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# Factors affecting own source revenue performance among county governments in Kenya.

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# FACTORS AFFECTING OWN SOURCE REVENUE PERFORMANCE AMONG COUNTY GOVERNMENTS IN KENYA

**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF MASTERS IN PUBLIC POLICY AND MANAGEMENT AT STRATHMORE UNIVERSITY**

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## DECLARATION

I declare that this work has not been previously submitted and approved for award of a degree by Strathmore University or any other University. To the best of my knowledge and belief, the thesis contains information previously published, except when duly acknowledged.

**Sign** **Date** 03/05/2026

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## ABSTRACT

This study investigates Own Source Revenue (OSR) performance among Kenya's 47 County Governments under the framework of fiscal decentralization. It assesses actual revenue collections from 2014 to 2024 against projected and potential targets. Grounded in Public Finance Theory and Fiscal Federalism Theory, the study uses descriptive research design and secondary data. Descriptive statistics and correlation analysis and regression analysis were used to evaluate own source performance, while content analysis was applied to examine institutional and political influences. The findings reveal persistent underperformance in OSR, averaging 65% of annual targets, with significant tax gaps and disparity among counties. A panel analysis found that higher equitable share transfers significantly increase the OSR performance in some counties as compared to others, suggesting that greater national funding potentially reduced local revenue efforts. Gross County Product (GCP) has a positive significance on own source revenue, indicating that stronger county economies tend to have higher own source revenue performance, while development expenditure showed limited no significance. Political factors, such as unethical governance measured by bribery rates, negatively impact OSR, as corruption erodes public trust and tax compliance. Institutionally, ICT investments demonstrate potential in increasing revenue performance by improving collection efficiency. Staff capacity measured by personnel cost showed a positive significant effect on own source revenue. An interactive variable between automation and staff capacity indicated a higher effect on OSR performance as compared to automation independently. Despite national policies promoting revenue reforms, implementation remains weak, with most counties lagging in updating property valuation rolls and adopting integrated revenue management systems. Key constraints include overreliance on intergovernmental transfers, weak institutional capacity, and political disincentives. Strategies like revenue mapping, automation, and legislative reforms showed promise but remained underutilized. The study concludes that enhancing OSR requires comprehensive institutional reforms, political will, and evidence-based forecasting. Recommendations include full implementation of national OSR policies, legislative alignment, automation, and performance-based intergovernmental incentives to ensure sustainable and equitable local fiscal autonomy.

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## LIST OF ABBREVIATIONS

| | |
|---|---|
| **CBIR** | County Budget Implementation Report |
| **CBROP** | County Budget Review and Outlook Paper |
| **CDF** | Constituency Development Fund |
| **CESS** | Cess (local levy on goods) |
| **CFSP** | County Fiscal Strategy Paper |
| **CRA** | Commission on Revenue Allocation |
| **FY** | Financial Year |
| **GCP** | Gross County Product |
| **GDP** | Gross Domestic Product |
| **GIS** | Geographic Information System |
| **GVA** | Gross Value Added |
| **ICRMS** | Integrated County Revenue Management System |
| **ICT** | Information and Communication Technology |
| **IMF** | International Monetary Fund |
| **IRMIS** | Integrated Revenue Management Information System |
| **KADU** | Kenya African Democratic Union |
| **KANU** | Kenya African National Union |
| **KIPPRA** | Kenya Institute for Public Policy Research and Analysis |
| **KLGRP** | Kenya Local Government Reform Program |
| **KNBS** | Kenya National Bureau of Statistics |
| **KRA** | Kenya Revenue Authority |
| **KWALEPAY** | Kwale County e-payment platform |
| **OSR** | Own Source Revenue |

## DEDICATION

This work is dedicated to my mother, my grandmother and aunts, whose unwavering love, sacrifices, and prayers have been the foundation of my journey in life. To my siblings and cousins, thank you for your constant encouragement. To my mentor whose immense guidance, support and belief in me can never go unnoticed throughout this program and in my career. This thesis is for every aspiring public servant, development practitioner and scholar committed to advancing good governance and fiscal responsibility in Kenya.

## DEFINITION OF TERMS

| | |
|---|---|
| Decentralization | Transfer of decision making and resources from the central government to regional governments |
| Development Expenditures | Amounts utilized by county government on development projects |
| Equitable Share of Revenue | Proportion of national budget transferred from the nation government to the county government after approval by national assembly |
| Ethical Governance | Principles, practices, and systems that ensure public resources are managed with integrity, transparency, accountability, and fairness in line with constitution 201o and the ethics and integrity act |
| Gross County Product | It’s the monetary value of goods and services produced within each of the 47 counties |
| Own Source Revenue | Amount of Revenue collected by county governments through their revenue streams |
| Revenue Forecasting | The process of estimating the likely amount to be collected by all revenue streams in a given financial year |
| Revenue Mapping | The process of identifying revenue streams that can yield taxes/fees or charges by county government |

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of study

Decentralization of governments has gained traction as the preferred form of administration worldwide. Both developed and developing countries have challenged central governments' monopoly of decision-making power. In the Western world, decentralization is seen as an effective tool for reorganizing the government to provide public services cost-effectively (Ebel & Yilmaz, 2002). Developing countries prefer decentralization to escape the traps of ineffective and inefficient governance, government bureaucracy, macroeconomic instability, and inadequate economic growth (Dexu & Wenlong, 2022).

Rusyiana (2017), defines decentralization as the transfer of decision making and resources from the central government to regional governments. According to Ambani and Kioko (2022), decentralization is the transfer of power to lower levels of government. A sub-national government acts as an agent for the central government and executes certain functions on its behalf. Being closer to the people is, in theory, more capable of meeting citizens' preferences and demands in public goods and services compared to central governments. Decentralization may take two different categories where the first category involves a mere transfer of authority from the central government to the devolved units, but the central government retains power to make final decisions. The second type entails decentralization of political power in which the central government politically transfers administrative and financial power to the sub-national units, which can then make decisions independent of the central government. Fiscal decentralization is therefore the transfer of expenditure responsibilities and revenue assignments to lower levels of government (Anbani and Koiko,2022).

Globally, decentralization has been adopted by several countries. In 2025, the IMF identified 80 Countries that had undertaken decentralization and noted that Argentina, Canada, China, Denmark, India, South Africa, Switzerland, and the United States are the most decentralized countries in the world (Nikitina, 2025). In India, decentralization started in 1882, however full decentralization happened in 1990 after amendment of the Indian constitution that required election of regional officials every five years and required regions to have financial commissions that would recommend the extent of fiscal decentralization(Pande,2001).

In Latin America, the process of governmental decentralization was initiated between 1980 and 1990, as national governments increasingly adopted decentralized frameworks aimed at promoting democracy and economic development. Decentralization, involved the transfer of political, administrative, and fiscal authority from central governments to subnational entities. Despite the widespread implementation of these reforms across the region, a number of countries including Panama, Cuba, Nicaragua, and Honduras are yet to embrace decentralized governance structures(Bojanic,2018). Decentralization in Indonesia started in 1998 where the central government provided full autonomy to regional governments to undertake their development needs using fiscal resources collected from the population living in the region(Sari et al ,2019).

Decentralization has emerged as a significant governance reform in Africa, aimed at enhancing the efficiency and responsiveness of government institutions. According to Rugeiyamu and Msendo (2025), fifteen African countries have implemented some form of decentralized governance, whereby authority and responsibilities are shared between national and regional or local governments. The primary rationale for these reforms is to bring public services closer to the people and to foster socio-economic development in historically marginalized or underserved regions. Countries that have adopted decentralization include South Africa, Morocco, Nigeria, Ghana, Benin, Burkina Faso, Zambia, Lesotho, and all member states of the East African Community (EAC). These reforms are seen not only as a tool for improving service delivery but also as a mechanism for strengthening democratic participation and local accountability across the continent. Fiscal decentralization reforms have gained momentum in sub-Saharan African countries. For example, Nigeria, South Africa, and Ethiopia are in the advanced stages of fiscal decentralization where spending at the sub-national level represents about half of total government expenditure (IMF 2006). Other Countries are now promoting fiscal decentralization notably Kenya, Rwanda, Tanzania, and Uganda, where sub-national expenditure amounts to about 15–20 percent of general government spending.1.1.1 Sub-national revenue performance

Decentralized governments across the World have assigned a level of tax assignment to sub-national governments. This is good practice from the review of literature on decentralized economies to give subnational governments the power to raise and manage their expenditure. According to OECD (2019), fiscal autonomy is the ability of a subnational government to undertake fiscal tasks (taxing, spending, debt raising, and financing) without seeking approval/clearance/authorization from another order of government. For taxing powers, it implies that the subnational government has the constitutional/legal and administrative authority to determine the rate and base of local revenue sources both for tax collection and administration and also for some higher-level revenue.

Sub-national revenue performance is a crucial tool of fiscal policy and a key composite factor of government spending. The government earns revenues from various sources such as taxes levied on income, wealth accumulation and corporation, good and services produced, exports and imports as well as nontaxable sources such as government corporations' incomes popularly known as Appropriation in Aid(A-I-A), Central Bank Revenue and capital receipts in external loans and debts from bilateral and international financial institutions. In other instances, Government raises revenue from fees and charges of services provided by the Government. Own Source Revenue is therefore a sub-national government local revenue from either taxes or fees and charges for services provided. The money that the government collects pays for the services that are provided for the people.

### 1.1.2 Background on Decentralization in Kenya

Fiscal decentralization is based on key principles which are political autonomy, expenditure responsibility, revenue assignment, intergovernmental fiscal transfer and in some instances sub-national borrowing. A study by Martinez-Vazquez (2008), indicates that there is general agreement among experts in decentralization that the increased accountability associated with decentralization can only be assured when sub-national governments have an adequate level of autonomy and discretion in raising their own revenues. Revenue from intergovernmental allocation and grants are as important but for fiscal autonomy a percentage of total revenue available should be regarded as its own source revenue. The question, then, is which revenue sources (including taxes) can and should be assigned to sub-national levels of government and how these assignments are to be implemented.

