

**FACTORS AFFECTING REVENUE COLLECTION ON SECOND GENERATION
ALCOHOL BY KENYA REVENUE AUTHORITY IN MALINDI**

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AGRICULTURE AND TECHNOLOGY**

JULY, 2020

DECLARATION

This project is my original work and has not been presented for a post graduate diploma in any other academic or non-institution

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HDB336-C016-2362/2016

This project has been submitted for examination with my approval as the supervisor

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ABBREVIATIONS

NACADA	National Authority for the Campaign against Alcohol and Drug Abuse
W H O	World Health Organization
ICAP	International Centre for Alcohol Policies
UK	United Kingdom
KAM	Kenya Association of Manufacturers
KRA	Kenya Revenue Authority
VAT	Value Added Tax
EU	European Union
RSP	Resale Price

DEFINITION OF TERMS

- Revenue Collection:** The income that government obtains from taxation, customs, excise duties or other sources adopted to the payment of the public expenses such as the communal items or amounts of income of a person, a state, or the return or produce from any kind of belongings, patent, services rendered (Gupta and Towery, 2014).
- Taxation:** A term for when a taxing authority, usually a Government, levies or imposes a tax (Irigoin, 2016).
- Licensing:** The provision by one business to allow another company to manufacture its products at specified payment (Cheng, Gong & Li, 2018).
- Infrastructure:** The basic structure of an organization or system, which is necessary for its operation (Denaubauer et al., 2018).
- Tax Policies:** The Directions or Principles that guide decisions that bring about rational outcome on tax matters (Auerbach & Smetters, 2017)
- Excise duty** Duty levied on goods manufactured in Kenya or imported into Kenya and it is specified in the first schedule of Excise Act 2015 (Republic of Kenya, 2015)

ABSTRACT

Taxation is defined as a means by which governments finance their expenditure by imposing charges on citizens and corporate entities. Governments use taxation to encourage or discourage certain economic decisions. The sale of alcohol has long been subject to excise taxation, charged on the production or sale of specific products. The government's main objective of imposing excise tax is to discourage consumption of taxed alcohol as well as raise revenue. It's important to note that there's a very high prevalence of second-generation alcohol outside of government control, example is Chang'aa, Busaa and Mnazi which has adverse effect on loss of revenue. Illicit alcohol by definition means alcohol whose taxes have not been paid or that was manufactured illegally. This study aimed on investigating factors that affect revenue collection on second-generation alcohol by Kenya Revenue Authority in Malindi. The study was guided by a general objective to assess the factors that affect revenue collection on second-generation alcohol by Kenya Revenue Authority in Malindi. The specific objectives were; To find out how Licensing, Infrastructure and Tax polices of Second-Generation alcohol affects revenue collection of second-generation alcohol by Kenya Revenue Authority in Malindi. The study adopted the Cross-sectional research design while adopting a purposive sampling technique of the target population of 202 respondents that comprised of Distributors of the Second-Generation Alcohol and Revenue Officers in Malindi, a Sample Size of 134 respondents was selected to collect data from, using Slovin's formula. The study administered Questionnaires as the main data collection instrument. Data collected was analyzed using the SPSS 25 and presented; Descriptive data analyzed and presented in the tables focusing on Measures of central tendency and measures of dispersion. Inferential statistics involved the correlation analysis, linear regression analysis. The study found out that all the independent variables had a positive correlation co-efficient with the dependent variable; they had a moderate positive correlation. That is $0.5 < r < 0.7$. Revenue collection had correlation coefficients of 0.559, 0.634, and 0.613 for Licensing, Infrastructure, and audit Tax policies, respectively. Besides, all the independent variables are significant at a significance value of 0.01 significance level. The researcher recommends the following: Alcoholic Drinks Control Act, 2010. Part III – Licensing should be reviewed or repealed to allow for licensing of second-generation alcohol. Consequently, Tax policies should be drafted to address and bring these categories in the tax net, it is not a secret that this sector generates a lot of money that needs to be included in the tax bracket. In “Section 9 on application of licenses states in part that “a person intending to manufacture or otherwise produce any alcoholic drink in Kenya, or to operate an establishment for the sale of an alcoholic drink, shall make an application in a prescribed form to the District Committee in the district where the premises”. This can only be realised with improved infrastructure and accommodative tax policies. To do so, the government must first recognize that Kenya does not have a drinking problem and tax evasion. Lack policy and regulation problem is a major contributing factor to loss of tax on local traditional brews. If only the policy regime that perverse incentives for second generation alcohol producers can be addressed or be cured by an enlightened, rational, evidence-based approach that prioritises, not prohibition, but affordable, legal and safe production of excisable second-generation alcohol, it can be a win-win situation.

CHAPTER ONE

INTRODUCTION

1.1 Background of study

Taxation is defined as a means by which governments finance their expenditure by imposing charges on citizens and corporate entities. Governments use taxation to encourage or discourage certain economic decisions. Taxation forms the basic financing of the Government expenditure. A large percentage of the Budget in many governments across the globe is financed by the income from the citizens or residents of the country through taxation. The principal of these was the tributum, paid by citizens and usually levied as a head tax; later, when additional revenue was required, the base of this tax was extended to real estate holdings. In the time of Julius Caesar, a 1 percent general sales tax was introduced (UNCTAD, 2019).

The sale of alcohol has long been subject to excise taxation, charged on the production or sale of specific products. Unlike customs duty, which is charged at the border when products are imported, excise duties are charged 'inland', typically on the sale or production for sale of the relevant good. Products which are subject to excise duties tend to be characterized by their inelastic consumer demand—when price goes up, demand for the product falls less than proportionately—as this makes them good candidates for raising revenue. In Kenyan scenario whenever the government was under pressure to increase and raise more revenue, the best place to turn, was to increase taxes on goods and products, which includes alcohol. Kenya's revenue is majorly generated from the taxes it raises; a case in point is Excise duty. By definition excise duty means a duty levied on goods manufactured in Kenya or imported into Kenya and it is specified in the first schedule of Excise Act 2015, whereas excisable goods mean goods manufactured in Kenya or imported into Kenya on which an excise duty is imposed. An example of excisable good is alcohol (Ahmed & Braithwaite, 2005).

The Effect of Unrecorded and Untaxed Alcohol Sales – A West Pacific Region Case Study One of the main effects of illicit or illegal alcoholic products is that they reduce the amount of excise duty collected since they often go unrecorded. with these unrecorded or untaxed alcoholic products as well as the traditional beverages that are legally produced and taxed, drinkers can easily access

illegal alcoholic beverages including homemade brew, alcohol production in the informal sector, cross-border smuggling and by means of counterfeiting excise stamps.

In New Zealand home brewed beer, wine and, since 1996, spirits are not taxed if they are for personal consumption and not for sale. This is estimated at a fairly steady amount of 3% of all alcohol consumed (WHO, Alcohol Taxation in West Pacific Region, 2006). The high availability of illegal alcohol products for sale has significantly affected the effectiveness of excise duty on alcoholic beverages. In many countries as it goes against the purpose of the duty has a public health intervention that helps curb consumption and alcohol related problems. An increase in excise duty on alcoholic products may lead to increased prices of alcoholic products and in turn an increase in informal production and smuggling. However, low to middle income countries often do not have the capacity to take enforcement action against this illegal production.

UNCTAD (2019), Reports that the total alcoholic beverages market in the seven countries in sub-Saharan Africa amounted to 10.5 million HL LAE in volume in 2017, 39.6% of which comprised an illicit market in counterfeit and illicit brands, smuggling, and commercial therefore illicit sales of fermented and distilled homebrew as well as tax leakage from undeclared production. The illicit market generated sales close to US\$5 billion in 2017. Non-commercial volumes represents 44.4% to commercial (illicit) volumes (HL LAE) in 2017. In Uganda, the equivalent of chang'aa is Uganda Warigi and Konyagi in Tanzania are licensed and a source of revenue unlike Kenya. Both drinks are legally produced in these countries. Konyagi is even one of Tanzania's most popular imports into Kenya, countries such as Spain, there are very many distinctive drinks sold and which are attractive to tourists very similar to Muratina. Notably, vodka is just another label for Changaa and Busaa and can be one of the most attractive beverages in Kenya if properly studied (NACADA, 2017).

It is imperative to note that the colonial ban in Kenya also had the same effects, where cheap and lethal liquor was brewed to satisfy the frustrations and demand of the growing population leading to a lucrative, profitable, and hazardous and deadly culture. After independence in 1963, the ban on traditional brews was lifted, but the chief's act had outlawed the manufacture, sale and consumption of the local brew. As the brewing of Chang'aa flourished, government didn't see the importance of legalizing it, unlike our neighboring countries Tanzania and Uganda, who licensed

the production of konyagi and waragi respectively an equivalent to Kenya's famous chang'aa (Willis, 2007).

