It is virtually observable that each county has an almost constant amount of revenue collection over the period to imply minimal variation over time. This scenario makes it almost impossible for counties to grow their economies considering that populations only increase and therefore require increased services. The pressure for services and the stagnant revenue year in year out is the main reason for the clamor for more finances from the central government. When these funds are not released on time and in the amounts required, services are not delivered effectively. There is need for counties to develop sustainable economies through optimization of revenue at the county level.

Figure 3: Nairobi County

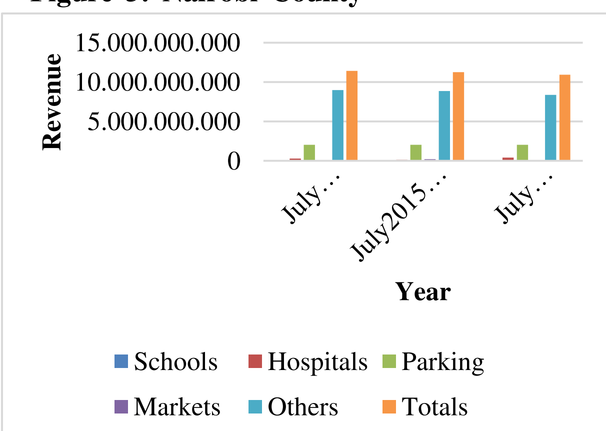
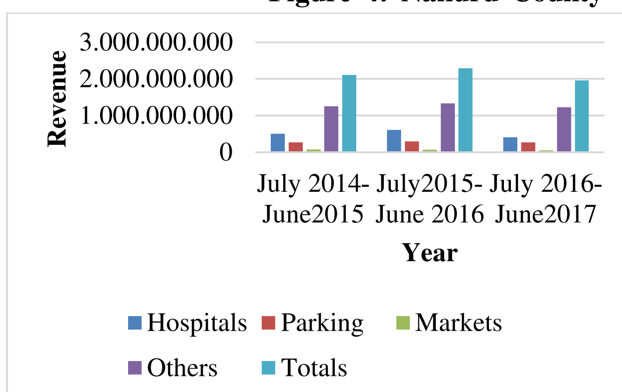
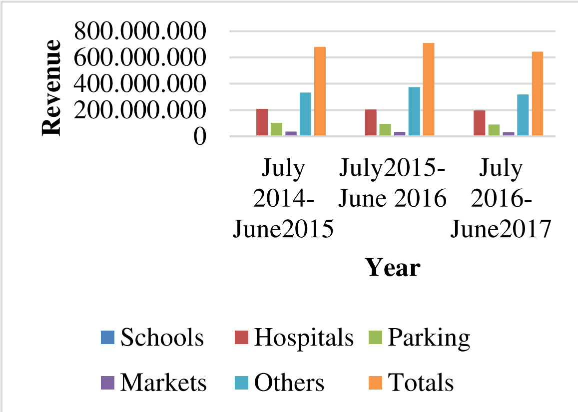