Pre-independence, there were heated debates on governance in the independence era where the two main political parties Kenya African National Union (KANU) were proponents of a unitary governing system while Kenya African Democratic Union (KADU) favored regional governments. Eventually, the ruling power KANU for the sake of independence compromised and agreed to regional governance a position backed by the Colonialists. This gave rise to the Majimbo system of governance consisting of the Central Governments and 7 regions further divided into local authorities.

The executive power of the regions was vested in the respective finance and establishment committees. The Independence Constitution set out a list of areas which regional assemblies had exclusive competence over, and those in which it had concurrent competence with the National Assembly as provided for in the Independence Constitution (Constitition of Kenya, 1963).

Fast forward to independence, the ruling party made amendments to the Constitution and carried out administration reforms that challenged the implementation of the Majimbo. Among the amendments, significant issues that affected decentralization included administratively, the Central governments refused to transfer funds to regions as they had undertaken to. This was coupled with constitutional amendments in 1964 which repealed schedule 2 of the Constitution that provided for the functions of the regional governments and the financial arrangement between the Central and Regional governments. This resulted in Regional Governments fully depending on grants from Central Governments.

Having abolished the regions as well as weakened the local authorities, the Central Government was faced with the problem of how to involve the local communities in development. It is instructive that in March 1966, the President appointed a Commission of Inquiry under the leadership of Walter Hardacre whose terms of reference were to, inter alia, inquire into and advise on the reforms necessary to make the local government system in Kenya a more effective instrument for the provision of local services and local development within the framework of national policy and national programs.

The report observed and recommended that County councils' financial situation was a matter for serious and urgent consideration, and it was wrong to use special fund balances to finance general services. The report emphasized that additional revenues to finance local government services must be obtained from existing sources and preferable for local authorities to collect their own revenues. Graduate personal tax must provide a major source of local authority income for a number of years (Hardacre, Matano, Mwangi, & Ogot, 1966).

Earlier forms of decentralization programs included the District Development Giant Program (1966) and the Rural Works Programmes Grant (1974), which sought to provide discretionary funds outside ministries' budgets for small labor-intensive local projects. These two were later combined to form the Rural Development Fund. The common denominator across the variants of development programs is the central role that the Central/National Government eagerly plays in their implementation as observed by (Bank, 2013)

In 1988, the central government introduced a service charge intended to benefit LAs, but as the collecting agency did not remit the revenues to the respective LAs. The deprivation prompted poor service delivery by the councils (Ambani & Kioko, 2022). The LAs came under the direct influence of the District Commissioner (D.C). Failure to protect the local government's powers and finances in the constitution exposed the system to manipulation, high levels of corruption, and unchecked power by the minister of local government.

These shortcomings led to the introduction of Kenya Local Government Reform Program (KLGRP) in the early 1990s. Its objectives were to restructure the local public sector, improve local public expenditure, and management, and strengthen local-level accountability mechanisms (Oyugi and Kibua, 2006). Local Authority Transfer Fund (LATF) was established under LPGRP in 1998 under the LATF Act (No.8) and the associated Local Authority Service Delivery Action Plan (LASDAP). The fund constitutes a 5% tax on all revenue collected under the Income Tax Act. LATF was meant to facilitate the disbursement of funds to local authorities to supplement the financing of the services and facilities they were required to provide under the Local Government Act.

LASDAP improved local participation in development programmes, improved financial management by the LAs, and enhanced revenue collection. Nonetheless, the LAs experienced many challenges, the key among them being the high centralization and bureaucracy, which led to delays in project rollouts.

It is from the above background that in 2003, following the coming into power of the National Rainbow Coalition (NARC) Government, the Constituencies Development Fund (CDF) was established through the Constituencies Development Fund Act, 2003 (CDF Act), to iron out the regional imbalances brought about by patronage politics and address poverty levels at the grassroots. This shifted the development focus from the district to the constituency level effectively (Osogo and Ambani, 2022). The CDF Act required that at least 2.5% of the Central Government's ordinary revenue collected in every financial year be channeled to the constituencies for purposes of local development dependent on identified local priorities. A percentage of the funds (about 75%) was distributed equally across all the 210 constituencies while the rest (25%) was shared based on the poverty index.

### 1.1.3 Fiscal Decentralization Post the Constitution of Kenya, 2010

The Constitution of Kenya in 2010 established a new system of government that devolved power, resources, and representation to the local level. In this system, 47 County Governments are established, and power is assigned to them across the Country. Objects of the devolution as provided for in Article 174, f, and g indicate that devolution should promote social and economic development and provision of services throughout Kenya, with Article 175(b) providing for equitable sharing of national and local resources throughout Kenya as a key principle of devolution. Part II of the Fourth Schedule of the Constitution stipulates the function of the County Governments, which includes Health, Agriculture, Early childhood education, and public administration through planning.

The section further gives the co-shared function between the two levels of government, which includes roads and infrastructure, disaster management, and control of drugs and pornography, among others. For the implementation of devolution, resources should follow functions. There are three sources of funds available for implementation of devolution. These include shareable revenue from nationally raised revenue popularly known as equitable share, conditional grants from national government and development partners and own source revenue.

#### 1.2.3.1 Equitable Share of Revenue

The Constitution stipulates that nationally raised revenues should be shared equitably between the two levels of government where County Governments shall not be allocated not less than fifteen percent of the recently approved audited government revenues, otherwise known as equitable share. The Public Finance and Management Act, 2012 provides the approach and procedures of allocation of the equitable share across Counties through a formula recommended by the Commission on Revenue Allocation and approved by Parliament. Currently, the Country is implementing the third basis revenue formula and in the process of adopting the fourth basis formula which is awaiting approval from Parliament. The first two revenue formulas emphasized allocation to County Governments based on weighted parameters of Population, Equal Share, Poverty, Land Area, and Fiscal Effort. The second Basis considered the development index as an addition to the five parameters in the first basis. The third basis considered the cost-of-service delivery in devolved sectors including Agriculture, Health, Urban services and rural urban access, the additional service delivery parameter was to compensate Counties for the cost of providing services. The proposed fourth basis has diverted from the service delivery parameter provided for and implemented in the third basis and instead introduced income distance to promote economic development by Counties. Counties have been allocated and received an equitable share of revenue amounting to Kshs 2,942 billion from 2013 to 2024.

Table 1 provides for the different formulas and specific parameters used in allocation of these Equitable Share across Counties for different periods.

**Table 1.Comparison of the 1st, 2nd, 3rd and 4th Revenue Allocation Formula**

| | 1st Basis | 2nd Basis | 3rd Basis | 4th Basis |
|---|---|---|---|---|
| **Parameter** | **Weight (%)** | **Weight (%)** | **Weight (%)** | **Weight (%)** |
| Population | 45 | 45 | 18 | 42 |
| Basic Equal Share | 25 | 26 | 20 | 22 |
| Poverty | 20 | 18 | 14 | 14 |
| Land Area | 8 | 2 | 8 | 9 |
| Fiscal Effort | 2 | 2 | - | |
| Development Factor | | 1 | - | |
| Health | | | 17 | |
| Agriculture | | | 10 | |

| | | | | |
|---|---|---|---|---|
| Urban Services | | | 5 | |
| Rural Area access | | | 8 | |
| Income Distance | | | | 13 |
| | **100** | **100** | **100** | **100** |

*Source: CRA ,2014 and 2017, CRA 2021, CRA 2024*

#### 1.2.3.2 Additional Allocation as Conditional Grants

The Constitution provides that Counties can receive additional funds from proceeds of loans and grants through additional allocation through Conditional and non-Conditional grants. The Conditional Grants to County Governments are from either a share of revenue from the National Government or from proceeds of loans and grants from the development Partners. The main objectives of the conditional grants are to support Counties to implement national objectives within the scope of the devolved functions. The allocation is through a criterion agreed upon in the participation agreement popularly known as conditions for access to the funds. Since the inception of devolution in 2013 to the financial year 2023/2024, Counties have been allocated conditional grants amounting to a total of Kshs 253.9 billion.

#### 1.2.3.3 Own Source Revenue

To complement the above vertical allocation, County governments are given the power to raise their own source revenue by imposing property rates, entertainment taxes as well as fees, and charges from services or any other charges authorized by an Act of Parliament. Since the inception of devolution, Counties have raised their own source revenue amounting to Kshs 425 billion.

As mandated by the Constitution, County Governments have appropriated the above funds for service provision to the citizens. The below table 2 which provides an analysis of County Government budgets, revenue sources and available resources from the Financial Year 2013/2014 to 2023/2024.