The government's main objective of imposing excise tax is to discourage consumption of taxed alcohol as well as raise revenue. It's important to note that there's a very high prevalence of second-generation alcohol outside of government control, example is Chang'aa, Busaa and Mnazi which has adverse effect on loss of revenue. Illicit alcohol by definition means alcohol whose taxes have not been paid or that was manufactured illegally (Bhattacharya, Gathmann, & Miller, 2012). For the better half of the 21st century when Kenya was a British colony, Africans were not allowed to drink bottled beer because it was preserved for their white masters. The colonial authorities put restrictions on the production of traditional beers such as mnazi and busaa, as they were allowed for ceremonial purposes only. However, this was later withdrawn when the state of emergency was announced, leaving the indigenous Kenyans with no alcoholic drink (WHO, 2014) As a result people began brewing and taking the drinks secretly. Just like in America, when the manufacturing, sale and distribution of alcoholic liquor were banned, illegal manufactures and sale of the alcoholic drink went underground hence became a huge business. (Vancouver, BC. July 19, 2013. Illicit alcohol in British Columbia. Results from a qualitative research Study).

The famous chang'aa was initially a traditional brew but as the illegal alcohol business continued booming, the chiefs and other junior officers in the provisional administration police wound up the breweries and invade them to extort bribe as the brewing took more than three days or more. By 1970s alcohol manufacturers began developing more refined ways of brewing that required less time, which meant avoiding police and the inconvenience of bribes (Cooper & Witt, 2012).Consequently, trade of fermented traditional drinks was banned in 1979 by the Kenyan government although People still do make and trade in drinks such as grain beers and palm wine. It's a risky business, though distilled drinks offer higher profits for the risk involved hence became a huge business; the trade in this informal sector is probably five times large as the legal traded beer, wine and spirit. Majority of the population are low income earners thus turn to consuming illicit alcohol because of its affordability rather than the highly taxed beer Mutisya and Willis (2009).

Due to its low price, the product has a higher demand and is stronger than other drinks since its production process is altered by adding catalysts to increase the amount produced and its strength even though it compromised the set standards hence it not only bring a loss of government revenue but also it is lethal for human consumption. The brewing industry is one of the fastest growing sectors in Kenya and it employs hundreds of thousands of people thus the unlawful trade of illicit alcohol products has more than just narrow health impact. The illicit alcohol products have affected Kenya's economy in various ways. For example, young men who would have worked in various economic sectors of the country are lured into cheap liquor which is dangerous to their health, it has robbed off the country billions of shillings inform revenue. Legitimate manufactures are suffering loss of income due to stiff competition; still illicit trade distorts fair market competition and serious adverse effect on investments in Kenya (Cooper & Witt 2012).

The government is the biggest loser since the illicit dealers don't pay taxes at all yet they narrow the revenues of those who pay taxes. This is an industry that generates close to 100 billion Kenya shillings annually, but 30percent of it is left in the hands of dark dealers hence a great loss. Those in the illicit liquor trade have no value chains, further limiting economic impacts and that is why the government has all the reasons to deal with it in the best way.

The network of illicit trade runs deep with the entire chain comprising contraband goods or counterfeit materials that are used in brewing, allowing them to sell their products cheaply, and these further locks out genuine dealers from the market. The average cost of producing a genuine 250ml of spirit is KES 93.34 without inclusivity of VAT. The market price after factoring in marketing and associated cost of delivering the product and inclusive of the profit margin is Shs120 at the minimum. A quick look at most shops selling spirits reveal that a similar quantity of some brands are sold for as low as Sh95, underlying the market muscle some dealers have in undercutting manufacturers and denying the government millions of shillings in unpaid excise taxes (Viva Africa Consulting).

The government is faced by double headache of missing out on revenues from illicit brewers and spending heavily to address the challenges they bring about, including monitoring and cracking the illicit trade. Manufactures are willing to reduce the prices of genuine alcohol even though taxes are still high if and only if the alcohol industry is well regulated and all participants pay taxes.

Legitimate brewers are forced to raise the price of alcohol to recover their earnings that are lost to those drawn to the cheap illegal liquor. The illegitimate brewers on the other hand continue not to pay tax creating a cycle of negative effects in the entire market system. Illegal traders also use contraband raw materials such as spirit and sugar to make their drinks and ingenuously pack them in recycled bottles acquired from retail market. They later sell them by having their true character concealed as genuinely branded products. By doing this they end up not paying branding or advertising cost.

In year 2010 Mututho law was introduced by then Member of Parliament of Naivasha John Mututho which aimed at legalizing chang'aa but unfortunately the bill was defeated on the floor of parliament. The alcohol bill could not be passed due to the fact that it arouses the interest of different players in the industry. This later led to the establishment of a committee drafted regulations on alcohol control. In the year 2011 the government declared war on illicit brews, a directive given by then internal security minister to all law enforcement officers to decisively deal with those selling illicit brews. Also in 2015, President Uhuru Kenyatta declared war on illegally-brewed alcohol, revoking the licenses of many of the nation's bars and destroying their stocks of the illicit beverages. Illicit trade undermines the concept of a free and open marketplace which is fundamental to improving competitiveness, increasing investment, generating jobs and improving the economic situation (Vision 2030).

Tax avoidance is a method whereby tax payers take full advantage of the loopholes in a country's tax laws to pay less tax than they are obligated to pay were it not for those very laws. Studies have shown that large corporations based in Kenya and high net worth individuals have taken advantage of the country's convoluted and outdated tax regime to rob the government of an estimated Sh100 billion (USD 1.1 billion) a year, tax justice network & action aid report (2012).

In this regard Importers and distributors of alcoholic drinks are set to come under tight and strict regulation to help curb tax evasion and use of contraband. Kenya Revenue authority came up with a law set to substitute the six-year old Mututho law which will reduce the number of distributors allowed to import and sell alcoholic drinks (Patrick Alushula: Business daily news) The new law will help control the supply of alcoholic brands to lock out players who sneak-in sub-standard products without paying taxes or adhering to health standards. "Parallel importers smuggle in

products and sell at prices that undercut the legitimate distributors without paying taxes or checking whether the quality is certified,” Kenya Revenue Authority Commissioner. This comes in the wake of revelations of the existence of a cartel that has penetrated the high-end alcohol market with counterfeit liquor of mostly foreign brands. To make matters worse the cartel even prints its own fake KRA stamps. The police and KRA officials recently after a tip off confiscated 391 boxes of fake stamps. It’s believed that the boxes contained 46.8 million stamps whose sale was valued at KSh.70 million. When used on one-liter bottles they would earn KRA KSh8.1 billion in excise tax revenue (Fisman, & Wei, 2001).

The government giving priority to the legitimate alcohol industry for purposes of generating revenue has diverted majority of their resources toward this cause, which has in turn led to the mushrooming of the informal brewers who are constantly clashing with the police. Corruption, high taxes and affordability (poverty) are some of the factors associated with the illicit alcohol market. The affordability of alcohol may be low, due to high excise duty on alcohol and it may also be due to low incomes. The duty levied on alcoholic products provides a significant amount of revenue to most governments. Governments may increase the excise duty on alcohol for two major reasons; to increase revenue or to discourage their consumption. However, alcohol has an inelastic demand, thus when the duty is increased, the public may drink less, opt for cheaper alcohol or even buy the illicit alcohol

1.2 Statement of the Problem

According to Godden and Allen (2020), regulators in approximately fifty countries use tax stamps globally in an attempt to protect alcohol tax revenues. Arguably, whatever systems of enforcement and control are put in place, governments should also remember the potential for elevated tax rates to encourage informal activity at the expense of the formal tax-paying sector, thereby undermining revenues and encouraging the range of other problems associated with illicit trade, from irresponsible drinking to the funding of other crime. A simple tax structure will also foster compliance and transparency says (Godden and Allen ,2020).

The government lost Sh43.7 billion in taxes in the 2013-2014 financial years to illicit brews (Viva Africa Consulting 2014). Nearly 70% of the population exists within the slums, within the 70%, 50% consume illicit brew in one way or another, which means as much as it is sold at KES10, they

still make much money due to the part of the population that exist within the slums, these means that legal alcohol is sold less in these areas or not at all. To maximize profits, many producers or distributors add certain chemicals to enhance the brew's potency (Odaló, 2007).

The government's main objective of imposing excise tax is to discourage consumption of taxed alcohol as well as raise revenue. It's important to note that there's a very high prevalence of second-generation alcohol outside of government control, example are Chang'aa, Busaa and Mnazi which has adverse effect on loss of revenue. Illicit alcohol by definition means alcohol whose taxes have not been paid or that was manufactured illegally. Illicit brew accounts for 30% of the alcohol market with legitimate companies sharing 70%. Taxes account for 50% of cost of production for alcohol manufacturers as illicit brewers are able to save 50% of their cost of production making alcohol cheaper thus attractive to many Kenyans (Odaló, 2007).

There is however, an empirical paucity on effect of excise taxes on second-generation alcohol. KRA recently introduced excise duty stamps but did not factor in stamps for second-generation brews. Previous studies by Chesire (2018) the effect of excise taxes on the profitability of alcohol and cigarette manufacturers in Kenya and Wanjiku (2019) the effects of excise duty on the financial performance of manufacturing firms in Kenya did not fill the knowledge gaps. Therefore, this study aimed on investigating factors that affect revenue collection on second-generation alcohol by Kenya Revenue Authority in Malindi and to provide recommendations on the improvement of revenue collection from the second-generation alcohol in Kenya.