Figure 4: Nakuru County



Figue 5. Nyeri County

Figure 6: Vihiga County



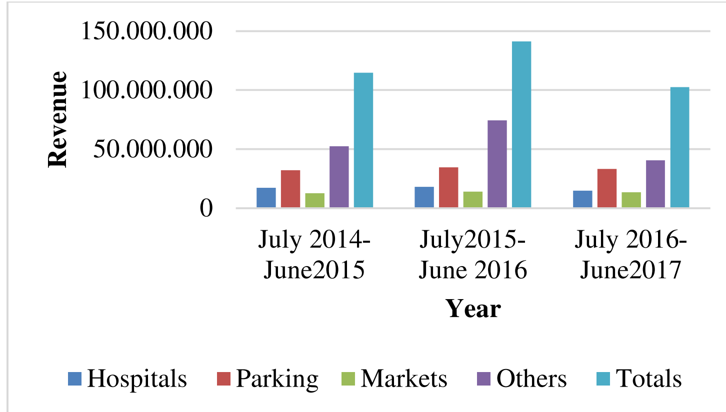
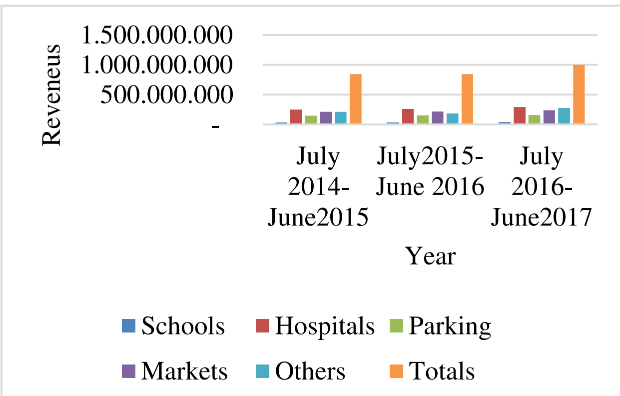
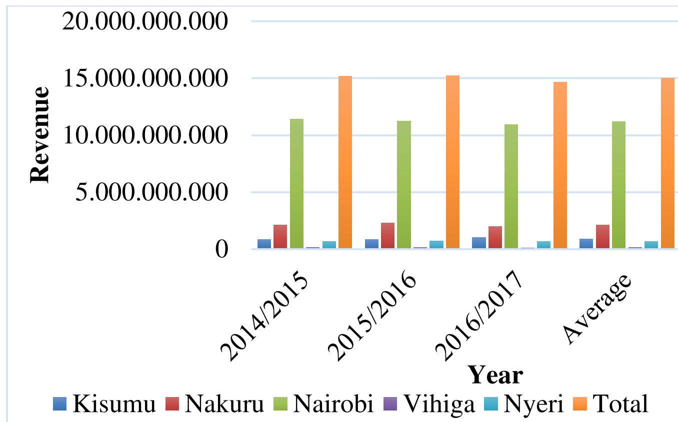


Figure 7: **Kisumu County** **Figure**





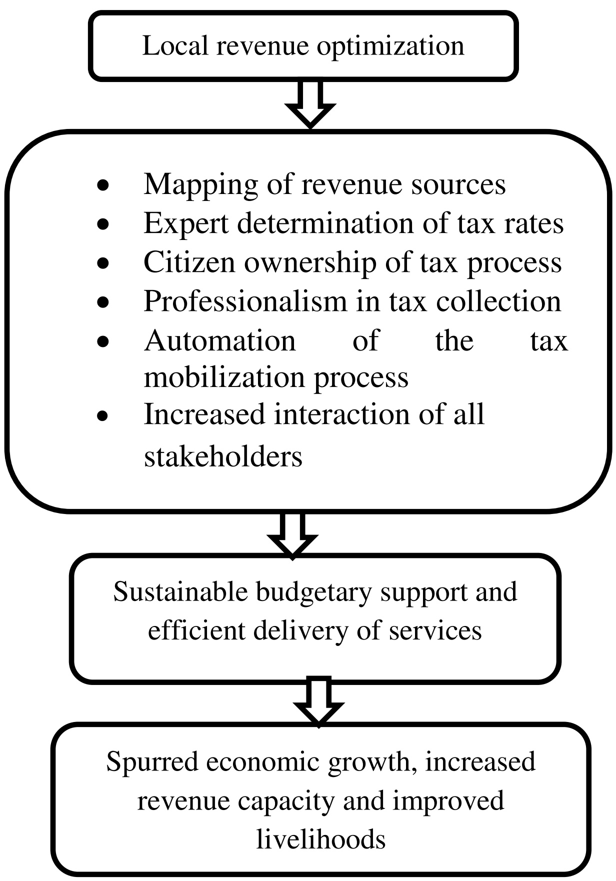
7.0 Conclusions and recommendations

The secondary data clearly shows that our county governments have the potential to increase their internal revenue. There is need to map all revenue sources and put in place policy guidelines on tax obligations for these new sources in order to widen the tax base. Concentrating on the traditional sources may not improve on the yearly collections. Deficits in the county budget means that county funds are utilized in recurrent expenditure leaving little or no funds for development and economic growth, hence a dis-satisfied citizenry. Consequently with a poor economy, businesses do not thrive and in effect cannot contribute significantly through taxes. County governments must inevitably address the barriers to maximization of revenue identified in the study in order to ensure that county functions are managed effectively and efficiently leading to economic growth and in effect increased capacity of citizens to pay taxes.