**Table 2:County Governments Budget Implementation; Budget and Revenue Analysis for 2013-2024**

| Item (Kshs Billion) | 2013/ 2014 | 2014 /2015 | 2015 /2016 | 2016 /2017 | 2017 /2018 | 2018 /2019 | 2019 /2020 | 2020 /2021 | 2021/ 2022 | 2022/ 2023 | 2023 /2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Equitable Share** | 190.0 | 228.5 | 259.8 | 280.3 | 302.0 | 314.0 | 286.8 | 316.5 | 370.0 | 370.0 | 354.6 |
| **Conditional Grants** | 20.0 | 0.7 | 12.3 | 21.9 | 26.9 | 36.0 | 38.2 | 33.7 | 12.0 | 16.2 | 36.0 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **OSR** | 26.3 | 33.9 | 35.0 | 32.5 | 32.5 | 40.3 | 35.8 | 34.4 | 35.9 | 37.8 | 59.0 |
| **Carry Over** | 4.3 | 41.7 | 36.1 | 37.2 | 25.8 | 55.1 | 51.2 | 52.0 | 48.1 | 42.0 | 43.0 |
| **Total Revenue Available** | 240.6 | 304.8 | 343.2 | 371.9 | 387.1 | 445.4 | 412.0 | 436.6 | 466.1 | 466.0 | 492.5 |
| **Total Budget** | 261.1 | 326.0 | 367.4 | 399.2 | 410.1 | 483.5 | 499.6 | 501.7 | 535.7 | 515.2 | 562.8 |
| **Deficit** | 20.5 | 21.3 | 24.3 | 27.3 | 23.0 | 38.1 | 87.6 | 65.1 | 69.7 | 49.2 | 70.3 |
| **% Deficit = Deficit/Total Budget** | 8% | 7% | 7% | 7% | 6% | 8% | 18% | 13% | 13% | 10% | 12% |

*Source OCOB CBIR (2013-2024)*

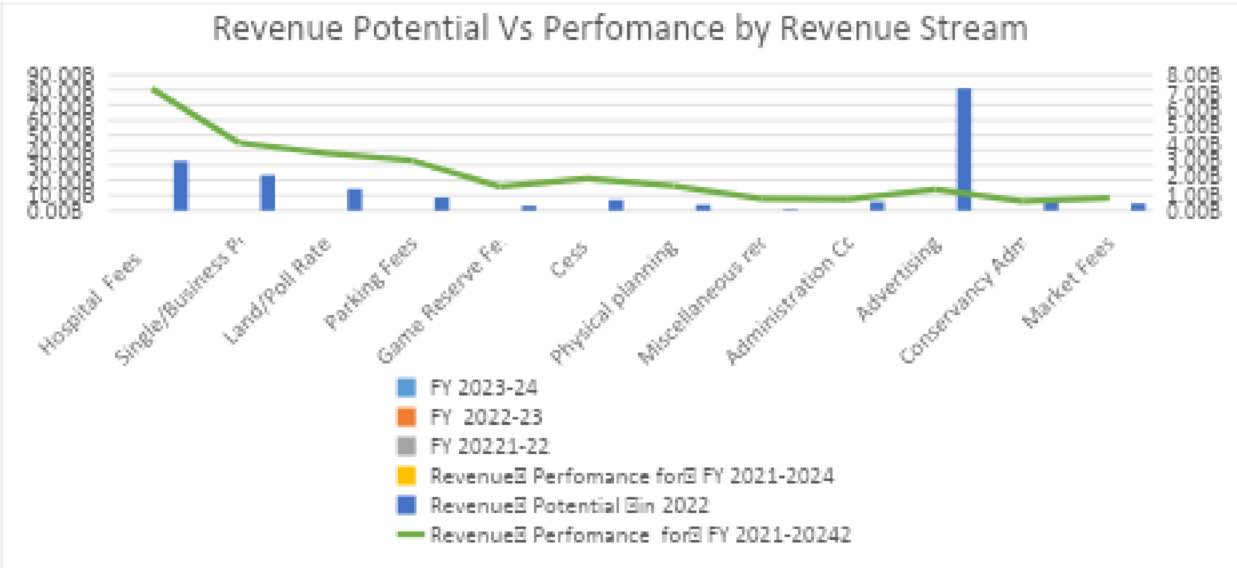
### 1.1.3 Sub-national Own Source Revenue performance

#### 1.2.3.1 Counties Own Source Revenue Potential

A study by CRA (2022) estimates the amount that Counties have capability to raise own source revenue amounting to Ksh.216 billion. This study identified 15 revenue streams including; Property rates, Building plan approvals, Trading Licensing fees, Liquor licensing fees, Advertising and Sign Board fees, Parking fees, Agricultural Transportation fees, Hospital and Public Health Fees, Market Trade and Centre fees, Natural Resource Transportation fees, Environmental Conservancy and administration fees, Game reserve fees.

Figure 1 shows a breakdown of the revenue potential per streams based on revenue potential study and actual performance based on revenue receiver accounts.

**Figure 1: OSR Potential and Performance by stream**




*Source OCOB CBIR (2013-2024)*

**1.2.3.2 Counties Own Source Revenue Forecast**

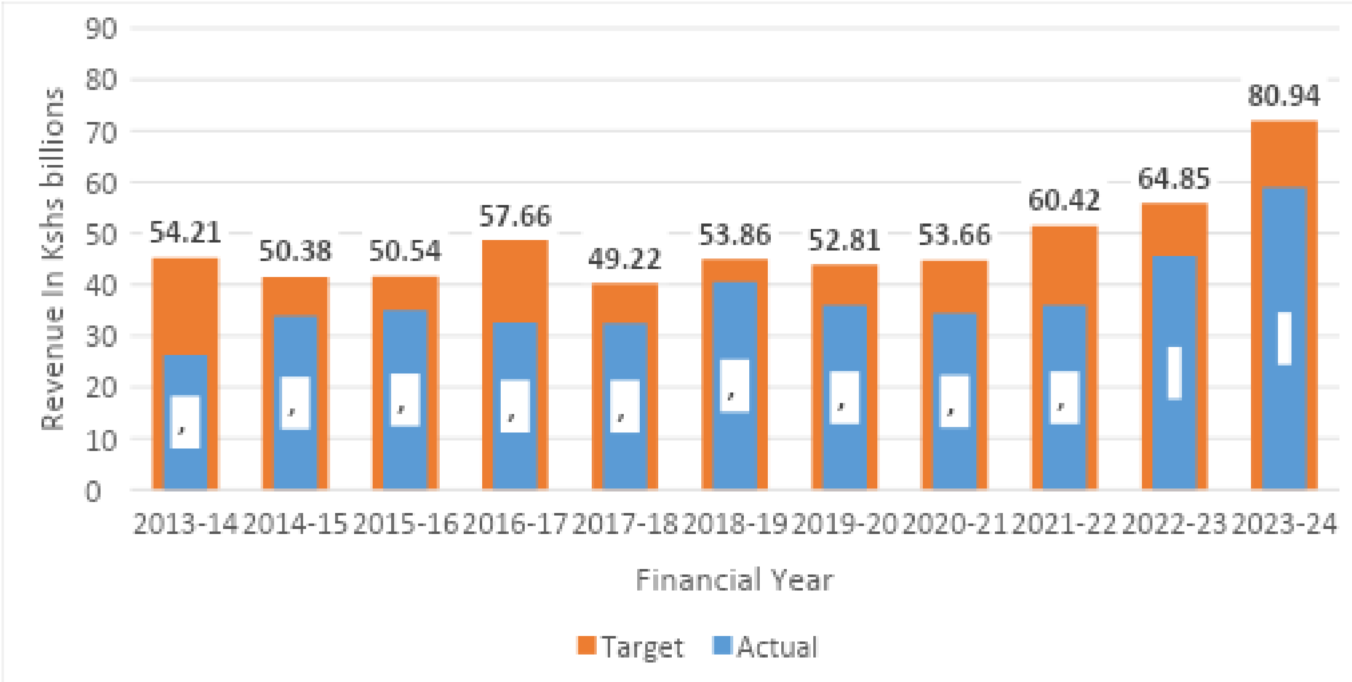
The Public Finance Management Act, 2012 requires Counties to provide an annual forecast on expected amount to raise own source revenue. Since devolution in 2013 to the Financial Year 2023/2024, Counties have forecasted an OSR Kshs. 630 billion with an average annual projection of Kshs 54 billion.

**1.2.3.3Actual Own Source Revenue Performance**

On average, County Governments collects Kshs 36 billion annually against an average target of Kshs 54 billion translating to an average annual performance of sixty-four percent as reported (Budget, 2014,2015,2016,2017,2018,2019,2020,2021,2022,2023, 2024). In the FY 2022/23 and 2018/19, County Governments recorded the highest revenue performance of 70 of 74 percent respectively against the forecasted amounts. It is only in FY 2013/2014 that County Governments performed below 5 percent.

Since devolution, Counties have raised revenue amounting to Kshs. 425 Billion. This is against the total revenue target of Kshs. 630 billion resulting to a revenue gap of Kshs. 205 billion. The difference then leads to a tax gap trend as illustrated in Figure 2 below. The outturn of own source revenue of County Governments can be described to have a nominal growth but not per real capital growth with increment from Kshs. 20 billion at the inception to Kshs. 58 billion in 2023/2024 Financial Year.

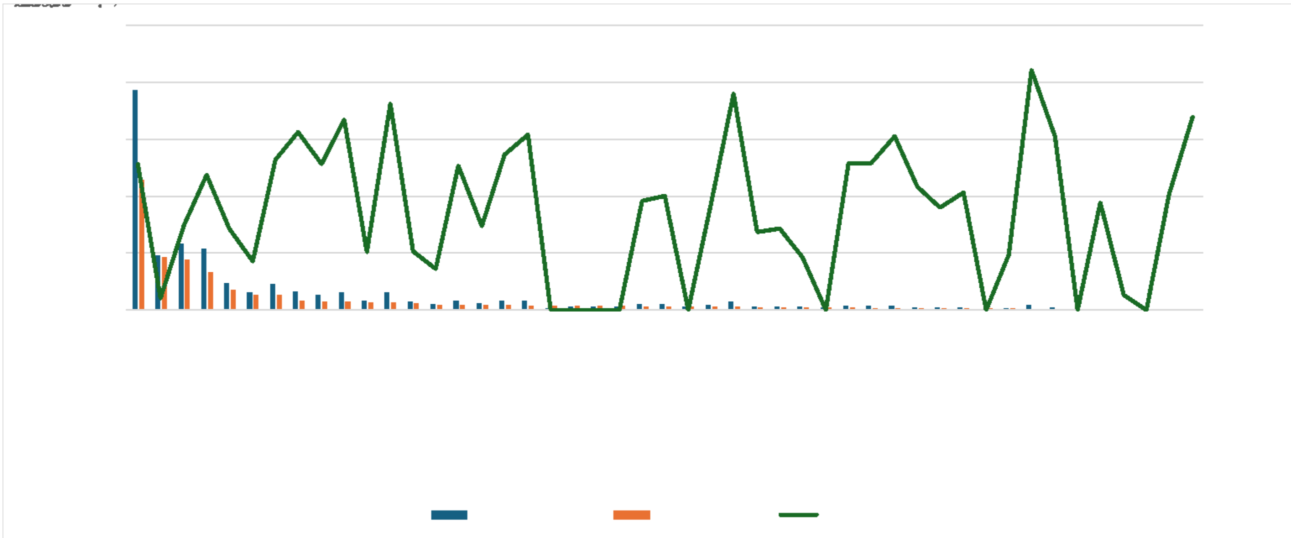
**Figure 2:Aggregate Annual OSR Forecast versus Actual performance**