1.3 Objectives of study

1.3.1 General Objective

To assess factors affecting revenue collection on second-generation alcohol by KRA in Malindi.

1.3.2 Specific Objective

- i. To find out how Licensing of Second-Generation alcohol affects revenue collection of second-generation alcohol by Kenya Revenue Authority in Malindi.
- ii. To analyze how Infrastructure affect revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi.

- iii. To find out how Tax Policies affects revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi

1.4 Research Questions

The study was guided by the following questions;

- i. How does Licensing of Second-Generation alcohol affect revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi?
- ii. How does Infrastructure affect revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi?
- iii. How does Tax Policies affect revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi?

1.5 Significance of Study

The findings, recommendations, and conclusions of this study will be of high importance to the government, as it will help establish legislations and policy that will be used to control and regulate the sale of second-generation alcohol in Kenya. The results of this study will be of importance to the Kenyan government as well as other government agencies in making decisions concerning Second generation alcohol on revenue collection. This will further help prevent loss of revenue collected from excise products another area of importance is for policy makers, the public, the Kenya revenue authority, and institutions such as NACADA, for researchers it will be used as a point of reference. scholars and adds to the existing body of knowledge about factors affecting revenue collection on second generation alcohol in Malindi, Kenya.

1.6 Scope of Study

The study was restricted to Second Generation alcohol consumed in coastal region of Kenya. It targets manufactures, distributors wholesalers and consumers of the second-generation alcohol in Malindi. Data for the study was obtained from self-administered questionnaires.

1.7 Limitations

It was anticipated that the main limitations were the time and financial constraints. The research required funds which were limited and the time required to undertake the research was also limited. The other challenge expected was getting authority to access the distributors and revenue officers. Also, the officials and the employees were not be free to give required data due to confidentiality issues. Through planning and budgeting on the available resources was used as a solution for the time and financial constraints

Regardless of the above constraints, the researcher succeeded in collecting reliable data and accurate feedback from the respondents targeted. A well-structured questionnaire was utilized and assurance on information confidentiality of the responses of respondents was given.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature in the field of Second-Generation alcohol products and the excise duty forgone because of the same. The theoretical review, conceptual framework, review of variables, Empirical review, Critique of existing Literature on the second-generation alcohol as well as the research gaps identified from this study.

2.2 Theoretical literature review

The researcher here covers the general theories that are relevant to the study on the taxation of the Second-Generation alcohol in Kenya. Herein the researcher has reviewed the Partnership theory of taxation, The Benefit theory of taxation and the Expediency theory of taxation.

2.2.1 The Partnership Theory of Taxation

The partnership theory of taxation posits that government should share in the profits of economic enterprise by way of an income tax. One might call the partnership theory the economic version of the Benefit theory, and the latter as the moral entitlement version of the former. The partnership theory is based on the notion that government should share in national income (or, more technically, gross national product (GNP), because government, by supplying infrastructure in the broad sense (physical infrastructure, national and domestic security, a capitalism-enabling legal system and regulatory structure), earns a share of the GNP (Blair, 2014). This theory is especially appealing to the manufacturers, distributors' and consumers who are supposed to pay taxes levied against them by the government, since this revenue collected is used to enhance the general environment to enable their alcohol business trade to flourish.

2.2.2 The Benefit Theory of Taxation

According to Benefit Theory, the state should levy taxes on individuals according to the benefit conferred on them. The more benefits a person reaps from the activities of the state, the more the tax the person should pay to the government. This principle has been criticized because, first, if the state maintains a certain connection between the benefits conferred and the benefits derived, it will be against the basic principle of the tax. A tax is basically a compulsory contribution made to

the public authorities to meet the expenses of the government and the provisions of general benefit to all citizens (Dodge, 2005). The Second-generation alcohol industry is newly recognized in Kenya, and therefore from its untapped revenue, lots of revenue is lost which could be taxed, notwithstanding the fact that alcohol products are heavily taxed to regulate consumption in the Country. This theory perfectly explains the relationship in the taxation of Second-Generation Alcohol.

Secondly, most of the expenditure incurred by the state is for the general benefit of its citizens, it is not possible to estimate the benefit enjoyed by a particular individual every year for it to be decided how much tax this individual should be charged. Further, if we apply this principle in practice, then the poor will have to pay the heaviest taxes, because they benefit more from the services of the state. But if the government charges more on the legitimate alcoholic products, the manufacturers tend to resort to brewing of Second-Generation alcohol to earn more money since most Second-Generation alcoholic products are sold on the black market hence no taxes are charged.

2.2.3 The Expediency Theory of Taxation

The expediency theory asserts that every tax proposal must pass the test of practicability. It must be the only consideration when the authorities are choosing a tax proposal. Economic and social objectives of the state should be treated as irrelevant. This proposition has a truth in it, since it is useless to have a tax, which cannot be levied and collected efficiently. There are pressures from economic, social and political groups. Every group tries to protect and promote its own interests and authorities are often forced to reshape tax structure to accommodate these pressures. In addition, the administrative set up may not be efficient to collect the tax at a reasonable cost of collection. Taxation provides a powerful set of policy tools to the authorities and should be effectively used for remedying economic and social ills of the society such as income inequalities, regional disparities, unemployment, and cyclical fluctuations and so on. TOT should result from a balance of the forces (Bhartia, 2009).

Preferred theory of the Study

For the purpose of this study, the approach preferred is the Benefit Theory of Taxation. The approach is intensive and has practical variables under identified indicators. The study however, underpins to three indicators; licensing, infrastructure and tax policies.

2.3 Conceptual Framework

2.3 Conceptual Framework

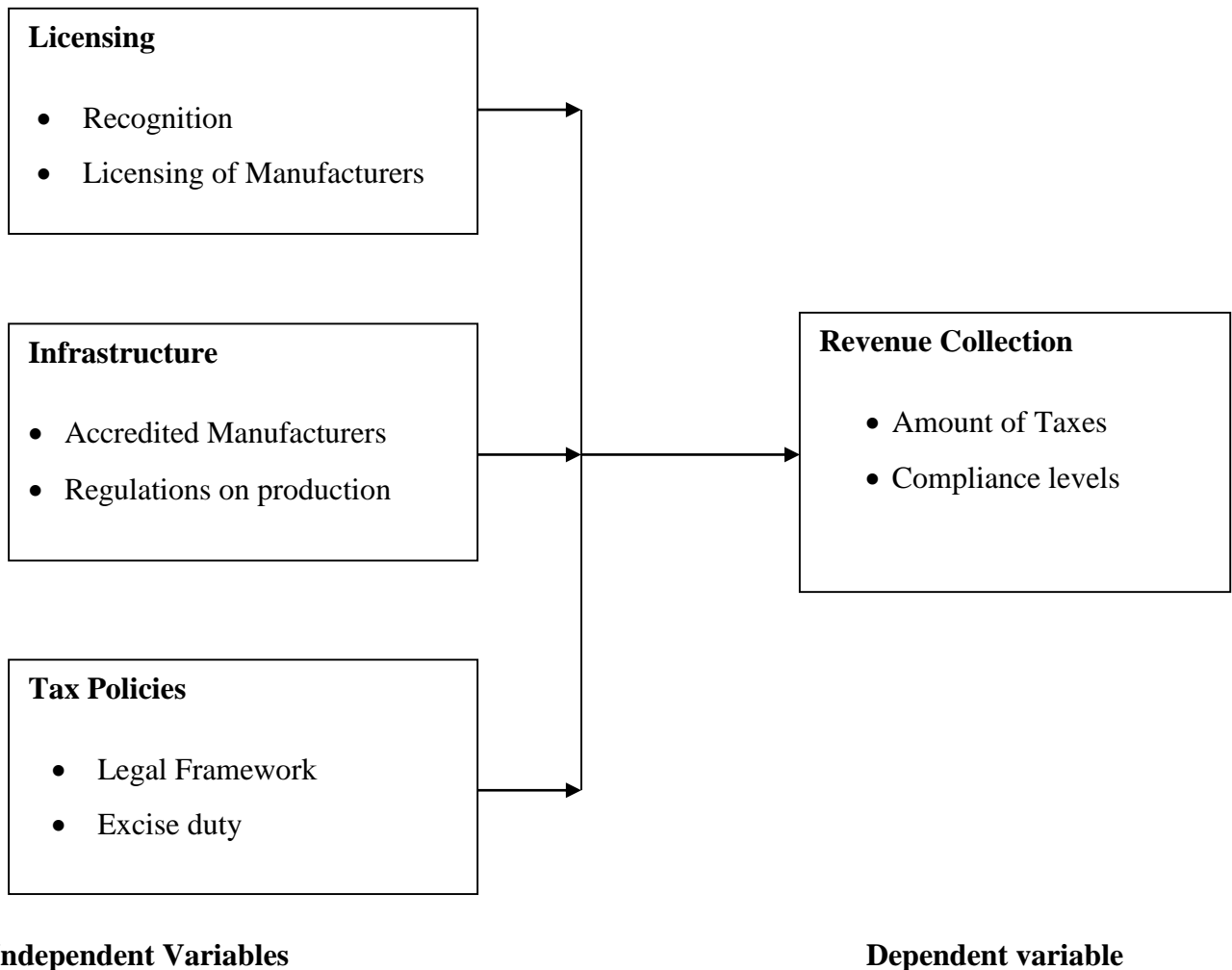


Figure 2:1 Conceptual framework

2.4 Review of Variables

2.4.1 Licensing of Second-Generation Alcohol in Kenya

Licensing and Registration are key controls of an excise system. They help understand the nature of venture one is to engage in and help in laying down the plan and strategies for monitoring and accounting for excise purposes. Licensing ensures that only companies that are tax compliant are allowed to transact business with the tax authority (Peerce, 2008). License for Excise Manufacturers is covered in Section 90-95 of chapter 472 laws of Kenya. Section 90 Provides that all manufacturers of excisable goods must seek a license before commencement of any venture; hence it's an offence to manufacture excisable goods without a license. Section 91 further provides that: A separate application shall be required in respect of each factory in which excisable goods are to be manufactured as well as each class of excisable goods to be manufactured. Therefore, license or registration is issued against a tight scope, in other wards a license is issued for a specific activity, a certain location, a sole commodity, as this helps to further reduce the risks involved in revenue collection.

