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## EFFECT OF SELECTED FACTORS AFFECTING REVENUE COLLECTION IN NAIROBI CITY COUNTY GOVERNMENT

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## **EFFECT OF SELECTED FACTORS AFFECTING REVENUE COLLECTION IN NAIROBI CITY COUNTY GOVERNMENT**

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### **ABSTRACT**

**Purpose:** The purpose of this study was to establish the factors affecting revenue collection in Nairobi City County Government.

**Methodology:** The study adopted a descriptive research design. The study population comprised of a total of 340 members of staff working as chief officers, technical staff and members of Nairobi City County assembly. The sample size was determined using the Fischer's formula. The sample size for the study was 180 which was distributed proportionately among the strata. The study used a survey questionnaire as a research instrument. Data collected was analyzed with the help of SPSS by both descriptive and inferential statistics. The results were presented in form of tables and graphs. The study adopted a multivariate regression.

**Results:** The study found that revenue diversification affect revenue collected through number of sources of revenue and new policies to a great extent. Tax administration affects revenue in Nairobi City County through competent staff, availability of computers, and availability of postal communication system and tax education. Tax structure affects revenue collection through flexibility, equitability, neutrality and simplicity while different forms of revenue (property, business license) affect amount of revenue collected. Revenue diversification had a positive and significant relationship with amount of revenue collected whereas different forms of revenue collected had positive and significant effect on amount of revenue collected in Nairobi City County.

**Unique contribution to theory, practice and policy:** The study recommends on the use of latest technology and competent staff in tax administration, also there should be more innovations to have diversified sources of revenues in Nairobi City County in order to collect more revenue. The financial managers and policy makers in Nairobi City County assembly should come up with new sources of revenues and taxes that obey the canon law of taxation that is economical, simple, flexible and easy to administer.

**Key words:** *revenue collection, revenue diversification, tax structure*

## **1.0 INTRODUCTION**

### **1.1 Background of the Study**

The fundamental sources of own revenue for urban areas are normally property taxes, business licenses, market fees and different user charges. They can possibly give dependable revenue if all around managed, yet practically speaking all have genuine limitations. For property tax, the primary drawbacks incorporate powerless ability to actualize exact valuation practices; poor methods of collection; absence of clear possession titles; and absence of political backing for enforcement. Business licenses make high consistence costs because of complex techniques; may not reflect capacity to pay; give chances to rent seeking; and are regularly ineffectively controlled, so they produce little revenue. User fees may empower productive utilization of public sector resources; additionally experience the ill effects of defects such as inequitable burdens on low income users, insufficient accumulation and billing plans, low quality administrations and persistent imperviousness to payment. Nonetheless, experience additionally indicates open doors for change, including streamlining strategies for property valuation and upgrading aptitudes; making business permit frameworks easier, more transparent and successful, for instance by presenting single business license frameworks; and enhancing consistence in paying user fees for instance through shared private water taps in informal settlements (Fjeldstad & Heggstad, 2013).

Key issues influencing voluntary compliance and social collaboration incorporate trust of citizens in others, and the apparent reliability of government. Local governments have tried different things with an assortment of alternatives to enhance collection of tax including outsourcing accumulation to central government, private specialists and semi-private partners, for example, market cooperatives. For instance, in Tanzania accumulation of property taxes, market fees and different duties have been outsourced to a scope of different specialists. The confirmation is uncertain in the matter of whether outsourcing has prompted better revenue organization; notwithstanding, it can build up a stage from which future change can be encouraged. Achievement relies on upon the nature of local government administration, the degree of political backing for change, and the procedure transparency. Evaluating revenue potential can be an issue: in the event that this is thought little of, it can bring about a specialist catching a disproportionate amount of revenue gathered (Fjeldstad, 2006).

## **2.0 METHODOLOGY**

The researcher used a cross-sectional survey research design to determine the influence of credit access requirements on formalizing SMEs in Kenya. The design was appropriate for this study because of its descriptive nature that helps learn people's attitudes, beliefs, values, behavior, opinions, habits and desires. The target population for the study was drawn from all small and medium enterprises registered with the Nairobi Central Business District Association (NCBDA) 2016. The SMEs represent four main sectors namely; Services, manufacturing, hospitality and retail trade as depicted below; In line with the data sourced from the Nairobi County government and NCBDA there are 1,200 SME's registered within the central business district. Financing institutions especially banks and micro-finances were included to ensure consistency with the objectives of the study.

The study used stratified random sampling technique to select the sample. The study grouped the population into strata. Each stratum was treated as an independent sub-population. From

each stratum the study used systematic random sampling to select 345 respondents. To get sample size determined from the total population, the scientific Yamane (1967) formula was employed for convenience and accuracy purposes. The computed sample size was 345 respondents, accounting for 14% of the target population.