The study established that when revenue collection staff adhere to the business code of conduct then revenue collection is maximized, and when adequate training is offered to county staff, then accountability, integrity and transparency among revenue collectors are addressed which eventually leads to enhanced revenue maximization. Consequently, revenue is maximized when the county has an efficient and effective organizational structure in place which is adequately resourced in terms of different revenue collection methods and streams. Revenue is also optimized where robust and sound internal control systems exist and where there is political goodwill with adequate programs to empower citizens. Finally, staff competency and motivation are also realized in the counties when staffs are empowered and have access to the latest revenue-enhancing and collection technology. System modernization is key to improving the efficiency and effectiveness in revenue collection (UNCTAD, 2008). System automation is critical if county governments have to meet their revenue collection targets at the grassroots as well as less tax avoidance and evasions, improve on efficiency and effectiveness According to Sohne (2003), for a county government to match in performance with the growth and expectations of its constituents, it must dramatically increase its fiscal depth without incurring costly recurring overheads and further noted that automated systems have proven to be capable of introducing massive efficiencies to business processes that can result in increased revenue. Applying technological solutions towards achieving critical goals by the government is a crucial step towards transforming government into an entity that can keep abreast of the needs, requirements and expectations of today's modern world. Technology has demonstrated capacity to address issues of dishonesty, accuracy, flexibility of payments, easily generate data for financial planning, general accountability as well as real time engagement with tax payers.

The study therefore proposes the following revenue optimization model

Figure 2: Revenue optimization Model



Source: Author

7.1. Recommendations

That county governments recruit and maintain competent revenue management staff to oversee the implementation and management of a robust and interactive revenue management system with the capacity to map revenue sources, maintain a robust revenue collection database, expertise to deploy appropriate algorithms to ascertain levels of revenue from the various revenue streams, extrapolate information to inform on expected revenue, budget targets or deficits and allow for planning in both short term and long term. Rank revenue streams to identify those that have potential to be improved on. Generate reminders, invoices and integrate a payment gateway on the system with flexibility of payment options, and management of individual accounts. Ensure that all invoices are generated through the system and payments are mapped to the system whether automatically updated when done through the payment gateway or a payment portal where payment details are entered by revenue clerks. Limit collection of tax on cash basis as this leads to temptations and dishonesty and consequently corruption and loss of county revenue. Constantly engage tax payers through system based surveys, interviews and communication on important tax related policies and general communication on issues of public concern like the COVID 19 prevention measures among many others. Use the system to create rapport and enhance relationships between the revenue staff and tax payers.

Triangulate system generated information with expert audit and citizen participation to ensure that information is in tandem with the actual situation on the ground and create a sense of ownership for the final document. Incorporate divergent issues from expert and citizen engagements before releasing the final guidelines and policy document on tax related issues.

Maintain a relationship office in charge of citizen education and training, awareness and sensitization campaigns to ensure that citizens are aware of their obligations, have the requisite skills to engage with the relevant technologies and processes necessary for an effortless tax payment undertaking, knowhow and skills to use facilities deployed by the county governments. Periodically organize workshops to empower tax payers and citizens in general with skills and knowledge to grow and manage their businesses. Organize meet the people tours for the county government to interact with tax payers and assess level of services as well as a need assessment exercise. Make declarations and ensure that they are effectively pursued as a way of increasing the trust citizens have on the county capacity to respond to their issues.

Maintain a training and development section under the human resource department to ensure that staffs are constantly trained on how to deal with tax payers professionally and amicably to ensure compliance. Conduct refresher courses to update skills, address emerging issues and enhance customer relationships. Ensure proper orientation and training of new staff to ensure that the code of conduct is understood and adhered to, high levels of discipline and professionalism are exhibited at all times, the reward policy is understood and clear repercussions on integrity issues spelt out and enforced where necessary. Incorporate an orientation program where new staff work under experienced personnel before full deployment.

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