The Kenyan Government has not yet licensed any second-generation alcohol, in most cases the government has illegalized the brewing of these second-generation alcohol products while arresting the brewers. It's important to note that there's a very high prevalence of second-generation alcohol outside of government control, example is Chang'aa, Busaa and Mnazi which has adverse effect on loss of revenue. Illicit alcohol by definition means alcohol whose taxes have not been paid or that was manufactured illegally. The alcoholic drinks industry approximates that 50% of all alcoholic drinks consumed in Kenya are illicit and informal, translating to a yearly revenue loss of KES.30 billion to the Kenyan government in the year ended 30th June, 2015. The study also concluded that illicit black-market trade is also a large criminal enterprise that is linked to drug trafficking terrorism, and other violent crimes committed in Kenya.

2.4.2 Infrastructure

Infrastructure forms a crucial component when it comes to the production and preparation of alcohol. KAM pushed the Government to put in place, and relentlessly implement, effective measures to protect Kenyans from the scourge of illicit merchants who are driven by greed. Failing to curb the use of illicit alcohol, threatens not only government revenue, but also public order and public health. Illicit alcohol products frequently contain dangerous levels of isopropanol, methanol

and other chemicals that cause blindness, toxic hepatitis and even death. Therefore, infrastructure must be considered when dealing on the Second-generation alcohol in Kenya, there have been cases whereby from the environment or preparation of traditional brews has costed lives of citizens in Kenya. With proper infrastructure

The illicit alcohol trade has turned some Kenyans into very rich criminals, who do not care about the health of their costumers nor do they care about their effect on government revenue. The consumption of illicit alcohol can be controlled; however, some of the institutions that deal with the regulation of alcohol have failed to act on this issue. This allows people to produce and hawk killer brews since no action is taken against them.

Whenever there is a higher demand for a certain product, banning it leads to creation of a more vibrant black market. People with lots of courage, power and influence to participate in a black market are usually unprincipled businessmen with no standards or morals. Law abiding citizens who sometimes are experts in the manufacturing and distribution of the prohibited product stop associating with it and this has led to a rise in quacks and individuals whose sole purpose is profit at the expense of human lives. When a government bans a product making it illegal a number of things happen, a high decrease in supply due to the penalties imposed for selling the goods causing people to move into other industries. Secondly, a decrease in demand since production of possession of the good deters some customers from willing to buy it. The supply side effects overlook the demand side thus the government ends up creating black market. Legalizing it on the other hand, allows for fair competition and the freedom of choice by consumers. The products improve as a result. It also enables for creation of clear channels of inspection and certification which ensures very little harmful product is sold (Moffat, 2009).

2.4.3 Tax Policies

Alcohol products are heavily taxed in Kenya, A couple of common themes emerge when considering beer laws as they relate to economic growth. First, the history of beer regulation runs parallel to a history of unintended consequences, making it near impossible to find a clear answer to the title question. Restricting the sale of alcohol is likely to reduce tax revenue, which has historically played a key role in government funding. As was the case during Prohibition, The American beer policymakers often overlook the economic consequences of their newly formed regulations. When considering the entrepreneurial nature of craft breweries, restrictions on self-

distribution seem especially onerous and counterproductive. A second theme emerges if one considers the structure of many beer laws: While the stated purpose of these laws is often to promote consumer health, many alcohol laws are targeted at the supply side rather than the demand side. As is the case for self-distribution laws, Prohibition sought to reduce the supply of alcohol but did little to target consumer demand (Malone & Lusk. 2016).

The government ought to reconsider its taxes against legitimate alcohol products, and give incentives for informal brewers to join the legitimate industry so as to encourage them to incorporate health standards in their production. Conversely, Finland and Britain have some of the highest taxes on alcohol in the world, yet the amount of alcohol consumed in these two countries is the same as the amount consumed in places such as Spain and France, where the alcohol is more affordable. From this comparison, it is evident that that high alcohol taxes do not reduce the consumption of alcohol but it can alternatively cause the illicit alcohol market to thrive. “The government focus on maximizing tax revenues is short-sighted and dangerous. Aside from losing money by encouraging consumer to find cheaper illicit alternatives, public health and public order are also being put at risk by high prices. Policy-makers ought to take the threat of illicit alcohol production seriously when considering alcohol pricing in the future” (Snowdown, 2012).

2.4.4 Revenue Collection

Excise duty is administered by the Kenya Revenue Authority using the Customs and Excise Act, Cap 472 Laws of Kenya. Licensing of the manufacturers is crucial during the regulation exercise in many ways. This assists the government in monitoring production, sales and compliance in the payment of taxes. The excise license fees are KES. 100,000 for beer, spirits/ spirituous beverages and cigarettes, and KES. 50,000 for other excisable goods. The rates charged on alcoholic products are KES. 70 per liter or 40% RSP for Beers, KES. 80 per liter or 40% of Excisable Value for Wines and KES. 120 per liter or 35% of Excisable Value for Spirits.

The revenue forgone by the government of Kenya annually is dependent variable of this study. If the illicit alcohol products are easily available on the market, little of the legitimate alcohol products that offer revenue to the government are consumed, thus there is need to overcome are the independent variables. As shown in the figure below, the availability of illicit alcohol products on the market directly affect the revenue forgone. When the factors are many and difficult to overcome the revenues reduces and when they are few and easy to overcome revenues will be

expected to be high. This happens within the context of the tax collection management policy of the tax collector. The tax collection management policy affects the nature and types of challenges, the revenue collections and the nature of the relationship between the challenges and the revenues (Carnahan, 2015).

2.5 Empirical Review

There exists a lot of literature on alcohol consumption, taxation globally and locally. The alcoholic Drink Control Act of 2010 which was passed by the government of Kenya was to aid in curbing of alcohol abuse but due to corruption in government, high unemployment rates, alcohol is still a huge plague to Kenya especially in the coastal region.

Mugo (2016) on the other had embarked on a study to investigate prevalence, patterns, effects and counselling interventions of alcohol use among students in private faith based and public universities in Kenya. The study concluded on the prevalence of alcohol use among university students is high and effects are enormous to the users and non-users. While the researcher recommended on specific counselling interventions based on the levels of use because alcohol use patterns are varied among university students. The high consumption can be attributed to ease availability, social acceptability and also sales promotions through uncontrolled sales promotions and uncontrolled advertisements (Mugo, 2016).

In a study on non-commercial alcohol conducted in Kenya in 2012 by the International Centre for Alcohol Policies (ICAP), it was noted that traditional drinks, which include homemade brews accounted for an estimated 74% of the total alcohol consumed in Kenya. Although the exact figures in regard to production, sale and consumption of these drinks are not reflected in official government data but they represent a vital chunk of local economy (Odaló, 2012). Another study by ICAP on Non-commercial Alcohol: Understanding Informal Market - a significant portion of all alcohol consumed globally is not reflected in the official statistics, such as the production, trade and sales figures. These alcoholic beverages fall into the general category of non-commercial alcohol and are particularly prevalent in low and middle-income countries. The study further states that because they are not produced and/or distributed within legally monitored or recorded settings, such beverages evade taxation and quality checks., it was further noted that counterfeit beverages packaged as legitimate commercial products and mass-produced illicit drinks coexist with legal

beverages in many countries. Counterfeiting is encouraged by poor law enforcement, inadequate legal protection for intellectual property, corruption and unmet consumer demand due to restricted availability of legal alcohol. Counterfeiting takes two forms:- Substitution/refill: when empty bottles of legitimate products are filled with cheaper drinks in alcohol-serving establishments. Organized criminal counterfeiting that involves manufacture of fake packaging and/or liquid for local and international distribution.

