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INFLUENCE OF INSTITUTIONAL CAPACITY ON REVENUE ENHANCEMENT IN DEVOLVED GOVERNMENTS IN KENYA

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ABSTRACT

Revenue enhancement has been a challenge to the decentralized units since the introduction of the county governments in Kenya. This study was an attempt to evaluate the role that institutional capacity plays in the reinforcement of the county revenue collection ecosystem. The study aimed to understand and aid in the design of an effective revenue mobilization strategy informed by existing best practices. The study topic was to examine the influence of institutional capacity on revenue enhancement in the devolved governments. The research applied the correlation research design. The study sample was drawn from a representation of the present 47 counties in Kenya. The study sampled 5 counties representing 10% of the counties using a sample size of 402 respondents. Primary data was collected by the use of structured questionnaires. The collected data was analysed using Statistical Package for Social Sciences (SPSS) version 22. The study results showed that counties are striving to have in place adequate institutional capacity for revenue collection and strengthening of the existing institutions through automation as a means to increase revenue collection. The study recommended that County Government should majorly focus ON enhancing the institutions and make them have powers in ensuring efficient revenue collection and enhancement. The study then suggests further research on the existing integrated financial management systems as implemented and adopted by the county government to guide revenue collection since it does address the management issues that come with local revenue collections against institutional set standards for revenue collection modules.

Key Words: *Institutional capacity, Revenue enhancement, Devolved governments and Kenya*

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INTRODUCTION

Despite the many strides made towards the improvement of services to the Kenyan citizenry since the introduction of devolved Governments, revenue collection remains a prerequisite for the implementation of local government plans and programmes. The Kenya County Own Source Revenue Report (2019), in its review of the first six years of devolution, noted that strengthening local revenue performance is essential to creating fiscal space for local developmental needs. They added that all counties were raising less than 40 per cent of their estimated revenue potential except counties with game parks. Counties that have a larger economic size (county GCP) have higher revenue collections than small economic sized counties. Counties with higher economic diversification collect more own-source revenue compared to counties with lower economic diversification.

Revenue enhancement can be attained by increasing the collection of taxes, excise and customs duties, issuing of licenses or other sources of income to facilitate smooth execution of government operations. Public revenue collection is a vital component of the fiscal policy and administration within an economy due to its impact in national government functions and the operations at the grassroots.

Jacobs (2019) assessed how South African municipalities enhance revenue amidst the overwhelming socio-economic odds. His conclusion was that Municipalities should ensure that adequate processes and procedures are in place to ensure that all services rendered are correct and complete. Recognising these challenges, The Waterburg District Municipality (WDM, 2022) developed another South African effort to identify and implement revenue enhancement strategies that boost the Municipality in its efforts towards improved revenue collection. They noted that WDM had limited opportunities for revenue due to reduced powers and functions and therefore fully dependent on Government grants. This made them unable to execute their service delivery programs to their stakeholders.8

Namaliya (2017) confirmed that Africa has a high rate of revenue under-collection especially in public water utility companies. They add that addressing inefficiencies in collecting water fee revenues will facilitate positive social change by increasing profits, growing the water business and reducing the crime rate by employing more people.

Moffat and Anyumba (2017) explored the revenue enhancement strategies in Rural parts of South Africa. Their findings were that the major constraints to revenue enhancement in rural municipalities are attributed to ineffective municipal business model and structural constraints.

Katunzi and Mfungo (2020) looked at engaging small taxpayers in the enhancement of revenue collection for local government authorities in Tanzania. They observed that targeted revenues as planned by local governments are not met. The resulting deficit in revenues in Tanzania are caused by poor tax-compliance on small taxpayers who in turn are the most beneficiaries of the services provided by local authorities. However, strategies to engage them and an extent to which they should feel engaged in the exercise of revenue collection seem not to be fully explored in Tanzania.

A National Treasury 2018 study on revenue streams by county governments in Kenya showed that the six key revenue streams by counties were property tax, building permits, business licenses, liquor licenses, vehicle parking fees and outdoor advertising. These streams had adequate policy rationale, clear legal basis, a high contributor and a revenue-raising objective applicable across all counties.