*Source OCOB CBIR (2013-2024)*

Review of the Financial Year 2023/2024 shows that Nairobi County led the collection efforts, securing the highest revenue, while Narok County ranked second, contributing Kshs 12.5 billion, which represented 21.3% of the total revenue. Following Narok, Mombasa County achieved the third-highest revenue collection, amounting to Kshs 4.8 billion, or 8.1% of the overall revenue. Kiambu County reported Kshs 4.6 billion in own-source revenue, accounting for 7.8% of the total. Nakuru County's total own-source revenue for the year was Kshs 3.3 billion, representing 5.6% of the aggregate revenue collected by all counties as summarized in figure 3

**Figure 3: County OSR Performance by Target and Actual FY 2023/2024**



*Source OCOB CBIR (2013-2024)*

### 1.2 Problem statement

As illustrated above, the promulgation of the Constitution of Kenya 2010 provided the necessary legal framework for significant fiscal decentralization. County Governments were then given the mandate to mobilize Own Source Revenue (OSR) to finance devolved functions and enhance local service delivery. Despite various policy interventions and directives, County Governments still struggle to bridge the gap between annual forecasted and actual own source revenues. This underperformance mirrors challenges observed in other decentralized systems globally.

According to reports by the Controller of Budget (2013–2024), County Governments collectively raised Kshs 349.9 billion in OSR against a target of Kshs 542.3 billion. A study by the Commission on Revenue Allocation (CRA, 2022) estimates that counties have the potential to generate Kshs 216.5 billion annually from leading revenue streams, signaling substantial untapped capacity. This shortfall in OSR performance undermines fiscal autonomy, limits effective service delivery, and increases dependency on national transfers, which are often delayed and politically influenced. Multiple factors contribute to this underperformance.

Counties remain heavily dependent on national transfers such as the equitable fund, with OSR contributing only a small fraction of their total budgets. This undermines fiscal autonomy, constrains service delivery, and limits developmental impact at the grassroots level as the funds are often insufficient and subject to political and administrative delays. Numerous factors are presumed to influence OSR performance, including the economic strength of counties, investment in automation, expenditure patterns, governance practices, and the level of intergovernmental transfers.

Empirical research studies (Khadondi, 2015; Oguso, 2022; Qanchora, 2021) identifies a combination of institutional, administrative, technological, legal, and socio-economic factors that influence revenue performance. Issues such as weak institutional capacity, mismatched staffing, corruption, outdated legal frameworks, low adoption of technology, and insufficient public awareness have consistently emerged as barriers to effective revenue collection. Many counties continue to rely on manual systems, face challenges in integrating ICT, and suffer from inconsistencies in policy enforcement, which hinder efficiency and transparency in revenue administration (Oduol, 2023; Kitavi, 2023; Gituma, 2017).

Additionally, comparative international literature indicates that sub-national governments in developing countries often fail to reach their revenue potential due to poor administrative capacity, lack of autonomy in tax administration, and overreliance on central government transfers (OECD, 2023; Awasthi et al., 2020; Bahl, 2008). Kenya is no exception. While some counties like Bungoma and Kwale have made strides in automation, most others lag significantly behind implementing integrated revenue systems, leading to inefficiencies and missed revenue opportunities.

However, empirical evidence on how these variables affect OSR performance in the Kenyan context remains limited and fragmented. A notable gap persists in literature as most studies focus on isolated factors or individual counties without providing a comprehensive, multi-factor assessment of both the challenges and potential strategic options for OSR optimization across counties. As such, counties lack a clear, data-driven understanding of which drivers most significantly impact their revenue mobilization efforts. There is also limited exploration of how international best practices might be adapted to the Kenyan context.

Therefore, this study seeks to address these gaps by systematically analyzing the key factors influencing OSR performance in Kenyan counties, evaluating existing administrative and technological frameworks, and identifying strategic options that can enhance sub-national revenue mobilization and reduce dependency on central government transfers.

### 1.3 Purpose of the research

The overall purpose of this research is to analyze the factors affecting the performance of Own Source Revenue across the 47 County Governments and offer viable options for optimization of revenue collection.

### 1.4 Research-Specific Objectives

1. To analyze the effect of economic factors on the performance of own source revenue among counties in Kenya
2. To assess the effect of political factors on the performance of own source revenue among counties in Kenya

3 To determine the effect of Institutional and technological factors on the performance of own source revenue among counties in Kenya

## 1.5 Research questions

1. To what extent does economic factors affect the performance of own source revenue among counties in Kenya
2. What is the effect of political factors on the performance of own source revenue among counties in Kenya?
3. To what extent does institutional and technological factors affect the performance of own source revenue among counties in Kenya?

## 1.6 Scope of the Study

This study will cover all 47 County Governments in Kenya to compare how different factors affect performance including gross county product, intergovernmental fiscal transfers, urban nature, ethical governance and institutions which affect their own revenue performance.

## 1.7 Significance of the Study

This study is of benefit to Counties in exploring factors to consider strengthening revenue mobilization. The National Treasury in the formulation of fiscal policies that support decentralization and are linked to fiscal autonomy. The Commission on Revenue Allocation on factors to consider in proposing policies for own revenue enhancement to Senate and County Assembly as legislators, Development Partners in the formulation of programs earmarked to decentralization with anticipated fiscal autonomy as well as the academia in building onto the existing knowledge on fiscal decentralization in Kenya specifical own source revenue.

CHAPTER TWO

LITERATURE REVIEW

## 2.1 Introduction

This chapter presents a review of the literature on own source revenue performance by County Governments and factors affecting including economic, political, institutional and technological. The chapter presents a theoretical framework of the study, the empirical review, and the conceptual framework of the study.

## 2.2 Theoretical Framework

This study is anchored on the theories of public finance (Musgrave, 1986) and fiscal federalism (Oates, 1966). The theories highlight the process of tax assignment and the benefit of allocating fiscal responsibility to subnational governments for the redistribution of resources and revenue mobilization efforts. This study highlights the benefit of fiscal decentralization as a tool for revenue mobilization.

### 2.1.1 The Theory of Public Budget

The Theory of Public Budgeting, developed by Aaron Wildavsky in 1964. The theory views budgeting as a tool that serves diverse and competing interests. The theory opines that budgeting is not only a technical exercise, but a political, economic, and administrative instrument used to guide allocation of resources. Maximization of own source revenues among subnational governments is key to financing their budgets independently beyond intergovernmental transfers. The theory assumes that governments seek to maximize the use of available resources to meet competing expenditure demands; however, the determination of revenue targets is based on economic potential, institutional structures, and political considerations. In the context of own source revenue performance, this means that counties often set revenue targets based on perceived administrative capacity, existing tax bases, and political feasibility.

This theory will be key to this study since it identifies that OSR performance is affected by several interrelated factors embedded in the public budgeting process. Economic factors such as the size of the local tax base and level of economic activity determine revenue potential, political factors, including leadership priorities and electoral incentives, may influence the extent to which revenue collection is strengthened or undermined , Administrative and technological factors such as weak revenue systems, inadequate enforcement mechanisms, and limited technical capacity among staff constrain effective revenue mobilization.

### 2.1.2 Fiscal Federalism Theory

This theory was developed by Richard Musgrave in 1959 and enhanced by Wallace E. Oates in 1972. The theory champions fiscal decentralization between the central government and sub governments. The theory promotes decentralizing revenue-raising and expenditure functions to enhance allocative efficiency, accountability, and responsiveness to local populations needs. Its core assumptions are clear assignment of functions, the benefit principle of taxation where money collected offers services at the local level, and inter-jurisdictional competition that motivates sub national governments to perform efficiently. In the Kenyan context of county governments, the theory provides a justification as to why counties should mobilize OSR. It suggests that poor OSR performance is not merely an administrative or technical failure but rather a deviation from the theoretical condition of the benefit principle of taxation for fiscal decentralization to be considered a success.

This theory will be useful in this study since it identifies whether weak OSR performance in counties undermines the fiscal decentralization principle and whether the weak performance stems from structural flaws, weak revenue enforcement laws, or political disincentives to collect taxes, rather than from operational inefficiencies alone.

**2.3 Empirical Literature Review**

### 2.2.1 Economic Factors and Own Source Revenue Performance

Counties that adopt pro-business strategies such as structured tax incentives, waivers, and transparent fee structures tend to enhance voluntary compliance and widen their tax net. For instance, Macharia et al. (2021) found that public participation, enforcement of laws and the use of incentive-based tax enforcement mechanisms significantly contributed to increased revenue in Kiambu County. However, Kitavi (2023) cautioned that such incentives must be accompanied by sound legal and fiscal frameworks to ensure sustainability and avoid revenue leakage.

Pozhidaev (2022) while studying political and economic considerations on building an enabling environment for local own source revenue observed contradicting interests between the central government and the devolved units. The study observed instances where national governments fail to give devolved units funds clearly stated in their regulations thus affecting their ability to operate efficiently.

Economic conditions at the county level significantly influence Own Source Revenue (OSR) performance. Several studies have identified the effects of urbanization, poverty levels, land area, and general economic vibrancy on counties' revenue potential. Khadondi (2015) found that counties with larger urban populations and developed infrastructure tend to have a broader tax base, leading to better OSR outcomes. Conversely, high poverty levels, especially in rural counties, restrict residents' ability to pay taxes, thereby diminishing county revenue capacity.