Questionnaires that were constructed based on the research objectives were used in data collection. The researcher administered the questionnaires to the respondents who were not in a position to interpret the questions possibly due to their literacy levels. An observation checklist was used by the researcher and research assistants to verify presence of various formalization indicators such as; business license/permits, ETR machines, employees and accounts department. Lastly, a semi-structured interview guide with open-ended questions for in-depth interviews helped the researcher collect opinions and detailed answers from key informants drawn from financial institutions.

### **3.0 RESULTS**

#### **3.1 Revenue Diversification**

The study sought to establish the effect of revenue diversification on revenue collection in Nairobi County government. In carrying out this task the study used a Likert scale of 1 to 5 where 1 = not at all, 2 = little extent, 3 = moderate extent, 4 = great extent and 5 = very great extent to rate the extent to which the respondents agreed with statements on revenue diversification provided. The study findings on the number of revenue sources of income indicate that the majority of the respondents agreed that the number of revenue sources had great effect on revenue allocation forming 38.2% (60) followed by those who said it had a moderate extent at 32.5% (51), very great extent at 29.3% (46) while there were no respondents on low extent and no extent at all. On policies, the majority identified great extent at 56.7% (89) followed by those who identified a very great extent at 26.8% (42) while 16.6% (26) said the extent was moderate. Results on restrictions indicate that the majority identified a great extent forming 52.2% (82) followed by a very great extent at 31.8% (50) while moderate extent formed 15.9% (25) of the total responses. The results are shown in table 1 below.

**Table 1: Revenue diversification**

	Cases									
	Not at all		Low extent		Moderate extent		Great extent		Very great extent	
	f	%	f	%	f	%	f	%	f	%
Number of revenue sources of income	0	0	0	0	51	32.5	60	38.2	46	29.3
Policies	0	0	0	0	26	16.6	89	56.7	42	26.8
Restrictions	0	0	0	0	25	15.9	82	52.2	50	31.8

The study findings are as similar to the one posited by Oates (2005) that the utilization of various sources of revenues guarantees the consistency and stability of sources of revenue in public finance. It also gives the suggestion that nobody has control upon to the detriment of different sources of finance. This guarantees the coherence in the administration in the public sector as salary stream is predictable. Hendrick (2002) includes that extending the revenue sources obliges new developing spending prerequisite of a local government as far as new legal controls, political activities and constantly changing financial cycle in an administration. To adapt to these rising difficulties in this way an expanded and wide base of revenue source ought to be built up.

### 3.2 Hypothesis Testing

This research started with a hypothesis that there is no statistically significant effect of selected factors affecting revenue collection on revenue collection in Nairobi city county government. In this study, chi-square analysis was conducted to test for the influence of factors of revenue on revenue collection. The test of significance was tested at the 5% level of significance. Findings are as illustrated in table 2 below.

**Table 2: Test of Hypothesis**

	Pearson Square	Chi- (n)	Sample size	Degrees of freedom (df)	Sig. (1-sided)
Revenue diversification	0.585	157		156	0.027

Hypothesis: There is no statistically significant effect of selected factors affecting revenue collection on revenue collection in Nairobi city county government

Table 4.8 gives the chi-square test results. The table indicates that, the Pearson chi-square testing the relationship between revenue diversification and revenue collection had a value of



0.585 which is significant at the 5% level as the asymptotic significance (1-sided) indicate a value of 0.027 which is less than 0.05 the critical value at the 5% level in a 1-tailed test. Thus the results present sufficient evidence of rejecting the Null Hypothesis and therefore the study concludes that, revenue diversification had a significant effect on revenue collection.

From the table also, the chi-square test of significance for the relationship between the tax administration and revenue collection showed a coefficient of 1.125 with 156 degrees of freedom and a significance value of 0.013 which is less than 0.05. Therefore, the findings give evidence of the relationship between tax administration and revenue collection in Nairobi city county government.

Similarly, testing the relationship between tax structure and revenue collection, the findings showed evidence of rejecting the null hypothesis suggesting that there is a significant relationship between the two variables. This is as illustrated by the chi-square test results showing a chi-square coefficient of 0.301 with 156 degrees of freedom and a p-value of 0.020 which is below 0.05.

A significant relationship was also present between forms of revenue and revenue collection in Nairobi city county government. This as shown in Table 4.8 had a chi-square coefficient of 0.241 with 156 degrees of freedom and a significant value of 0.042 which is less than 0.05. Therefore this gives evidence of existence of the relationship between forms of revenue and revenue collection.