Madegwa, Nambuswa and Namusonge (2018) studied automation of revenue collection on the Performance of County Government of Transnzoia. They confirmed that automation was resulting in reasonable financial gains for counties but needed to be paid attention to. On their part, Murimi, Wadongo and Olielo (2021) looked at determinants of revenue management practices and their impacts on the financial performance of hotels in Kenya. Their study paid attention to financial performance and development of a theoretical model for revenue management.

An UN-HABITAT Report (2017) on supporting revenue enhancement in Kiambu County, Kenya observed that the success of the counties will now be determined not by their duplication of past practices of local governments that were primarily dependent upon the National Government for the provision of services and funding but by their local actions. Counties must, thus, play a critical role of revenue collection for purposes of service delivery and infrastructure development

Statement the problem

Revenue enhancement is a global phenomenon and plays a vital role in the public sector organizations. A number of researchers have delved into this domain to establish the issues around its challenges and opportunities. Gyamfi (2014) while exploring effective revenue mobilization by district assemblies in Ghana concluded that some of the issues undermining effective revenue collection were inadequate data regarding the revenue sources, lack of properly enforced revenue mobilization by-laws, few and poorly trained revenue collectors. Cottarelli (2011) while studying revenue mobilization in a section of developing nations came up with the conclusion that a lot needed to be done by the respective countries to maximize the revenue collection in most African countries. Other researchers have focused on control of rules and procedures to ensure compliance to revenue collection (Saleiman & Ahmed, 2017), revenue enhancement through mergers and acquisitions (Ma et al, 2012), inefficient revenue collection methods leading to low profitability (Rao & Apparao, 2014) and inability by leaders to collect revenue (Hope, 2015).

The debate about revenue enhancement has continued further home in the African continent. Jacobs (2019) studied how South African firms can maximize revenue collection. Katunzi and Mfungo (2020) addressed small scale tax payers and revenue enhancement. Other studies (Abiola & asiweh, 2012; Moffat & Anyumba, 2017; Akorsu, 2015) have paid attention to tax administration on government revenue, revenue enhancement strategies and reliance of local governments on central government revenue.

In Kenya, Kondo (2015) studied revenue enhancement strategies on financial performance of the Kenya Revenue Authority. Maina (2010) studied factors influencing the collection of revenue in local governments in Nyeri Municipality Council was marred with severe inefficiencies that affected its effectiveness. Muhaki (2009), on a study of the factors impacting revenue collection in the local governments in Uganda ascertained that there were several constraints to the prevailing local revenue generation. According to the County Own Source Revenue Report (2019), revenue had increased a little but spending had nearly doubled. Other studies on revenue enhancement have been done to assess the factors affecting revenue collection, ineffective revenue structures, automation and revenue performance and determinants of revenue management.

The myriads of studies reviewed above reveal that revenue enhancement has largely been explored as a finance concept and not necessarily from a governance perspective. This, despite the fact that revenue is a critical component of any governance process. From the above studies, it is evident that adequate research is yet to be conducted on revenue enhancement as a leadership and governance issue in the Kenyan context. Moreover, the studies already done excluded some essential concepts of governance that form the basis of the present study. A literature and contextual gap thus exist that this study aimed to fill. This study, therefore, aimed at establishing the role that institutional capacity play on revenue enhancement for devolved governments in Kenya.

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Research Objective

The study examined the influence of institutional capacity on revenue enhancement in devolved governments in Kenya.

LITERATURE REVIEW

Theoretical Framework

Institutional Theory

DiMaggio and Powell came up with this theory in 1991 and it states that institutional environment have a strong influence in the development of formal structures in business units and promotes innovative structures that are capable of improving technical efficiency within a legitimized system. The theory emphasize that the innovations should attain a legitimization level that makes failure to adopt them be seen as irrational and negligent for example, they become legal mandates. This is the point upon which the law and the prevailing devolved units adopt the basic form even if the form fails to have a positive impact on efficiency.