Another critical economic aspect is revenue base diversification. Hassan (2015) and Mohammed et al. (2018) highlighted the risks of overreliance on a narrow set of income streams such as parking fees or single business permits, which expose counties to economic shocks. Furthermore, Qanchora (2021) observed that counties were ill-prepared for disruptions such as the COVID-19 pandemic, which significantly affected business operations and thus revenue streams. Awasthi, Le, and You (2020) and Bahl (2008) emphasized the untapped potential in property taxes, noting that despite increasing property values in many Kenyan counties, revenue from this source remains low due to poor valuation systems and administrative inefficiencies.

### 2.2.3 Political & Governance Factors and Own Source Revenue Performance

Raleigh & Carboni (2024) while studying Subnational authority and political alignment in African states observed that subnational governments tend to align power to the majority tribes in the region, leaving experienced people who come from different ethnicities. The study observed that this may lead to declined collections by subnational governments and poor service delivery since incompetent people are given key positions due to political patronage.

Governance and political dynamics play a central role in shaping revenue performance across Kenya's devolved units. A recurring theme in the literature is the overdependence of counties on national transfers, particularly the equitable share. This reliance undermines fiscal autonomy and reduces motivation for efficient OSR mobilization (Commission on Revenue Allocation (CRA), 2022; Eyraud & Lusinyan, 2011).

However, delays in the disbursement and political interference in their allocation limit their capacity to spur local development and a major reason on the focus on mobilization of the own source revenue.

The regulatory and governance frameworks within counties are also instrumental. Oduol (2023) found that while counties have invested in policy formulation and automation, enforcement remains weak due to mismatched staffing, limited regulatory oversight, and the prevalence of informal political networks. Oduol observed that many counties have formal mechanisms for citizen engagement but lack the political will or administrative capacity to implement them meaningfully, thus limiting their potential impact.

Pozhidaev (2022) while doing a study on building an enabling environment for local own source revenue analyzing political and economic considerations observed decentralization as an inherently contradictory process between the central government and the subnational governments. Political conflicts occur where there are required regulations to guide the decentralization process with the central government still wanting a say on the leadership of devolved units, some decentralized functions and the use of resources in those units. This may lead to low quality of leadership in the devolved units which affects know how of the devolved government to develop strategies to mobilize own source revenue

Engefu & Kinyua (2021) studied the politics of revenue allocation and resource Control in Kenya and their implications on county governments stability using a survey approach. The study observed lack of consensus on the revenue sharing formula had an effect of delayed disbursement during the start of a financial year. This delay in disbursement by the central government affected service delivery thus affecting OSR. The study noted the need for counties to strengthen their legal framework for OSR to meet their budgetary needs.

Ngigi & Busolo (2019) did a study on devolution in Kenya highlighting the good, the bad and the ugly, analyzing the challenges faced by Kenya in full implementation of the devolved system as per the constitution 2010. The study observed that the success of a devolved unit was pegged on the political relationship between the national government and the County governments. The study found that where the county's leadership is not in a good relationship with the national government, disbursement of funds from the national treasury delays. This leads to nonpayment of salary and wages to staff, grounding the workings of the county governments. The study also Observed high level of corruption in counties that are in good relationship with the national governments, since prosecution of the governors by the security apparatus is slowed down due to their relationship with the president

Citizen engagement emerged as a governance factor with substantial implications for OSR. Macharia et al (2021) and Maina (2016) emphasized that inclusive budgeting and transparent planning processes foster trust in public institutions and enhance tax compliance. However, the effectiveness of such participatory frameworks varies across counties. Gituma (2017) echoed this by identifying corruption and weak rule enforcement as major hindrances to revenue collection, advocating for legislative reforms and a stronger institutional culture of accountability.

### 2.2.3 Institutional &Technological Factors and Own Source revenue performance

Institutional capacity and technological innovation are foundational to effective revenue collection. Numerous studies have documented systemic weaknesses in the county revenue departments, including understaffing, inadequate training, and manual operations.

The adoption and integration of information and communication technology (ICT) systems remain a critical yet underachieved goal in many counties. Kirer (2024) and Kitavi (2023) demonstrated that counties that invested in automated systems, such as Kwale's KWALEPAY or Bungoma's BARMS, showed higher performance in revenue collection compared to others relying on manual processes. Nevertheless, the deployment of Integrated Revenue Management Systems (IRMS) is inconsistent across the country. Even counties using the same vendor systems (e.g., JamboPay or LAIFOMS) experienced varied performance due to differences in implementation, staff capacity, and management oversight (CRA, 2022).

Omwenga et al. (2024) while studying counties within the Lake Region Economic Bloc observed that fraud negatively impacted revenue growth, while effective monitoring, evaluation, and performance tracking mechanisms had a positive effect. The study recommended clear revenue targets and merit-based hiring and transfers to enhance departmental efficiency. These insights point to the critical role of governance and institutional arrangements in boosting subnational revenue systems.

Oduol (2023) examined the role of governance frameworks in enhancing revenue collection within Kenya's devolved county governments. Using data from five counties and 439 respondents, the study employed a quantitative methodology through structured questionnaires to assess institutional capacity, human resource capacity, policy implementation, and regulatory frameworks. Oduol concluded that while counties are investing in institutional structures and automation, human resource inadequacies negatively impact revenue performance. Additionally, regulatory frameworks targeting corruption and informal networks showed the most significant positive influence on revenue generation, while policy implementation had the weakest correlation. The study emphasized the importance of citizen participation and staff training.

Kamu (2023) while studying the effect of technological innovations on revenue mobilization. assessed various revenue collection methods and found that in-person collection had a negligible effect on county financial performance. In contrast, automated billing systems, mobile money platforms, and digital payment technologies significantly enhanced efficiency, transparency, and citizen satisfaction. This was echoed in

Napisa's (2014) case study of Mombasa County, which implemented ICT-based collection systems, decentralized revenue administration, and stronger cash control mechanisms. Mombasa also linked revenue collection efforts to tangible service delivery, building public trust and fostering compliance.

Oguso (2022) reported that in Nairobi City County, deficiencies in tools and equipment, lack of skilled debt collectors, and limited public tax education significantly hindered OSR performance. These findings are consistent with those of Qanchora (2021) and Kimutai et al. (2017), who highlighted the need for continuous training and strategic human resource development.

Qanchora (2021) conducted a study in Isiolo County to analyze institutional-based strategies for enhancing OSR mobilization. The study, guided by Agency Theory and Adam Smith's Canons of Taxation, used a descriptive survey design and self-administered questionnaires targeting county revenue departments and the county assembly's budget and finance committee. The findings indicated that Isiolo County largely depended on equitable nationally raised allocations due to weak internal revenue mobilization mechanisms. The study also identified key deficiencies such as limited staff motivation, inadequate regulatory oversight on tax waivers, ineffective public awareness efforts, and a poorly developed electronic revenue collection system

Counties have implemented a variety of reforms reflecting both global best practices and locally driven innovations. Ochuodho and Ngaba (2020) studied Kisumu County and found that the effective deployment of Integrated Financial Management Information Systems (IFMIS), diversification of revenue sources, robust internal controls, and motivated staff significantly improved revenue performance. These findings underscore the importance of minimizing leakages and enhancing staff morale. Institutional arrangements and local innovations have also proven influential. Owandho (2020) found a strong correlation between technological innovations, institutional setups, and enhanced revenue performance in Homa Bay County.

Adu et al. (2020) examined the digitization of revenue systems in the Accra Metropolitan Assembly in Ghana. The introduction of Point-of-Sale (POS) devices enabled systematic tracking of payments and payer data, enhancing transparency and efficiency. The study highlighted the growing importance of ICT in strengthening revenue administration and mapping. Despite infrastructure and human resource limitations, digitization was found to be an effective tool in transitioning towards data-driven revenue systems

Mandala et al. (2020) in their studies highlighted that lack of robust Management Information Systems (MIS), inadequate internal audits, and incomplete system automation as key bottlenecks. Many counties also struggle with interdepartmental coordination and reluctance among staff to embrace technological change. Furthermore, inconsistencies in adherence to policy guidelines and insufficient technical training have further limited revenue collection capacity.

Additionally, the literature points to low ICT literacy, unstable internet connections, and inadequate infrastructure as barriers to effective automation. Gituma, ((2017) noted that many counties lack the power and connectivity needed to support full digital transitions. The assessment of 33 county ICT systems revealed that most systems performed below optimal levels, with only achieving integration above 80% of required IRMS functionality.

Musili (2015) developed a prototype County Revenue Mobilization System (CRMS) that combined a MySQL database, PHP user interfaces, and Quantum GIS to classify land and support internal revenue functions. This integrated system significantly improved revenue collection, particularly in land-based taxation.

Balunywa et al. (2014) while studying fiscal decentralization as a strategy for improving revenue performance in Ugandan Local governments observed that fiscal decentralization reduces corruption, enhances planning, and improves revenue performance. The study recommended stronger enforcement of tax compliance, reduced political interference in technical processes, and improved remuneration for technical staff to curb corruption.

Another key theme across literature is the importance of revenue mapping and the integration of Geographic Information Systems (GIS). Manyaka (2014) and Bird (2010) emphasized that accurate identification, tracking, and management of revenue sources enhances transparency, accountability, and service delivery.

### 2.4 Summary and Research Gaps

This section seeks to give a summary of the above-reviewed literature and identify gaps from the reviewed literature. It is important to note that only a few studies have been conducted in our Kenyan context aimed to provide options for the optimization of county-owned source revenue. The reviewed literature demonstrates that factors such as economic, institutional, political, and technological affect own source revenue (OSR) mobilization across county governments in Kenya and other decentralized governance systems globally. Studies have largely focused on determinants of revenue performance, such as urbanization, institutional capacity, governance frameworks, and ICT integration. Research by Khadondi (2015), for example, examined specific factors like intergovernmental grants and urbanization, while other scholars like Oguso (2022), Qanchora (2021), and Oduol (2023) emphasized institutional, legal, and technological constraints.