Akoth (2012) studied the Effect of alcoholic control act 2010 of Kenya on alcohol consumption among residents of Nairobi county. The researcher found out that Most of the bar proprietors were against the Act since it negatively affected their businesses. James Shikwati, the Director of Inter Region Economic Network asks; what lessons can Kenya learn from failed regulation against illicit brews? He stated that simply regulating the consumption of alcohol by declaring it illicit or through high taxes, without addressing the reasons why consumers manage to access the illicit brews is not a solution. High consumption of illicit brews is a true testimony to the effect that increased prices of legitimate alcohol products due to high taxes has forced Kenyans to go underground in search of cheap liquor. The production of illicit alcohol with high alcohol content was reported to have increased in central Kenya (Muturi, 2014).

Braguinsky & Yavlinsky, 2000) studied on the Factors encouraging the sale and consumption of illicit liquor, A black market emerges as the product of a heavily regulated economy. Since illicit products are untaxed, and use low cost ingredients and production method, they tend to be cheaper than that of their commercial counterparts. Mostly the products are illegal and with police raids being carried out, producers, distributors, and retailers often buy their way out.

A study by NACADA in 2012 showed that about 4 million Kenyans consume illicit alcoholic beverages majority who are low income earners, this was attributed to the removal of remission and senator Keg, commonly known as Obama hence increase in price. According to NACADA, there was a surge towards the production of illicit alcohol laced with methanol, various kinds of fertilizer, battery acid and sisal juice. The market of illicit brews remains outside the tax bracket while the government's hopes to collect more tax revenue from the Senator Keg brand suffered a huge blow as consumption of the product declined, while that of illicit brews shot up.

A study conducted by ICAP on Non-commercial Alcohol: Understanding Informal Market, suggests that various economic and social factors drive the production and consumption of non-commercial alcohol: - High quality artisanal drinks are a prominent part of the local culture, so their production and consumption is a matter of national pride. However, demand for many non-commercial beverages worldwide is primarily driven by the significant price differential between commercial and non-commercial product. Stringent government controls on legal beverages, including price hikes and limits on physical availability, have been reported to drive the demand to the grey and black markets, particularly among the poorest segments of population.

2.6 Critique of the existing literature

Researchers have deeply and extensively expounded on alcoholism and alcohol abuse in Kenya. A study by NACADA (2012) Alcohol Use in Central Province of Kenya. A Baseline Survey on Magnitude, Causes and Effects from the perspective of Community Members and Individual Users, showed that about 4 million Kenyans consume illicit alcoholic. From the study the researcher used cross-sectional survey, the sample was 500 households per District totaling to 3,500 respondents. From the findings, more than 80% of the respondents felt that second generation¹ alcohol consumption was increasing while 58% felt that first generation alcohol was decreasing. Further this report proposes on legalizing of chang'aa and its manufactures to conform to prescribed standards. The government through advice of the relevant agency shall develop standards for the manufacture of chang'aa that shall be followed. This will ensure that the drink is safe for human consumption.

Akoth (2012) studied the Effect of alcoholic control act 2010 of Kenya on alcohol consumption among residents of Nairobi county, The study was conducted as a cross sectional descriptive survey. The target population was the residents of Nairobi County. Random Sampling was used in this study. The data was collected through questionnaires as the main technique. The researcher found out that Most of the bar proprietors were against the Act since it negatively affected their businesses.

Mugo (2016) on the other had embarked on a study to investigate prevalence, patterns, effects and counselling interventions of alcohol use among students in private faith based and public universities in Kenya. The study was ex post facto in approach and adopted the causal comparative

research design. The researcher adopted an ex post facto in approach with the causal comparative research design. Ex post facto research is a type of research that takes place long after the facts have occurred, with a purposive sampling from a population of 31,369 students to obtain a sample of 374 students from the four universities. The study concluded on the prevalence of alcohol use among university students is high and effects are enormous to the users and non-users. While the researcher recommended on specific counselling interventions based on the levels of use because alcohol use patterns are varied among university students.

2.7 Research gaps

A lot of these researches done have concentrated on the social perspective of alcoholism as well as behavioural and abuse, to mention a few of the literature, Mugo (2016) did a study to investigate prevalence, patterns, effects and counselling interventions of alcohol use among students in private faith based and public. Other studies have also sought to examine the legislation loopholes in Kenya on alcohol, bearing into perspective on the sellers or distributors' advantage, Akoth (2012) studied the Effect of alcoholic control act 2010 of Kenya on alcohol consumption among residents of Nairobi county. Therefore, evidentially no study has been conducted on the Second-generation alcohol on taxation benefit or revenue payment to the government, majority of these researches have been on investigating alcohol as a vice rather than any source of revenue despite having knowledge on taxation of alcohol products and ever-increasing taxes budget over budget. Therefore, this research will seek to bridge the gap and provide empirical evidence on the factors that affect revenue collection on Second Generation Alcohol in Malindi.

2.8 Summary

Throughout the review of literature, the researcher adopted three theories the partnership theory of taxation, the benefit theory of taxation and expediency theory of taxation. In this chapter the researcher reviewed the main research variables which include licensing, infrastructure, tax policies and revenue collection on second generation alcohol. The researcher has reviewed existing literature by critiquing studies by Akoth (2012) on Effects of alcoholic control act 2010 of Kenya on alcohol consumption among residents of Nairobi county among other studies to bring up the

existing research gap. Therefore, this research will seek to bridge the gap and provide empirical evidence on the factors that affect revenue collection on Second Generation Alcohol in Malindi.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology of the study. It outlines how the study was carried out. The chapter presents the research design, data collection and data sources, the target population, the sampling design and sample size, data reliability and validity, data analysis and data presentation.

3.2 Research Design

The study adopted a cross-sectional Survey design. This is a type of research involving the collection of information from any given sample of the population only once. In single cross-sectional design, only one sample of the respondent is drawn from the target population and information is obtained from the sample once. In multiple cross-sectional design, there are two or more sample of respondents and information from each sample is obtained only once. This design was used to explain the factors that affect the revenue collection on the second-generation alcohol in Malindi. This design was appropriate for this study because the Cross-Sectional Survey design nature of obtaining information on the current status of the phenomena by describing what exists in regards to variables (Burns & Grove, 2016).

3.3 Target population

The study was conducted within the coastal areas of Kenya in particular Malindi. The researcher conducted interviews with the Distributors of Second-Generation Alcohol and Revenue Officers in Malindi. According to Waller (2014), population is all individuals or objects of interest to the researcher and to which the study results are applied.

Table 3:1 Population

Category	Target Population
Distributors of Second-Generation Alcohol	42
Revenue officers	160
Total	202

Source: Malindi County and KRA Malindi office (2019)

3.4 Sampling frame

The sampling frame for this study consisted Distributors of Second-Generation Alcohol and Revenue Officers from KRA offices in Malindi. According to Cooper and Schindler (2001) sampling frame refers to the list of elements from which the sample is actually drawn and closely related to the population.

3.5 Sampling size and Sampling Technique

The study adopted a purposive sampling technique since the target population includes the 160 Revenue Officers at Malindi and 42 Distributors of Second-Generation Alcohol. In order to obtain a sample, the researcher will adopt a Slovin's formula to calculate the sample size from the population of 160 respondents.

$$n = N / (1+Ne^2)$$

Where; n is the sample size, N=160 is the population size, e -the level of precision. 95% level of confidence will be used which gives $p = 0.05$ chance of deviation from the actual

Therefore;

$$\text{Sample size } n = 202 / (1 + 202(0.05^2))$$

$n = 134$ this represents 66.3% of the population under study.

Sample Size

Table 3:2 Sample Size

Category	66.3 % Sample size
Distributors of Second-Generation Alcohol	28
Revenue officers	89
Total	134

3.6 Data Collection instruments

These include the various data sources that were used during the research and how the data was collected. In this study, a questionnaire will be adopted as one of the instruments to collect data. A questionnaire is ideal for this study because it is easy to administer and analyze. Besides, the targeted respondents are real estate taxpayers and highly likely to give accurate information. Accuracy of the response further reduces error in the research (Mugenda & Mugenda, 2009). The questionnaires were dropped by the researcher to the respondents to give them ample time to fully answer the questions effectively and were to be picked at a later time once duly filled. During collection, follow up interviews were conducted to supplement and ensure that there are no errors on the questionnaires.

3.7 Data collection procedure

The questionnaires were administered through personal interviews, drop, and pick method. This method enabled the researcher to distribute the questionnaires and pick them later after they were filled. The respondents were assured of confidentiality and that the data was to be used for academic purposes only. Consequently, permission was sought from the chairperson of nyumba kumi before the data collection exercise.

3.8 Pilot Testing

Pilot testing is a field observation undertaken by a researcher as a preliminary survey (Kothari, 2011). Pilot testing is crucial in testing validity and reliability of the data collection instruments.

3.8.1 Reliability

Degree to which, to an examination measure gives a steady assessment of an idea (Neuman, 2014). In order, to ascertain the reliability of the questionnaires, the researcher conducted a pilot study on the questionnaires by administering it to some respondents from whom data will not be collected during the actual time of undertaking the research, using SPSS 25 to run the Cronbach's alpha tests where an index of above 0.7 is considered for a data collection instrument to being ruled as reliable (Neuman, 2014).