Meyer and Rowan (1991) argued that institutional myths are accepted generally to allow the firm gain or maintain legitimacy in the institutional environment which is what the Kenyan devolved governments intend to achieve. County governments adopt "structure vocabularies" prevalent in their environment, Commission on Revenue Allocation (CRA), Controller of Budget (CoB), Auditor General and Council of Governors. Other institutions include the National and County Assembly, County Executive Committee and the Senate. Embracing and the prominent display of these institutionally accepted "legitimacy trappings" help the counties preserve an aura of organizational action based on "good faith," and this is done during revenue collection. Legitimacy in the institutional set up helps achieve revenue enhancement. The formal structures of legitimacy can however reduce efficiency and hinder the firm's competitive advantage in their technical environment. To minimize these adverse effects, firms often decouple their technical core from these legitimizing structures. Firms will minimize or make ceremonial evaluations but neglect implementation of programs to retain external and internal confidence in the formal structures while cutting down their efficiency impact.

The conclusion of the theory is that the net impact of the institutional pressures is to reduce the homogeneity of the organizational structures in an institutional set up. Counties will implement similar structures due to pressure from three segments; coercive pressure from the legal mandate or the influence from central government policies they are dependent on, mimetic pressure to follow the footsteps of successful ventures especially during high uncertainty and normative pressure to homogeneity that originate from similar attitudes and approaches of professional bodies and associations brought to the firm by the hiring process and practices(Atakpa, Ocheni & Nwankwo, 2012).

Institutional theory is relevant to this research since it informs the governance structures and legislative framework. The theory applies well when it comes to reviewing, analysing and assessing the relevance of each independent institution regarding the effective discharge of devolved functions at the county level. The theory largely influences the amount of revenue the counties are likely to collect. All these bodies seek to establish a framework that promotes revenue enhancement in the counties and ascertain what constitutes the best ways of optimizing revenue collection. It is generally agreed that revenue enhancement is a critical factor in the devolved unit's development (Atakpa, Ocheni & Nwankwo, 2012). Counties need to be aware of the factors that lead to the maximization of revenues. Accountability and transparency during revenue collection is another factor to be considered, and this may result either to high or poor collection of revenues. In spite of the above, governance issues in devolved governments vary due to non-adherence to existing institutional structures. Literature has confirmed that there have been breaches in regulation even in instances where

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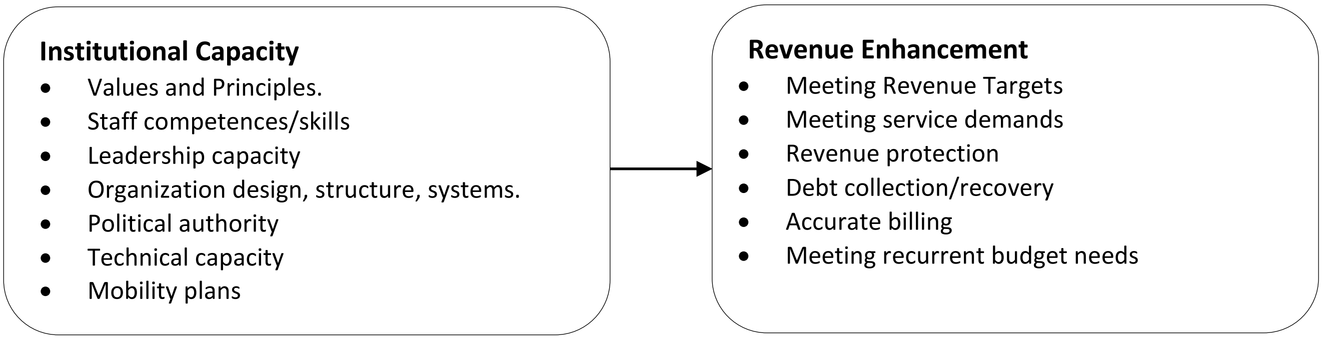
people are aware of factors leading to maximization of revenue.

According to Bigambo (2012), all governments enter into a social contract with its citizens to collect taxes and manage those taxes responsibly by delivering services to them. 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 in a prudent manner and for the common good, this leads to spillage in the form of corruption, skewed development, ethnic biases, bloated workforce and other expenditures as well as poor planning; the effect of which is a dissatisfied citizenry. The clamour 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. Therefore, institutional capacity influences revenue enhancement, and hence this theory further leads to rejection of the null hypothesis and accepting the alternative hypothesis.