However, despite the breadth of research, significant gaps remain, especially in the Kenyan context. First, most existing studies are descriptive in nature and fragmented, focusing on isolated counties or single variables without offering a holistic, multidimensional analysis. There is a lack of integrated assessments that examine how multiple factors interact to affect OSR performance. Locally, the research has primarily focused and explored determinants of revenue mobilization and few offered actionable strategic options for optimizing revenue generation at the county level. While Khadondi (2015) and Kibua (2021) identify key challenges in OSR mobilization, they fall short of evaluating adaptive strategies or models that counties can implement to improve outcomes.

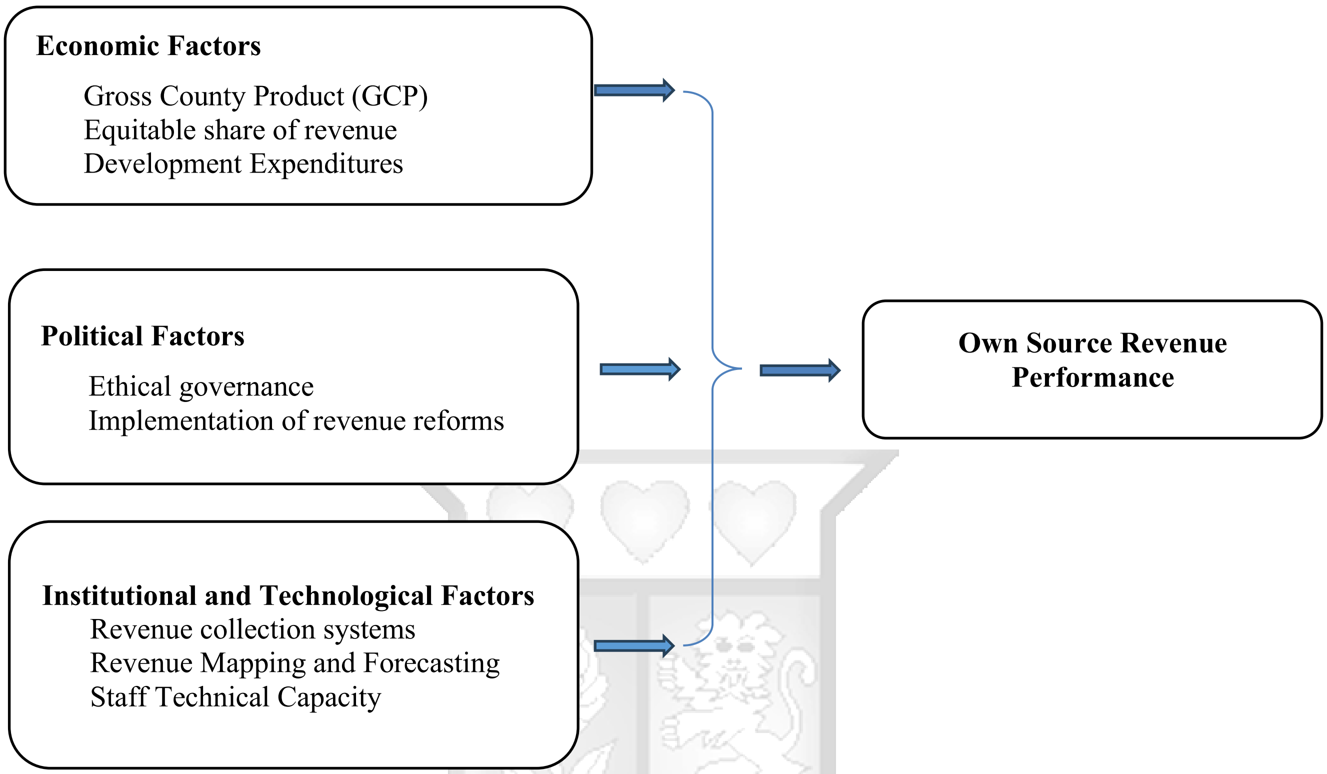
Additionally, international studies such as those by Bell (2002), Awasthi et al. (2020), and Ebel (2005) focus on specific revenue streams like property tax or on administrative arrangements like tax contracting. These are often contextually situated in higher-capacity governance systems and thus do not translate directly into the Kenyan subnational setting. Kenyan literature has not sufficiently explored how such international best practices could be localized or adapted to the constraints and opportunities faced by Kenyan counties, including issues of informality, political dynamics, and capacity limitations.

**2.5 Conceptual Framework**

The conceptual framework represents the study’s synthesis of the literature on how to illustrate the relationship between the study variables. Therefore, in this context, the conceptual framework reveals the direction of influence of independent variables on the dependent variable of the study. The performance of own source revenue (OSR) in Kenya’s County Governments is influenced by multiple interdependent factor which include Economic, political and institutional and technological factors. The Economic factors are; the GCP, Equitable share and Development expenditure utilized by a county. The Political factors are reforms implemented by the county government on revenue collection and Ethical Governance. The institutional and technological factors are; Revenue collection systems deployed, Revenue mapping and forecasting and staff technical capacity. Collectively, these factors underscore the need for a coordinated approach to strengthening revenue performance by the Counties.

**Figure 4: Conceptual Framework**

**Independent Variables** **Dependent Variable**




Source: Author

### 2.6 Operationalization of the Conceptual Framework

Operationalization of the conceptual framework explains the study's definition and measurement of independent and dependent variables. It makes it easier for researchers and the intended audience to effectively understand how the specific study variables will be measured to answer the research questions. For this study, the measurement of study variables will be based on the previous definitions and measurements used in other studies that might be directly related to the current studies through thematic analysis. Economic determinants of own source revenue will be measured using Intergovernmental Fiscal transfer as a percentage of total budget, size of the economy in comparison to own source revenue collected, development expenditure as a percentage of the total budget. Institutions and technological investment for revenue management will be key indicators, and this shall be measured through the human resource capacity and approaches employed in revenue collection through investment in personnel emolument, automated revenue collection systems and forecasting tools. The above reviewed literature has indicated that the technocrats are subjects of their political masters and hence effective own revenue mobilization is significantly impacted by the political goodwill in sub-national. This will be measured through recommended own revenue reforms and their level of implementation as well as governance structures to seal leakages, this combined with ethical governance will demonstrate political goodwill in own source revenue mobilization.

The dependent variable for the study is the own source revenue performance which will be measured through the comparison of absolute actual collection referred as performance versus the annual target provided by County Governments in the budget estimate every financial year.

Table 3 presents the operationalization of the conceptual framework, outlining how the research objectives will be addressed. Own source revenue performance is examined through key determinants categorized as economic, institutional, and political factors alongside enabling strategies such as improved revenue administration and the integration of service delivery with revenue collection.

**Table 3: Operationalization of Conceptual Framework**

| Variable | Indicators | Operationalization | Expected Relationships | Measurement | Sources |
|---|---|---|---|---|---|
| **Dependent Variable** | | | | | |
| Own Source Revenue (OSR) Performance | OSR Performance (Actual revenue collected vs. Targeted revenue) | County actual revenue collected against the targets set in county budgets. | Gaps between potential and actual revenue are influenced by economic, institutional and political factors. | Actual annual own source revenue against the forecasted annual own source revenue | 2013-2024 OCOB Reports on County Budget Implementation |
| **Independent Variable** | | | | | |
| **Economic Factors** | Gross County Product (GCP) | Annual GCP | Counties with High GCP are likely to perform better therefore a positive correlation | Total economic size of a County in comparison with OSR mobilization | KNBS Gross County Product publications |
| | Equitable share of revenue among Counties | Proportion of Equitable Share allocated to Counties that can be invested in OSR mobilization efforts | A negative correlation is expected as Counties more dependent on intergovernmental transfers may have less incentive to maximize OSR. | Total equitable share of revenue as a percentage of the total county budget | Budget Policy Statements (BPS) |
| | Development Expenditures | Annual County development expenditures | Increased development expenditures such as infrastructure i.e. health services and | Development expenditure as percentage of total budget | County Budget Implementation Reports |

| | | | | | |
|---|---|---|---|---|---|
| | | | markets are expected to increase OSR due to the high integration of service delivery with revenue generation in use fees (such facility improvement funds, business permits etc.) | | |
| **Institutional and Technological Factors** | Revenue collection systems and infrastructure | Extent of automation in revenue collection | Use of technology increases revenues collected due to efficiency hence a positive correlation | Percentage of revenue streams automated calculated by number of revenue streams automated out of the total revenue streams | County Fiscal and Strategy Papers<br><br>Revenue automation reports from CRA<br><br>County Budget Implementation and Report |
| | Revenue Mapping & Forecasting | Accuracy in revenue forecasting and mapping | Unmapped revenue streams hinder realistic revenue forecasting hence a negative correlation.<br><br>Proper revenue forecasting is expected to enhance revenue performance | The gap in performance of own source revenue against the projected revenue<br><br>Approach to revenue forecasting | Revenue Outturn reports |
| | Staff Technical capacity | Annual budget expenditures on revenue collectors | A high personnel emoluments budget is associated with high staff capacity which enhances revenue collection efforts | Emoluments/ Total Personnel Budget as a percentage of total budget | |
| **Political Factors** | Ethical governance | Amounts of bribe demanded in a county | High levels of amounts in bribe lead to funds leakages hence decreasing revenues performance | Average bribe given per county | EACC National Ethics and Corruption Survey(NECs)<br><br>Auditor General Report |

| | | | | | |
|---|---|---|---|---|---|
| | Implementation of revenue reforms | Level of political commitment to adopting and implementing OSR reforms through legislation | Strong political will leads to adequate legislation and implementation of OSR reforms, thus improving OSR performance. | Own source revenue-related bills passed or policies adopted | Legislative Records |

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter discusses the study's methodology, laying out the research data collection and analysis approach. According to Kothari C, (2004) Research methodology is a systematic way of examining a problem. It indicates the steps to be used to solve the problem and the logic behind them. Creswell, (2014) defines methodology as the procedures an investigator uses to uncover what they believe could be known, as indicated by the research framework. This chapter describes the variables used, data sources, justification of the scope, data analysis, and ethical considerations.