3.8.2 Validity

A face and content validity were carried out. Face validity refers to the likelihood that a question will be misunderstood or misinterpreted. To counter this, a pre-test of the survey were carried out. Counter validity refers to whether an instrument provides adequate coverage of a topic.

3.9 Data Analysis and Presentation

The data collected was analysed using Statistical Package for Social Science (SPSS) version 25 software. The software helped in grouping the data to facilitate comparison. A comparability analysis was performed. The researcher analysed both the descriptive data and inferential statistics. Descriptive data was analysed and presented in the tables focusing on Measures of central tendency and measures of dispersion. Inferential statistics involved the correlation analysis, linear regression analysis. For the quantitative data coming from closed questions, it was analyzed through descriptive analysis technique where percentages, frequency, the mean and standard deviation will test central tendency levels (Holcomb, 2016). Inferential analysis was conducted to establish the form of relationship between dependent variables and the independent variables with Pearson correlations analysis that has a high probability of predicting relationships (Mertler & Reinhart, 2016). Multiple regression and correlation analysis was involved. The regression equation was of the form;

The relationship of the variable was expressed as a linear regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where; Y = Revenue Collection

β_0 = Constant Y intercepts the constant denoting the revenue collection on second generation alcohol when all other variables are assumed to being at zero.

β_1 = Coefficient of variable 1 X_1 = Licensing of Second-generation alcohol

β_2 = Coefficient of variable 2 X_2 = Infrastructure

β_3 = Coefficient of variable 3 X_3 = Tax policies on second generation alcohol

ε = error term denoting other factors that affect revenue collection on second generation alcohol in Malindi.

CHAPTER FOUR

ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the research data analysis and interpretation, the chapter starts with the analysis of the respondents' response rate, pilot results, reliability analysis from the pilot results. The demographic analysis of the respondents as well as the descriptive analysis on the variable specific analysis and then the correlation analysis.

4.2 Response rate

Table 4:1 Response rate

	Response rate	Percentage %
Respondents	99	73.8%
Non-respondents	35	26.2%
Total	134	100.0%

The researcher managed to receive back 99 dully filled questionnaires from the respondents, out of the 134 distributed questionnaires, therefore giving a 73.8% response rate. This response was adequate since according to Fincham (2008) a response rate of above 60% is considered to be adequate for reliable research findings.

4.3 Pilot testing results

4.3.1 Reliability

The researcher conducted a pilot study to test the instruments reliability and validity for the study, Reliability is defined as the degree to which to an examination measure gives a steady assessment of an idea (Neuman, 2014). The researcher used the SPSS 25, to measure the reliability of the collection instrument, which in this case was the questionnaire.

Table 4:2 Pilot results

Scale	Cronbach's Alpha	Items Tested	Comments
Licensing	0.801	4	Accepted
Infrastructure	0.723	4	Accepted
Tax_ policies	0.761	4	Accepted
Revenue_ collection	0.782	4	Accepted

From the analysis, measured in Cronbach's Alpha, each variable obtained a given measure which was then tested against the set minimal requirement for an instrument to being ruled as reliable. Licensing of Second Generation Alcohol obtained an index of 0.801, while Infrastructure obtained an index of 0.723. Tax policies obtained an index of 0.761 and Revenue collection from the Second Generation alcohol had an index of 0.782. Cronbach's Alpha values of 0.700 and above will be considered to being reliable (Kothari, 2011).

4.3.2 Validity

The study employed KMO and Bartlett's test to check for the validity of the contents in the data collection instrument. From the analysis, The KMO sampling adequacy was 0.707. According to Neuman (2014), higher values which are closer to 1.0 show that a factor analysis may be useful with your data. This meant that the data was useful in factor analysis. For the Bartlett's Test of Sphericity, the significance was 0.000 which was less than $p < 0.05$, indicating that factor analysis may be useful with the available data.

Table 4:3 KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.707
Bartlett's Test of Sphericity	Approx. Chi-Square	156.182
	Df	3
	Sig.	.000

4.4 Demographic Analysis

The researchers also sought to summarize on the demographic information and understand the demographic information of the respondents from the responses given.

4.4.1 Level of education

Table 4:4 Level of education

Level of Education	Frequency	Percentage%
Certificate level	17	17.2%
Diploma level	32	32.3%
Degree level	43	43.4%
Masters level	7	7.1%
Total	99	100.0%

Certificate level holders were 17 respondents giving a 17.2%, Diploma level were 32 respondents therefore indicating a 32.3% of the respondents. Whereas the Degree level respondents were majority with 43 which indicated a 43.4% and post graduate level was only 7 respondents thereby indicating a 7.1%. This has given a progressive understanding towards the policing and legal structure understanding from the respondents on the Second Generation Alcohol. From the high levels of education it is evidenced that the respondents are aware and knowledgeable on the point of discussion and therefore would provide an in-depth information to the researcher pertinent to this study.

4.4.2 Level of Experience

Table 4:5 Level of Experience

	Frequency	Percentage %
0-4 Years	22	22.2%
5-9 Years	39	39.4%
10-14 Years	31	31.3%
Above 15 Years	7	7.1%
Total	99	100.0%

The findings in the table above on the number of years the respondents had worked revealed that shows that 39.4% of the respondents had an experience of 5-9 years, followed by 10-14 years' experience with 31.3%. 22.2% of the respondents had an experience of more than 10-14 Years while 7.1% of the respondents had an experience of above 15 years. This proved that the respondents had enough experience to make informed decisions based on experience.

4.5 Descriptive analysis

The researcher adopted closed ended 5 scaled questionnaires whereby from the scale 1 indicates strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree. This analysis sought to unearth the meaning from the responses provided through examining measures of central tendency, which is mean and the Measures of Dispersion- standard deviation. These factors included licensing, Infrastructure and Tax policies with their indicators.

4.5.1 Descriptive analysis on Licensing

Table 4:6 Descriptive analysis on Licensing

Statements	N Valid	Mea n	STD dev
There are adequate Licensed second-generation alcohol brewers in the region	99	4.071	1.025
All the second-generation alcohol brewers are duly licensed to conduct business	99	3.976	0.993
Licensing of the second-generation alcohol brewers will greatly improve on management of illicit brews	99	3.815	1.152
The availability, affordability and accessibility of second-generation alcohol or illicit alcohol contribute to its prevalence that is production and sales in the area	99	3.662	1.241

The researcher sought to find out how Licensing of Second-Generation alcohol affects revenue collection of second-generation alcohol by Kenya Revenue Authority in Malindi. The respondents strongly agreed that there are adequate licensed second-generation alcohol brewers in the region with a mean of 4.071 and a standard deviation of 1.025. This findings are in agreement with Peerce (2008) that Licensing ensures that only companies that are tax compliant are allowed to transact

business with the tax authority. The respondents also agreed that all the second-generation alcohol brewers are duly licensed to conduct business with a mean of 3.976 and a standard deviation 0.993. On the statement that Licensing of the second-generation alcohol brewers will greatly improve on management of illicit brews, they were on agreement with a mean of 3.815 and a standard deviation of 1.152. This further indicated a varied response from the high variance. Pearce (2008) study established that the availability, affordability, and accessibility of second-generation alcohol or illicit alcohol contribute to its prevalence that is production and sales in the area a mean of 3.662 and a standard deviation of 1.241 was obtained, this also indicated varied mixed responses which respondents provided to being neutral with the statement.

4.5.2 Descriptive analysis on Infrastructure

Table 4:7 Descriptive analysis on Infrastructure

Statements	N	Mea	STD
	Valid	n	dev
The Second-generation alcohol manufacturers have dedicated facilities for brewing of healthy consumable alcohol	99	4.002	0.818
Government has put in place, and implemented effective measures to protect Kenyans from the scourge of illicit merchants of illicit brews poised as second-generation alcohol	99	4.051	1.047
There are proper institutions mandated on the regulation and licensing of the second-generation alcohol brewers to uphold quality standards	99	3.932	0.933
Traditional infrastructures should be commercialized and licensed to the production of second-generation alcohol	99	3.854	1.004

The researchers' objective to analyze how Infrastructure affect revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi. Using the statements in above to evaluate the respondents views on the how infrastructure affect the revenue collection of the product. Through computation of means and standard deviation to summarize as follows. When the respondents were asked to comment on the statement that the Second-generation alcohol manufacturers have dedicated facilities for brewing of healthy consumable alcohol, a mean of 4.002 with a standard deviation of 0.818 was obtained denoting a strong agreement to the statement. They were also on a strong agreement with the statement that the Government has put in place, and implemented effective measures to protect Kenyans from the scourge of illicit

merchants of illicit brews poised as second-generation alcohol from a mean of 4.051 with a standard deviation of 1.047. They were for the statement that there are proper institutions mandated on the regulation and licensing of the second-generation alcohol brewers to uphold quality standards whereby a mean of 3.932 with a standard deviation of 0.933 was obtained denoting a strong agreement with the statement. Similar study, by Muturi (2014) on the production of illicit alcohol noted that with the improvised infrastructure production of high alcohol content, was reported to have increased in central Kenya, Finally, an agreement to the statement that traditional infrastructures should be commercialized and licensed to the production of second-generation alcohol having a mean of 3.854 with a standard deviation of 1.00