H_1: Institutional Capacity significantly influences revenue enhancement in devolved governments in Kenya

Conceptual Framework

The study adopted the following conceptual framework:



Independent Variable **Dependent Variable**

Source: Author 2022

Figure 1: Conceptual Framework

Institutional Capacity and Revenue Enhancement

Institutions can be understood as settled, widely prevalent and standardized habits and conventions defining social practices (Hamilton; Mitchell; Young, 2013) and – more formally – as constitutional and operational rules governing different kinds of organizations (Parsons, 2013). The notion of capacity can be viewed as the ability of individuals, organisations, or societies to set and implement development objectives on a sustainable basis (Land, 2000). Capacity is also viewed as a continuous process by which individuals, groups, institutions, organisations and societies enhance their abilities to identify and meet development challenges in a sustainable manner. Capacity is the ability to perform functions, solve problems, and set and achieve objectives (Fukuda & Lopes, 2013).

Capacity can be viewed from two main perspectives; individual and organizational. Individual capacities, understood in terms of skills and aptitudes (usually acquired through training) are considered as a necessary but not sufficient part of the capacity equation. Organisational capacity is likewise influenced, not only by internal structures, systems and procedures, but by the collective capabilities of staff, and by external factors in the wider “institutional” environment - such as the policy framework, and other political, economic and cultural factors. These may constrain or support performance and influence issues of organisational credibility and legitimacy (Land, 2000).

Organisational capacity is likewise influenced, not only by internal structures, systems and procedures, but by the collective capabilities of staff, and by external factors in the wider “institutional” environment - such as the policy framework, and other political, economic and cultural factors. These may constrain or support performance and influence issues of organisational credibility and legitimacy.

Kirabo, Kasozi and Kayise (2013) observed that among the objectives of the decentralization, improving the capacity of local councils to plan, finance and manage the delivery of services is one of the major goals. They add that globally, local governance enhances the delivery of goods and services. Institutional factors, such as political, social, legal and economic conditions are important for the analysis of public finance issues, but they are especially important for the analysis of fiscal decentralization.

Well-developed institutions enjoy an enabling environment of key players using available resources to generate revenue. This study adopts the definition by Kayise et al. (2013) which looks at institutional capacity as the ability to implement and improve revenue administration focusing on efficiency and effectiveness. The study by Kirabo *et al* (2013) established that institutional capacity influences positively local revenue generation. Institutional capacity focused on: human capacity, financial capacity, infrastructural capacity, revenue collection methods; taxpayers’ awareness of their civic duties and obligations and the regulatory framework. The human capacity was found inadequate in terms of numbers and placement. Both the political and technical teams were found requiring continuous capacity building to increase their effectiveness and efficiency.

METHODOLOGY

The study adopted a mixed research design considering descriptive, causal and cross-sectional survey approaches aiming at addressing the objectives of the study. A cross-sectional survey was adopted since it comprised of the population sharing similar characteristics and differs in some key factors of interest like the age, income levels and geographical location. The study also adopted descriptive method for the collection of information demonstrating relationship between variables and the unit of analysis which was the County Government.

The study qualitatively described the revenue mobilization process from all parties through in-depth interviews, focus group discussions as well as community fora. Consequently, considering that there were documented reasons for the dismal performance in revenue mobilization by devolved units in Kenya and beyond, it was prudent to determine specific indicators into the hindrances as experienced by those charged with the revenue mobilization tasks. The causal approach was adopted considering the objectives of the study which sought to assess influences of independent variables (institutional capacity) on revenue maximization. A causal research design is aimed at addressing cause effect relationships between variables (Schutt, 2009). This is referred to as a nomothetic causal explanation which looks at the variation in an independent variable as a cause to the variation in the dependent variable ceteris paribus (all other things held constant). The research population was from the total of 47 counties in Kenya with 416 respondents selected from five counties that is Kisumu, Nakuru, Nairobi, Vihiga and Nyeri counties respectively. Data for the study were obtained through the following two data collection methods, in depth interview schedules for key informants and questionnaires for revenue clerks, all purposively sampled.