## 3.2 Research Philosophy

Research philosophy informs how researchers build knowledge within a particular discipline (Johnson, 2006). Within business and management research, the choice of research philosophy involves some inherent assumptions about knowledge and reality, which can have a deep impact on the way researchers undertake projects and data analysis and make meaning of the phenomena being explored (Burrell & Morgan, 1979). In this study, a pragmatist research philosophy was adopted. It stipulates that concepts and theories become meaningful when they allow for a practical approach (Kelemen & Rumens, 2008). Pragmatism is particularly suitable for research that combines different perspectives and approaches to produce findings that are both rigorous and relevant to practice. In this research, pragmatism allowed the study to combine theoretical frameworks, empirical evidence, and practitioner experience of how sub-national revenue generation works. Far from looking at these elements individually, the study examined them in the context of their real implications for revenue enhancement and management capacity development. This allowed for a balanced analysis that appreciates both theoretical frameworks and their real-world applicability.

## 3.3 Population and sampling

This research focused on the analysis of the own source revenue performance for all the forty-seven County Governments established in the Constitution of Kenya, 2010. The research covered the period 2013-2024, correspondence to the onset of devolution, to offer a trend analysis in this aspect of fiscal decentralization in Kenya. Census approach was employed in involving all the 47 County Governments informed by the need for comprehensive trend analysis, availability of data in revenue performance and the standard design of devolution across for holistic overview in the implementation of devolution by different Counties. Counties were further categorized into three groups based on their characteristics and OSR capacity. The categorization include: City Counties - Counties with diverse economic activities and dense populations (e.g., Nairobi, Mombasa, Kisumu and Uasin Gishu), Counties with annual OSR performance above KES 1 billion, and Counties with annual OSR performance below KES 1 billion. This categorization allowed the study to examine differences in OSR performance and strategy effectiveness across diverse fiscal contexts. Further, the categorization provided the basis to assess how County economic complexities correlate with OSR performance.

### 3.4 Research Design

Research design is a comprehensive framework that guides the development of the study by setting out the shape and form of the inquiry and also the method of its implementation, thus ensuring the systematic and complete process of data collection, analysis, and interpretation (Siedlecki, 2020). The study adopts a mixed-methods approach that integrates both quantitative and qualitative analysis. Mixed method research design is acceptable in this study as different types of data are used to understand the dynamics of own source revenue collection by County Governments. By employing secondary data sources from county financial reports, national treasury reports, budget policy statements, and government audit reports, this approach guarantees an objective as well as a repeatable process. Moreover, the research approach of this study includes a thorough investigation of revenue collection trends by Counties.

### 3.5 Data Collection

This study adopted secondary data processes to review, analyze and synthesize data from previously conducted studies and reports. Secondary data was collected from various sources including Financial Reports for County Governments, Reports on Budget implementation from Office of the Controller of Budget, Audit reports from Office of the Auditor General, reports from Commission on Revenue Allocation and both National and County policies.



### 3.6 Data Analysis

The data collected for this study was analyzed using STATA 17. Panel data for the 47 counties covering the period FY 2013/14–2023/24 was compiled, cleaned, and merged into a single dataset. The analysis followed three stages: descriptive statistics, correlation analysis, and regression modeling.

In the descriptive stage, averages, minimums, maximums, and standard deviations were computed for the key variables including Gross County Product (GCP), Equitable Share allocations, development expenditure, personnel emoluments and ethical governance. This provided an overview of the distribution and trends across counties.

In the correlation stage, relationships between these key variables and OSR performance were tested using Pearson correlations to detect possible multicollinearity issues prior to regression analysis.

In the regression stage, a fixed-effects panel model was applied to examine the effect of economic, institutional, political, and categorical factors on OSR performance. Crucially, the county categorization (City/Above/Below KES 1B) was integrated directly into the model instead of being handled as a separate descriptive comparison.

- Industrial and commercial counties (Nairobi, Mombasa, Kisumu, Uasin Gishu) were coded as 1
- Agricultural, tourism and trade counties raising more than KES 1 billion annually were coded as 2
- Patrolist and agricultural counties raising less than KES 1 billion annually formed the baseline (3)

Dummy variables were generated in STATA for these categories to allow direct inclusion in the regression equation.

An Ethical Governance Index was also constructed using corruption and ethics survey data from the EACC. This index measures the impact of governance quality on revenue performance.

The final model estimated was:

$$\begin{aligned} OSR_{it} = \beta 0 &+ \beta_1 GCPi_t + \beta_2 EquitableSharei_t + \beta_3 Developmenti_t + \beta_4 Automationi_t \\ &+ \beta_5 staff\ capacityi_t + \beta_6 staffcapacityi_t * Automation \\ &+ \beta_7 EthicalGovernancei_t + \beta_8 Categoryi_t + \mu_i + \lambda_t + \epsilon \end{aligned}$$

Fixed-effects estimation was selected to control for unobserved county characteristics (e.g., geography, historical capacity), while year dummies accounted for nationwide policy shocks. Robust standard errors were used to ensure the reliability of the estimates. This analysis was combined with qualitative content review for variables including automation, mapping, outsourcing of revenue collection and policy actions from county reports and policy documents.

**3.7 Research Quality**

This study ensured research quality through a focus on validity and reliability, critical for generating credible and actionable findings. Reliability was upheld by using consistent publicly available secondary data sources such as County Treasury reports, CRA and National Treasury publications to ensure replicability and consistency in measurement. Throughout the study, the researcher maintained a clear link between research objectives, variables, and analysis. This approach ensured that comparisons and trends in revenue performance could be replicated and trusted. To strengthen validity, the research aligned data sources and analysis with the study objectives. Internal validity was strengthened using panel data techniques with fixed effects, which helped isolate the impact of independent variables by controlling for unobserved heterogeneity across counties. Generalizability of the research findings was enhanced by including all 47 counties over a ten-year period. Input from the research supervisor and public finance experts helped validate the design, interpretation, and conclusions, ensuring that findings accurately reflect county OSR performance dynamics. Furthermore, triangulation of quantitative and qualitative methods enhanced the credibility of the conclusions by corroborating findings from different data types and sources.

### 3.8 Ethical Consideration

To ensure the existence of ethical standards when systematically solving the research objectives, the researcher adopted the following standards. First was honesty in all undertakings, ensuring that no scientific misconduct was practiced. The researcher committed to inspecting data and avoiding data mining and type III errors. Furthermore, the researcher presented the findings and interpretations with honesty and objectivity. All the results from quantitative analysis were reported and interpreted in the same form as they were obtained from STATA 17 software without any changes.

The study relied heavily on secondary data, which is prone to issues of plagiarism. To avoid falling into this trap, the researcher kept a record of all the sources reviewed, read, and cited the sources upon their use. Secondary data were gathered from trusted public websites for the research study. This was important for maintaining the integrity of the database from which the researcher obtained data. To increase objectivity and reduce bias, the researcher consulted multiple sources, including books, journal articles, internet websites, and newspapers

# CHAPTER FOUR

# PRESENTATION OF THE RESEARCH FINDINGS

## 4.1 Introduction

This chapter provides the evaluation findings on Own Source Revenue (OSR) performance across Kenya's 47 County Governments between FY 2013/14 and FY 2023/24. The evaluation examines the variance between actual and forecasted OSR, and the impact of numerous economic, institutional, and political elements on OSR's overall performance.

The findings are based on four thematic areas corresponding to the research objectives and questions:

- Economic factors, including Gross County Product, Equitable share allocations and Development expenditure;
- Institutional elements, including automation and Staff wages;
- Political elements like ethical governance and reform implementation,

The chapter starts with a descriptive analysis of the key variables, followed by a deeper version-based analysis and qualitative analyses in subsequent sections.

### 4.1.1 Descriptive Statistics

This provides a statistical summary of the most important variables used in section analysis. Table 4 shows each main indicator's average, standard deviation, minimum, and maximum value in the 470 comments below.

**Table 4: Descriptive Statistics of Key Variables**

| Variable | Mean | Std. Dev. | Min | Median | Max |
|---|---|---|---|---|---|
| **Gross County Product (KES)** | 3.07 Bn | 3.06 Bn | 174 Mn | 1.78 Bn | **14.59 Bn** |
| **Personnel Emoluments (KES)** | 1.21 Bn | 1.22 Bn | 56 Bn | 672 Mn | **6.31 Bn** |
| **Development Expenditure (KES)** | 1.10 Bn | 1.13 Bn | 51 Mn | 631 Mn | **6.63 Bn** |
| **Equitable Share (KES)** | 1.82 Bn | 1.83 Bn | 96 Mn | 1.05 Bn | **9.24 Bn** |
| **OSR Performance (ratio)** | 62.6% | 2.9% | 56.2% | 62.9% | **67.6%** |
| **Salary-to-Dev. Ratio** | 1.13 | 0.16 | 0.80 | 1.14 | **1.49** |
| **Dev. Exp. Ratio** | 36.2% | 5.3% | 26.5% | 35.7% | **49.5%** |

The main institutional and economic factors for each of the 47 counties from FY 2013–14 to FY 2023–24 summarized above illustrate notable variances. Development expenditures and personnel emoluments record the highest variances with GCP and Equitable share being relatively fair. The average OSR performance across all the 47 Counties is 62.6%, with Counties performing at 56.2 % for a minimum and 67.6% maximum indicating structural variations across Counties. This descriptive insight provides the basis for subordinations and thematic analysis presented in the next sections, which start with the effect of economic factors on OSR performance.