4.5.3 Descriptive analysis on Tax policies

Table 4:8 Descriptive analysis on Tax policies

Statements	N	Mea	STD
	Valid	n	dev
There are sufficient policies and legislations governing the taxation of second-generation alcohol	99	3.882	1.157
The Excise duty rates on the second-generation alcohol is sufficient	99	3.935	0.886
Other government organizations fully appreciate the second-generation alcohol manufacturers	99	3.819	1.277
On tax policy formulation, on the Second-generation alcohol, policy makers should consider locals and traditions as they impose policies that promote consumer health, and uphold of traditions.	99	4.073	0.961

The researcher set out to find out how Tax Policies affects revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi. . Policy-makers ought to take the threat of illicit alcohol production seriously when considering alcohol pricing in the future” (Snowdown, 2012) as pointed out in this study. With the research questions presented to the respondents, the following was obtained. A mean of 3.882 with a standard deviation of 1.157 from the statement that There are sufficient policies and legislations governing the taxation of second-generation alcohol denoting a neutral answer evidenced by a high standard deviation of 1.157. On the statement that the Excise duty rates on the second-generation alcohol is sufficient, the respondents felt to being true, whereby a mean of 3.935with a standard deviation of 0.886 was obtained. The respondents

also felt that Other government organizations fully appreciate the second-generation alcohol manufacturers with a mean of 3.819 and a standard deviation of 1.277, this indicated a wide range of answers from neutral to an agreement on the same, hence a diversified answer on the statement. On tax policy formulation, on the Second-generation alcohol, policy makers should consider locals and traditions as they impose policies that promote consumer health, and uphold of traditions a mean of 4.073 with a standard deviation of 0.961 was obtained therefore indicating an agreement to the statement.

4.5.4 Descriptive analysis on Revenue collection

Table 4:9 Descriptive analysis on Revenue collection

Statements	N	Mea	STD
	Valid	n	dev
With the licensing of Second-generation alcohol manufacturers revenue collection on the product will greatly improve	99	4.078	0.891
There is a huge potential on the taxation of second-generation alcohol in Kenya	99	3.791	1.089
High excise duty rates on deterrence of consumption of the illicit products will raise revenue	99	3.860	0.972
Second generation alcohol ought to have stamp duty imposed	99	4.009	1.045

The researcher sought to assess the underlying factors in revenue collection on second generation alcohol in Malindi. The respondents were in strong agreement with the opinion that with the licensing of Second-generation alcohol manufacturers revenue collection on the product will greatly improve from a mean of 4.078 with a standard deviation of 0.891. They also believed that there is a huge potential on the taxation of second-generation alcohol in Kenya, with a mean of 3.791 and a standard deviation of 1.089 which also from a high variance denoted varying responses from them or mixed views. They were neutral to the statement that High excise duty rates on deterrence of consumption of the illicit products will raise revenue having a mean of 3.860 with a standard deviation of 0.972. they were in strong agreement that Second generation alcohol ought to have stamp duty imposed having obtained a mean of 4.009 with a standard deviation of 1.045, this denoted that taxation of second generation alcohol has a huge potential towards revenue

collection at Malindi. Whereas a contribution by Carnahan (2015) findings that there is a strong influence of the tax collection management policy, that affects the revenue collections and the nature of the relationship between the challenges and the revenues.

4.6 Correlation Analysis

Table 4:10 Correlation analysis

		Licensing	Infrastructur e	Tax_ policies	Revenue_ collection
Licensing	Pearson	1			
	Correlation				
	Sig. (2-tailed)				
	N	99			
Infrastructure	Pearson	.472**	1		
	Correlation				
	Sig. (2-tailed)	0.000			
	N	99	99		
Tax_ policies	Pearson	.347**	.429**	1	
	Correlation				
	Sig. (2-tailed)	0.000	0.000		
	N	99	99	99	
Revenue_ collection	Pearson	.559**	.634**	.613**	1
	Correlation				
	Sig. (2-tailed)	0.000	0.000	0.000	
	N	99	99	99	99

** . Correlation is significant at the 0.01 level (2-tailed).

Using the Karl Pearson’s Correlation analysis to understand the relationship between the studied independent and dependent variables. For the independent variables included licensing of second generation alcohol, infrastructure and tax policies on second hand generation alcohol, while dependent variable being Revenue collection on second generation alcohol in Malindi.

Licensing had a strong correlation with Revenue collection on second generation alcohol in Malindi having a coefficient $r = 0.559$. this denoted a strong correlation between the variables, an improvement Licensing of the second generation will strongly influence revenue collection of the

product in Malindi. Licensing is directly and strongly correlated to the Revenue collection on second generation alcohol in Malindi. These findings are in tandem with Peerce (2008) who underscored that Licensing ensures that only companies that are tax compliant are allowed to transact business with the tax authority.

The correlation coefficient r for Infrastructure with Revenue collection on second generation alcohol in Malindi was $r = 0.634$, this denotes the existence of a strong correlation between the variables. Improvement in infrastructure will lead to a strong improvement in Revenue collection on second generation alcohol in Malindi. Findings are in tandem with Muturi (2014) findings that, infrastructure is directly and strongly correlated to the Revenue collection on second generation alcohol in Malindi.

On Tax policies, a correlation coefficient of $r = 0.613$ was obtained, as shown in the table above, this indicated that a strong and direct correlation between the Tax policies and the Revenue collection on second generation alcohol in Malindi. The significance levels of all the variables analyzed were at 0.00. Correlation is significant at the 0.01 level (2-tailed). Therefore, the model is statistically significant to predict the relationship between the studied variable.

4.7 Regression Analysis

4.7.1 Coefficient of determination (R^2)

Table 4:11 Coefficient of determination (R^2)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.772 ^a	.597	.584	.885

a. Predictors: (Constant), Tax_policies, Licensing, Infrastructure

From the table above, $R = 0.772$ indicates a simple correlation, showing a high degree of correlation. R square is the square of R, and it shows the degree of total variation, that is extent to which the dependent variable, revenue collection is affected by the independent variables under study which are Licensing, Infrastructure and Tax policies. R square of 0.597 shows that 59.7% of the changes in the revenue collection are explained by the variables under study- which are Licensing, Infrastructure and Tax policies while the rest 40.3% is explained by other variables not

in the study. The coefficient of determination (R²) explains the extent to which the variation of the dependent variable is explained by the interactions of the studied independent variables. R square explains the extent to which the independent variables; Licensing of second generation alcohol, infrastructure and tax policies influences the dependent variable Revenue collection on second generation alcohol in Malindi. This indicates that the studied variables attributes to 59.7% of the Revenue collection on second-generation alcohol in Malindi.

4.7.2 ANOVA

Table 4:12 ANOVA

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	110.092	3	36.697	46.850	.000 ^b
	Residual	74.413	95	.783		
	Total	184.505	98			

a. Dependent Variable: Revenue_collection

b. Predictors: (Constant), Tax_policies, Licensing, Infrastructure

The Analysis of variance determines the significance of a regression model used to predict the relationship between the independent to dependent variables licensing of second generation alcohol, infrastructure and tax policies influences the dependent variable Revenue collection on second generation alcohol in Malindi. From the table 4.11 above, the significance was 0.000 which was below the p-value of 0.05, while F value was 46.850 which indicated that the models were within the significance range to predict the relationship between the studied variables while Confidence level being at 95%. The regression model obtained was statistically significant.

4.7.3 Coefficients

Table 4:13 Regression coefficients

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.499	.808		4.329	.000
	Licensing	.196	.056	.265	3.521	.001
	Infrastructure	.295	.066	.350	4.483	.000
	Tax_policies	.257	.051	.371	5.053	.000

a. Dependent Variable: Revenue_collection

The relationship of the variable was expressed as a linear regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

$$\text{Revenue collection} = 3.499 + 0.194 \text{Licensing} + 0.295 \text{Infrastructure} + 0.257 \text{Tax policies}$$

The Y intercept indicates the Revenue collection on second generation alcohol when other factors are held at constant, zero. The model above shows that Revenue collection on second generation alcohol is at 3.499 when all other factors in the model are held at zero.

A unit increase in licensing was found to cause an improvement of 0.194 in Revenue collection on second generation alcohol. This meant that a unit increase in licensing will result in 19.4% improvement in revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi.

Infrastructure was found to affect Revenue collection on second generation alcohol by 0.295, whereby a unit increase in Revenue collection on second generation alcohol will lead to 29.5% increase in revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi.

Tax policies were found to affect revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi by 0.257. This translated to 25.7% increase in revenue collection on second generation when tax policies increase by a unit.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter describes summary of the findings, conclusions realized from findings founded on the objectives of the study, recommendations based from the study and its objectives, limitations faced on course of the study period and areas of further study.