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In-depth interviews were used to collect information from the Auditor General, Commission on Revenue Allocation chair, Controller of Budget at the national level and from the County, The Director of Revenue, Minister of Finance and Economic Planning, Head of Revenue streams and the Speaker of the County Assembly. This was not limited to, rationale behind the revenue allocation for the county, policies guiding revenue mobilization, ways counties can increase revenue resources, leadership qualities necessary to ensure accountability of county funds and interventions to ensure that citizens comply in tax payment.

The questionnaire was used to gather information from revenue clerks and the community fora was used to gather basic and factual information regarding the tax experience from citizens. The researcher was interested in; reasons for poor collection, suitable methods to increase collection, challenges faced in revenue mobilization and interventions required.

RESULTS

The study sought to assess the situation of institutional capacity across the devolved governments. The construct was assessed via proxy measurements that were formulated in questions that the respondents were asked in relation to the capacity of their institutions. The respondents were asked to state their level of agreement regarding each question as an ordinal measure of each dimension of institutional capacity. The summary statistics for the descriptive analysis of this construct.

Table 1: Descriptive statistics of institutional capacity

Statement	1	2	3	4	5	Mean	SD
My county has clear expectations and principles on how to work	6.5%	4.0%	6.7%	36.6%	46.3%	4.12	1.122
I possess the training and qualifications, which relate to the work I do.	1.7%	6.0%	8.0%	43.8%	40.5%	4.15	.927
My supervisor is knowledgeable and supports me in my work	5.5%	3.7%	18.7%	47.0%	25.1%	3.83	1.026
The departmental structure is clear and I know my roles	3.0%	5.2%	8.7%	37.1%	46.0%	4.18	.998
The county deals swiftly with unethical work practices	4.5%	2.7%	8.7%	42.0%	42.0%	4.14	1.001
There are experts who guide on planned programs	3.7%	3.2%	7.2%	44.8%	41.0%	4.16	.961

The respondents were asked whether the county has clear expectations and principles on how to work, the results indicated that 46.3% of the respondents strongly agreed to this, 36.6% agreed and 6.7% were uncertain. On the other hand, 6.5% strongly disagreed, while 4.0% disagreed. The mean response was 4.12, which is greater than four, implying that on average, the respondents felt that counties had very clear guidelines on revenue collection. On whether respondents felt they possessed the training and qualifications relating to the jobs, 43.8% of the respondents agreed, 40.5% strongly agreed, 8.0% were uncertain and 1.7% strongly disagreed. The mean response to this question (4.15) was also above four, which showed that on average, the respondents agreed that when adequate training is offered to county staff, accountability, integrity and transparency among revenue collectors are addressed.

Asked whether their supervisors were knowledgeable and supported them in their work, a majority (47.0%) agreed, 25.1% strongly agreed while 18.7% were uncertain. However, there were other 5.5% of the respondents who strongly disagreed and 3.7% disagreeing. On average, the clerks however considered to be in agreement based on the mean response which was about

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greater than three and almost equal to 4. The table also shows that the respondents averagely agreed that their departmental structures were clear and they knew their roles. The mean response to this question was 4.18, which is larger than four and is also supported by the majority (46.0%) who strongly agreed and 37.1% of the respondents who also agreed to this. Only 8.7% of the respondents were uncertain, 5.2% in disagreement and 3.0% in strong disagreement.

The majority (42.0%) of respondents were found to be in agreement with the statement that the counties dealt swiftly with unethical work practices. Of the responses received, 42.0% of the respondents strongly agreed, another 42.0% agreed respectively, while 8.7% were uncertain. For those who were in disagreement, 4.5% strongly disagreed and 2.7% disagreed. The results support the mean response of 4.14 which shows that on average, the counties were able to handle unethical practices that existed among them using the laid down procedures. Finally, the respondents were also asked whether technical experts existed within their counties who guide them on planned programs. A majority (44.8%) of the respondents agreed, 41.0% strongly agreed and 7.2% were uncertain. The remaining 3.2% 3.7% and disagreed and strongly disagreed respectively.