### 3.3 Regression Analysis

In this study, a multiple regression analysis was conducted to test the relationship among variables (independent variables; revenue diversification,).

**Table 3: Regression Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.772 <sup>a</sup>	.727	.709	.61863

a. Predictors: (Constant), Revenue diversification

As illustrated in table 4 above the predictor variables (Revenue diversification, Tax administration, Tax structure, Forms of revenue) explain 77.2% of the variation in revenue collection. This is as given by the R coefficient with a value of 0.772. Thus, based on this coefficient, other factors that were not considered in this research contribute to 22.8% ( $1 - 0.709 = 0.228$  expressed as percentage) of the variability in revenue collection in the county. From the table also, the results presented are 70.9% reliable as indicated by the Adjusted R square coefficient. This shows that, had the study been conducted using the entire population rather than a sample or could the sample have been altered to replace some of respondents not selected, the results would have a variance of 29.1% ( $1 - .709$ ) from the current results.

**Table 4: Regression Coefficients for revenue diversification**

Model	Unstandardized Coefficients		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
(Constant)	6.885	.589		11.689	.000
1 Revenue diversification	.584	.076	.569	7.686	.003

a. Dependent Variable: Revenue collection

The findings shown in table 5 indicate that all the variables had a positive and significant influence on service delivery. According to the results, revenue diversification had a significant influence on revenue collection as shown by the coefficient (B = 0.584, t = 7.686, p > 0.03)

The study used the following regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y= Revenue collection

$\beta_0$ =Constant

$\beta_1$ .....  $\beta_4$ = Coefficient of the variables

$X_1$ =Revenue diversification

$X_2$ = Administration

$X_3$ =Tax structure

$X_4$ = forms of revenue

$\varepsilon$ = Error term

Therefore;

$$\text{Revenue collection} = 6.885 + 0.584 \text{ Revenue diversification}$$

### Diagnostic Tests

The researcher conducted a multicollinearity test. The researcher made further attempt to minimize and/or avoid Common Method Variance (CMV) problem in the study. The precautions taken in designing the questionnaires (i.e. use of multi-item scales) as well as identifying different respondents for the independent and dependent variables, as already done, are preliminary mechanisms to minimize this problem. In addition to these precautions, the data is further tested or checked for CMV problem before commencing data analysis. The study therefore adopted collinearity analysis to test for collinearity issues, which might have arose during the study. According to the findings in table 5 below, the spread of the VIF values is very low (less than 2.5), indicating that there were no major problems in the study.

**Table 5: Test of Multicollinearity Coefficients**

Model		Collinearity Statistics	
		Tolerance	VIF
1	Revenue diversification	.896	1.116

**Table 6: Multicollinearity Diagnostics**

Model	Dimension	Eigenvalue	Condition Index	(Constant)	Revenue diversification
	1	4.913	1.000	.00	.00
	2	.039	11.259	.01	.53
1	3	.033	12.167	.01	.33
	4	.009	23.722	.40	.12
	5	.006	28.177	.58	.01

The diagnostics test as given by VIFs and Eigen values in this case indicate no major collinearity problems in the data alongside other diagnostic tests hence revealing no such severity. In addition to the findings in Table 4.12 and Table 4.13, the overall evidence from the collinearity diagnostics conducted in this study indicates that collinearity has not caused problems for the study and that the existence of low level collinearity cannot make the result statistically different in any way. Therefore there is no significant collinearity in the data set that could hinder regression analysis as provided in the methodology

### 3.4 Discussion

The study findings are as similar to the one posited by Oates (2005) that the utilization of various sources of revenues guarantees the consistency and stability of sources of revenue in public finance. It also gives the suggestion that nobody has control upon to the detriment of different sources of finance. This guarantees the coherence in the administration in the public sector as salary stream is predictable. Hendrick (2002) includes that extending the revenue sources obliges new developing spending prerequisite of a local government as far as new legal controls, political activities and constantly changing financial cycle in an administration. To adapt to these rising difficulties in this way an expanded and wide base of revenue source ought to be built up.

## 4.0 CONCLUSIONS AND RECOMENDATIONS

### 4.1 Conclusion

Based on the study findings, the study made the following conclusions.



The study concluded that revenue diversification had an effect on the amount of revenue collected. The number of revenue sources of income, policies and restrictions had a great extent on revenue collection in the county government of Nairobi.

#### **4.2 Recommendations**

The study recommends on the use of latest technology and competent staff in tax administration, also there should be more innovations to have diversified sources of revenues in Nairobi City County in order to collect more revenue. The financial managers and policy makers in Nairobi City County assembly should come up with new sources of revenues and taxes that obey the canon law of taxation that is economical, simple, flexible and easy to administer.

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