5.2 Summary of Findings

5.2.1 Licensing

The research aimed to answer the research question; how does Licensing of Second-Generation alcohol affect revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi? The analysis carried out indicated that licensing had a strong effect revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi. It was established that licensing affect revenue collection on second generation alcohol. This was demonstrated by correlation analysis which shows correlation coefficient of $r=0.559$. The results indicated that licensing and revenue collection on second generation alcohol had a strong positive relationship between them and that an increase licensing will result in positive improvement in revenue collection on second generation alcohol.

The linear regression carried out, showed that licensing affected revenue collection on second generation alcohol. This was indicated by the finding of regression coefficient of 0.194. These results show that a unit increase in licensing will result in 19.4% improvement in revenue collection on second generation alcohol.

5.2.2 Infrastructure

The research aimed to answer the research question; How does infrastructure affect revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi? From the data analysis, the study revealed that infrastructure had significant effect on revenue collection on second generation alcohol. On using Karl Pearson's analysis, the study had correlation coefficient of $r=0.634$. This indicated that there was a strong positive correlation between infrastructure and revenue collection on second generation alcohol. An increase in infrastructure will result in direct and positive improvement in revenue collection on second generation alcohol.

Results from regression analysis also supported the effect that infrastructure had a positive influence on revenue collection on second generation alcohol. This was supported by regression results showing a coefficient of 0.295. The results show that a unit improvement in infrastructure will result in positive improvement of 29.5% in revenue collection on second generation alcohol.

5.2.3 Tax policies

The research sought also to answer the research question how does Tax Policies affect revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi? The study found out that tax policies had a strong influence revenue collection on second generation alcohol. From the correlation analysis results was $r=0.613$ as the coefficient. The results indicated that tax policies had a strong and positive influence on the revenue collection on second generation alcohol.

The regression analysis results show that tax policies influenced revenue collection on second generation alcohol. The coefficient obtained was 0.257. This meant that a unit increase in tax policies will result in 25.7% improvement in the revenue collection on second generation alcohol.

5.2.4 Revenue collection on second generation alcohol

From the analysis, it was found out that revenue collection on second generation alcohol was positively correlated with all the independent variables under the study which were licensing, infrastructure and tax policies. This was revealed by the Karl Pearson's correlation used in the analysis. The results also show that the independent variables under the study explained 59.7% of the revenue collection on second generation alcohol and there are other variables outside the model that explain 40.3%. The y-intercept which shows the revenue collection on second generation alcohol when other factors are held at constant was 3.499.

5.3 Conclusion

The research was guided by the general research objective to assess the factors that affect revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi. The study revealed that licensing, infrastructure and tax policies as some of the factors that affect the revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi.

The first specific objective was to find out how Licensing of Second-Generation alcohol affects revenue collection of second-generation alcohol by Kenya Revenue Authority in Malindi. Licensing had a significant effect on revenue collection of second-generation alcohol. Licensing

is a key issue to limiting the illegal second-generation alcohol thus increasing revenue collection by KRA.

The second specific objective was to analyze how infrastructure affects revenue collection of second-generation alcohol by Kenya Revenue Authority in Malindi. The results show that infrastructure had a strong influence on the revenue collection of second-generation alcohol by Kenya Revenue Authority in Malindi. The finding also revealed that infrastructure was very important factor revenue collection.

The third specific objective was to find out how Tax Policies affects revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi. From the analysis of both correlation and regression, it was revealed that tax policies had a strong and positive influence on revenue collection on second generation alcohol. Tax policies were very important on revenue collected on second-generation alcohol.

5.4 Recommendations

The researcher recommends on the following;

1. Improve the licensing process of second-generation alcohol so that most of the distributors can access them easily.
2. Increase the available infrastructure to be accessed and used smoothly by the second-generation alcohol distributors.
3. Develop more favorable tax policies to suit both the revenue needs of the authority while they won't punitive the second-generation alcohol distributors.

5.6 Areas of further Study

This study sought to assess the factors that affect revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi. The researcher utilized variables like licensing, infrastructure and tax policies as the independent variables. From the analysis carried out, the results indicated the coefficient of determination as 0.597. This meant that the independent factors explained 59.7% of the dependent variables. The remaining 40.3% is explained by other factors that are not under the model in this study. The researcher therefore recommends on further studies

to establish the remaining factors that affect revenue collection on second generation alcohol such as the main factors that are affecting the illicit market.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION



Kenya School of Revenue
Administration



KENYA REVENUE
AUTHORITY

ISO 9001:2015 CERTIFIED

KRA/KESRA/MSA/002

28th May, 2020

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: EDWARD OMOIT APAA (ADM NO. HDB336-Co16-2362/2016)

This is to certify that Mr. Edward Omoit of admission number HDB336-Co16-2362/2016 is a bona fide student of the Kenya School of Revenue Administration (KESRA), Mombasa Campus, pursuing a Postgraduate diploma in Tax Administration.

Mr. Apaa is in his final year of study and is conducting a research project titled "*Factors affecting revenue collection on second generation alcohol by Kenya Revenue Authority in Malindi*". He is in the process of gathering data and thereafter, compile a report that will strictly be used for academic purposes only.

The School would therefore like to seek your permission to allow him collect information that relates to his research from your organization.

Thank you in advance for your support and cooperation.

Yours sincerely,

B. Mumia
Head Research – KESRA, Mombasa Campus



Tulipe Ushuru Tujitegemee !



APPENDIX II: QUESTIONNAIRE

This research work is intended to study the FACTORS THAT AFFECT REVENUE COLLECTION ON SECOND GENERATION ALCOHOL IN MALINDI. Please provide answers to the following questions against the most suitable alternative. (Responses will be treated with utmost confidentiality).

SECTION A: DEMOGRAPHIC INFORMATION

1. Highest level of Education and training attained?

Certificate [] Diploma [] Bachelor's Degree [] Master's Degree []

2. Number of years worked in the position

0-4 years () 5-9 years ()

10-14 years () above 15 years ()

SECTION B. LICENSING OF MANUFACTURERS

5= Strongly Agree, 4= Agree, 3= Neutral, 2=Disagree, 1= Strongly Disagree

	STATEMENTS	1	2	3	4	5
B1	There is recognition of second-generation alcohol brewers in the region					
B2	All the second-generation alcohol brewers are duly licensed to conduct business					
B3	Licensing of the second-generation alcohol brewers will greatly improve on management of illicit brews					
B4	The availability, affordability and accessibility of second-generation alcohol or illicit alcohol contribute to its prevalence that is production and sales in the area					

SECTION C. INFRASTRUCTURE

5= Strongly Agree, 4= Agree, 3= Neutral, 2=Disagree, 1= Strongly Disagree

	STATEMENTS	1	2	3	4	5
C1	The Second-generation alcohol manufacturers have dedicated facilities for brewing of healthy consumable alcohol					
C2	Government has put in place, and implemented effective measures to protect Kenyans from the scourge of illicit merchants of illicit brews poised as second-generation alcohol					
C3	There are proper institutions mandated on the regulation and licensing of the second-generation alcohol brewers to uphold quality standards					
C4	Traditional infrastructures should be commercialized and licensed to the production of second-generation alcohol					

SECTION C. TAX POLICIES

5= Strongly Agree, 4= Agree, 3= Neutral, 2=Disagree, 1= Strongly Disagree

	STATEMENTS	1	2	3	4	5
D1	There are sufficient policies and legislations governing the taxation of second-generation alcohol					
D2	The Excise duty rates on the second-generation alcohol is sufficient					
D3	Other government organizations fully appreciate the second-generation alcohol manufacturers					
D4	On tax policy formulation, on the Second-generation alcohol, policy makers should consider locals and traditions as they impose policies that promote consumer health, and uphold of traditions.					

SECTION E. REVENUE COLLECTION ON SECOND GENERATION ALCOHOL

5= Strongly Agree, 4= Agree, 3= Neutral, 2=Disagree, 1= Strongly Disagree

	STATEMENTS	1	2	3	4	5
E1	With the licensing of Second-generation alcohol manufacturers revenue collection on the product will greatly improve					
E2	There is a huge potential on the taxation of second-generation alcohol in Kenya					
E3	High excise duty rates on deterrence of consumption of the illicit products will raise revenue					
E4	Second generation alcohol ought to have stamp duty imposed					

THE END

APPENDIX III: DISTRIBUTORS OF SECOND-GENERATION ALCOHOL

Source: Researcher (2020)

1. Malindi Spirits Limited
2. Binti K. Liquors
3. Lucado Supplies Limited
4. Mnazi Distillers E.A. Limited
5. Moonwalk Pub
6. Sherehe Distilled Industries
7. Tana Distillers
8. Ziwa Pub
9. Tihan Liquors
10. Barizi Supplies Limited
11. Kedsta Investments
12. Continental Beverages Ltd
13. Telleny Beverages Limited
14. Bahari Breweries Pub
15. MDI Limited
16. Malindi Classic Parlour
17. Mashwa Breweries
18. Merchant Pinewood Limited
19. Masha Agencies Malindi
20. Stesodor Company Limited
21. Ocean Breweries Pub
22. Vinepack Limited
23. Tona Miller Pub
24. Pwani Beverages Pub
25. Miti Brewers & Distillers Ltd
26. Grand Beverages Ltd
27. Pweza. Brewers Ltd
28. Malibu Agencies