The responses on all the sub-dimensions (indicators) of institutional capacity, the average responses were above 3 (uncertainty). This implied that averagely the respondents believe (agree or strongly agree) that the counties have in place or are striving to have in place adequate capacity for revenue collection. From empirical studies, these indicators have been suggested for the improvement of the institutional capacity. Nyongesa (2014) recommended the development of a revenue management capacity by training personnel and establishing proper revenue management mechanisms for the county to provide quality services to the people. Nyongesa also recommended decentralization of ICT based tax collection systems as a way of improving institutional capacity, which was also considered in measuring institutional capacity in this study. Ndunda *et al*. (2015) also gave similar recommendations to the indicators used in this study that county governments needed to increase the competence of revenue clerks and other county officials and attract skilled and competitive employees to optimize revenue collection.

Regression analysis on institutional capacity

The goal of the study was to evaluate the Influence of governance framework on revenue enhancement for devolved governments in Kenya. This was achieved by fitting a regression model for the primary data collected to determine the causal relationships between the governance framework assessed in the study and revenue enhancement. The regression models formed the basis for hypothesis testing that further informed the conclusions drawn on the specific objectives. Bivariate regression models were fitted to assess the direct influences of each governance framework on revenue enhancement, followed by a multiple regression model for assessing the joint effect of the governance framework on revenue enhancement. In each regression model fitted, the R-square was used to determine the explanatory power of the model and the significance of the model tested using Analysis of Variance (ANOVA). The R-square is a measure of the variation in revenue enhancement explained by the variations in predictors in the models fitted. T-tests were carried out on each regression coefficient estimates to determine the significance of each governance framework. The adjusted R-square was also included in the model, which is an adjusted form to the number of predictors in multiple regression models. It is used in comparison to models with the different number of predictor variables included such that if additional variables are useful and significantly improve the model, the Adjusted R-square is bound to improve. However, if additional variables do not improve the model, the Adjusted R-square does not increase and would reduce if additional variables result in over-specification.

The objective of the study was to examine the influence of Institutional capacity on revenue enhancement in devolved governments in Kenya. A simple linear regression analysis was fitted on this influence with revenue enhancement as the dependent variable and the institutional capacity as the predictor variable. The regression analysis results were presented in the tables.

In the model summary, The R and the R-squares are 0.146 and 0.21, respectively. The coefficient of determination shows that the variation in the predictor in this model which is institutional capacity explains up to 21% of the variation in revenue enhancement. The remaining 79% of the variation in revenue enhancement in this one-parameter model is explained by other factors that are not included.

Table 2: Model summary

Model	R	R Square	Adjusted R Square	Std. error of the Estimate
1	.146[a]	.21	.19	.10212

a. Predictors: (Constant), Institutional Capacity

An ANOVA was carried out for the regression model to assess the levels of variability within the regression model and inform general significance test on the whole model. The results show an F-statistic of 8.753 with a p-value of 0.003. The p-value is less than 0.05, implying that this bivariate regression model of institutional capacity on revenue enhancement is generally significant. This gives a further implication of a significant causal relationship between the predictor in the model (institutional capacity) and the revenue enhancement.

Table 3: ANOVA on institutional capacity

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.091	1	.091	8.753	.003[b]
	Residual	4.171	400	.010		
	Total	4.262	401			

a. Dependent Variable: Revenue enhancement
b. Predictors: (Constant), Institutional Capacity

Further to the ANOVA test of model significance, a t-statistic was used to test the significance of the coefficient estimate of institutional capacity in the model. The results revealed that the institutional capacity has a significant coefficient estimate (β= 0.040, t=2.959, p-value = 0.003). The P-value of the t-statistic to this estimate was less than 0.05, where this implies that the equation generated from this model is significant. The model generated the equation given below;

$$Y = 4.507 + 0.04X_1 + 0.034$$

The model thus indicates that every increase of institutional capacity by 4%, there is a unit increase of revenue enhancement by 100% holding a constant value of 4.507 and a standard error of 0.034.

Table 4: Model Coefficient for institutional capacity

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	4.507	.034		134.307	.000
	Institutional Capacity	.040	.014	.146	2.959	.003

a. Dependent Variable: Revenue enhancement

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The results for this bivariate model were used to assess and draw a conclusion on the objective of examining the influence of institutional capacity on revenue enhancement in devolved governments in Kenya.

H_1: Institutional capacity does not significantly influence revenue enhancement in devolved governments in Kenya

The p-value of the coefficient of institutional capacity in the model was found to be 0.003, which is less than 0.05. The null hypothesis was therefore rejected and a conclusion drawn that institutional capacity significantly influences revenue enhancement in devolved governments in Kenya.

The F-value obtained is greater than 0.05 ($F=8.753>0.05$) indicating that the null hypothesis is rejected and the research then concludes that: the Institutional capacity has a significant influence on revenue enhancement in devolved governments in Kenya. From this analysis, the significant coefficient estimate found to be 0.04 implies that increasing the levels of institutional capacity by one unit would result in an increase in revenue enhancement in the devolved unit by 0.04. Building the capacity of institutions devolved within the devolved governments in considerations of dimensions of public service values and principles, staff capacity, leadership and organizational structures would improve revenue collection. Findings from other studies also drew similar inferences. Otieno *et al*. (2013) found a correlation between effectiveness in revenue collection and Information Systems (IS) and efficiency. Another study by Nyongesa (2014) found and recommended, among other factors improved staffing by personnel training as a key to the development of revenue management capabilities that would result in proper revenue management mechanisms.

Summary

The study established that when revenue collection staffs adhere to the laid down county codes of conduct then revenue was maximized, and when staff possess the requisite training, accountability, integrity and transparency among revenue collectors, this leads to revenue enhancement. The study established that revenue is enhnced when the county has an efficient and effective organizational structure in place and which is adequately resourced in terms of different revenue collection methods and streams.

The study also confirmed that revenue is 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. This is not the situation in most county governments but should be a priority for any county that seeks to maximize its revenue.

The results for this bivariate model were used to assess and draw a conclusion on the objective of examining the influence of institutional capacity on revenue enhancement in devolved governments in Kenya. Correlation analysis revealed that institutional capacity had a significant moderate and positive relationship with revenue enhancement. The null hypothesis was therefore rejected and a conclusion drawn that institutional capacity significantly influences revenue enhancement in devolved governments in Kenya.

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that institutional capacity significantly influences revenue enhancement. This conclusion was drawn following the hypothesis test based on the regression model estimated. The null hypothesis was rejected as the p-value of the coefficient of institutional capacity in the regression model was found to be less than 0.05 and a conclusion is drawn at 5% level of significance that institutional capacity has a significant influence on revenue enhancement in devolved governments in Kenya. From the reactions of the majority of the respondents, a lot needs to be done for the devolved governments relating to improving institutional capacity in order to maximize revenue collection. Lack of adherence to the business code of conduct by revenue collection staff leads to poor revenue collection. Some devolved governments do not adequately train their staff in order to enhance accountability, integrity and transparency in the process of revenue collection, which in turn lead to reduced rate of revenue collection. Some devolved governments face the challenge of ineffective and inefficient organization structure specifically within the revenue department bringing to futility the drive to enhance revenue collection.

Building the capacity of institutions devolved within the devolved governments having in mind dimensions of public service values and principles, staff capacity, leadership and organizational structures would improve revenue collection. In certain instances, the lack of adequate internal control system and political goodwill may also hamper revenue enhancement. There is need for improved staffing through personnel training as a key to the development of revenue management capacities that would result in proper revenue management mechanisms.

The study recommended that for institutional capacity to have a significant influence on revenue enhancement, there ought to be strict adherence to the ethical code of conduct by revenue collection staffs. The county governments should ensure that the revenue staffs are experienced with adequate training skills in order to enhance accountability, integrity and transparency in the revenue collection process. The study, therefore, recommends that there should be efforts on reforming the existing institutions to focus on revenue enhancement. These existing institutions need to be supported by the county political system through sensitization and public participation to create awareness to the general public on their roles during revenue collection.

Devolved governments should put in place proper revenue organization structure that ensures efficient and effective revenue collection, with adequate resource capacity in terms of advanced revenue collection methods and streams that lead to revenue enhancement. There is need for improved staffing through personnel training as a key to the development of revenue management capacity and capabilities that would result in proper revenue management. The existence of personnel training may lead to staff empowerment and enable them to have access to the latest revenue-enhancing and collection technology. Political goodwill and existence of programs to empower citizens lead to staff competency and motivation. All these, when done, would translate to revenue optimization.

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