## 4.2 Economic Factors and OSR Performance

This segment explores the effect of key economic variables on the performance of Own Source Revenue (OSR) amongst Kenya's forty-seven County Governments. Specifically, the analysis specializes in the relationship among OSR overall performance and three indicators: Gross County Product used as County economic size, equitable proportion allocations from the nationally raised revenues, and development costs spent by Counties.

The relationships between economic variables and OSR overall performance are summarized in Table 5, which provides the correlation coefficients.

**Table 5: Correlation Matrix – OSR and Economic Variables**

| Variable | Gross County Product | Equitable Share | Development Expenditure | OSR Performance |
|---|---|---|---|---|
| **Gross County Product** | 1.000 | 0.986 | 0.968 | **0.085** |
| **Equitable Share** | 0.986 | 1.000 | 0.984 | **−0.033** |
| **Development Expenditure** | 0.968 | 0.984 | 1.000 | **−0.028** |
| **OSR Performance** | 0.085 | −0.033 | −0.028 | **1.000** |

**Source: Research Data 2026**

### 4.2.1 Gross County Product and OSR Performance

With a correlation coefficient of roughly +0.085, the analysis shows a weak positive relationship between gross county product and actual own source revenue performance. This suggests that counties with larger absolute revenue levels may not always do better when it comes to fulfilling their OSR goals.

In order to have a better understanding, counties were divided into three groups according to their prospective revenue: city counties, counties that generate more than KES 1 billion annually, and counties that generate less than KES 1 billion.

Nairobi and Mombasa are among the city counties that collect the most OSR, frequently surpassing KES 5 billion. However, these counties often record weak OSR performance ratios, even while their economic bases are strong.

Counties like Kiambu, Nakuru, and Kisumu raise more than KES 1 billion in OSR per year in the second category. These Counties also rank high in economic size as they rank second in the categorization of the Counties economic size. The revenue performance of these Counties just like the City Counties is not reflective of their gross county product. The degree of automation and administrative procedures affect how well they perform. For example, Kiambu's outsourcing and automation techniques contribute to its comparatively stronger OSR performance, whereas other economies with comparable financial resources do worse because of governance flaws and lax in enforcement.

Counties that raise less than KES 1 billion a year, like Isiolo, Tana River, and West Pokot, fall into the third category. Although these counties typically perform better than expected, their ability to progress is constrained by their low absolute revenue. Their performance rates may seem adequate despite little growth in actual collection since their targets are frequently modest and reflect low economic activity.

This classification shows that revenue performance depends not only on economic size but also on how well each county executes collection methods and matches its goals with available capacity.

### 4.2.2 Equitable Share and OSR Performance

A slight negative association, with a value of roughly -0.033, is shown between equitable share distributions and OSR performance. This implies that counties that receive greater nationally raised share typically put up less effort to maximize their own revenue streams. The trend line in Figure 4.2 (middle) shows a gentle downward slope, suggesting that a greater reliance on fiscal transfers may lessen the incentive for county-level own source revenue mobilization.

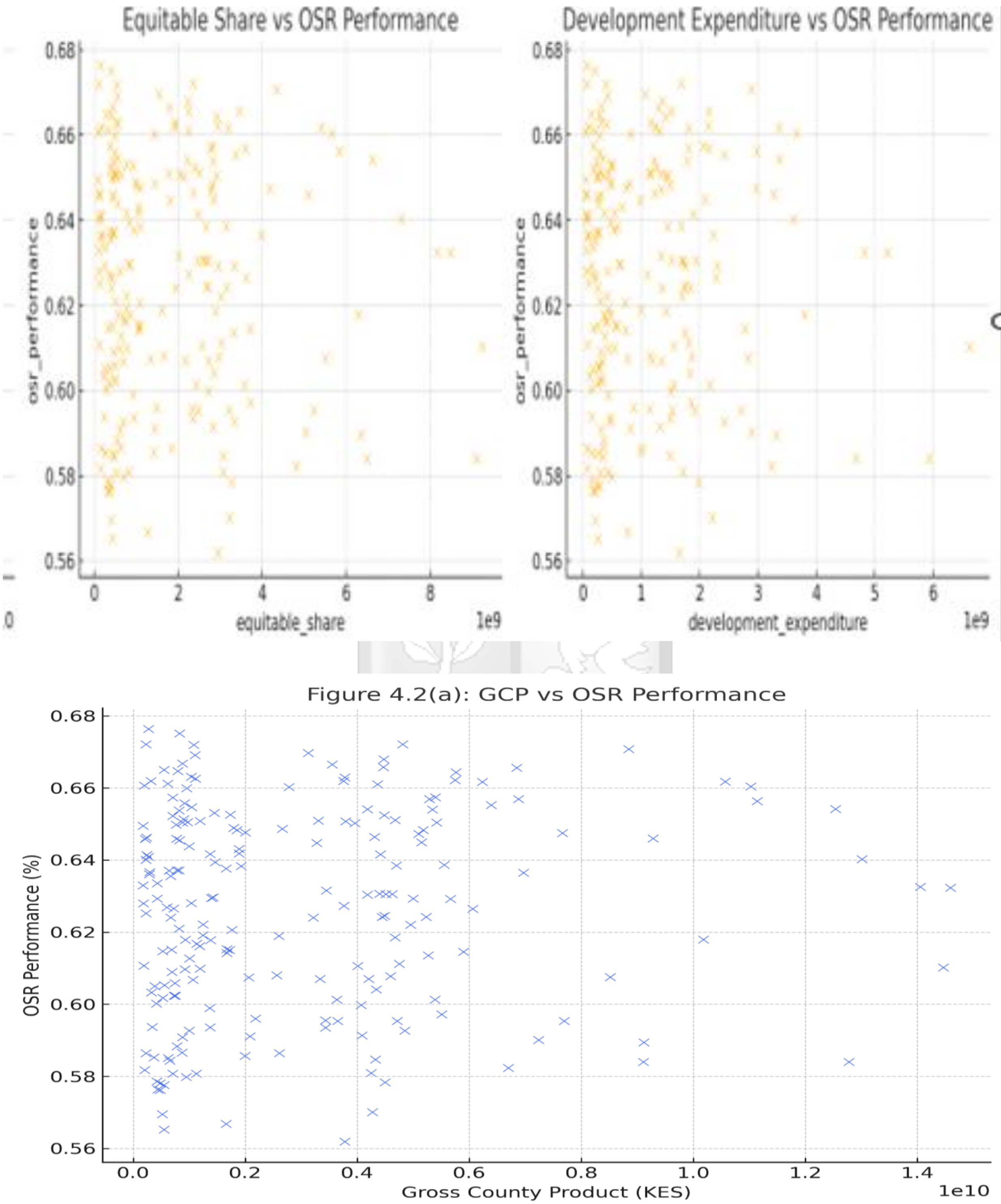
Counties with high populations and infrastructure needs, city counties like Nairobi and Mombasa get significant equitable share contributions. However, their reliance on national support frequently dilutes their OSR performance, despite their economic capacity and income potential. Nairobi relies largely on transfers rather than promoting administrative improvements in revenue systems, which further reduces OSR effectiveness due to the city's dual governance structure and political meddling. Large fair share allocations are also given to counties like Kiambu, Nakuru, and Kisumu that raise more than KES 1 billion. The mix of external and internal funding in certain of these counties results in a budgetary buffer that lessens the necessity of OSR system transformation.

On the other hand, counties like Isiolo, Taita Taveta, and Samburu that earn less than KES 1 billion rely more on equitable share as their main source of revenue. These counties typically prioritize adhering to budget ceilings and providing minimum services rather than actively increasing local revenue because of their weak internal economic base. Even if they might perform near goals, these goals are frequently modest and unmotivated by strategic growth objectives. As a result, the emphasis on equitable share may encourage little effort to look for untapped local resources.

### 4.2.3 Development Expenditure and OSR Performance

Development expenditure additionally indicates a negative correlation(weak) with OSR performance (-0..028), indicating that counties investing more in improvement do not necessarily gather greater revenue relative to their objectives. As proven in Figure 4.2, the scatter plot reveals a huge range of values with no clear upward or downward trend. This may also indicate a disconnect between public investments and service delivery or spur for economic growth affecting the generation of Own Source Revenue. For instance, counties may spend money on infrastructure without properly linking those investments to OSR streams, including asset costs or consumer charges and worse off, some of the development initiatives are never completed leading to incomplete projects as reported across budget implementation reports. Additionally, inefficiencies or political delays in project execution lessened fiscal returns on such development spending.

**Figure 5: Scatter Plots – OSR Performance vs Equitable Share, Gross County Product and Development Expenditure.**




**Source: Research Data 2026**

**Figure 6: Heatmap of OSR Performance Across Kenyan Counties (2013–2024)**


**Source: Research Data 2026**

This heatmap illustrates the performance of Own Source Revenue (OSR) collection by Kenya's 47 County Governments over the period 2018/19 to 2023/2024. It visualizes the percentage achievement of annual OSR targets, with darker shades indicating higher performance and lighter shades reflecting shortfalls. Counties like Narok, Nairobi, and Mombasa demonstrate consistent high OSR performance, while several rural counties lag behind. The figure highlights significant disparities in fiscal capacity and administrative efficiency across counties. It serves as a diagnostic tool for identifying best practices and areas needing strategic intervention to optimize sub-national revenue mobilization efforts.

These findings underscore the importance of non-economic factors, including administrative systems, policy frameworks, and political will, discussed in the next section.

## 4.3 Institutional Factors and OSR Performance

This phase evaluates how institutional variables influence the overall performance of Own Source Revenue (OSR) throughout Kenya's counties. Key institutional dimensions include the extent of automation, personnel emoluments expenditure patterns, and the presence of OSR forecasting mechanisms. These factors affect the efficiency, reliability, and strategic execution of OSR collection structures.

### 4.3.1 Personnel Expenditure and OSR Performance

The salary-to-development spending ratio and absolute figures for personnel expenditure, a crucial institutional indicator, are both included in the dataset. Counties typically spend KES 1.21 billion a year on employee salaries. Furthermore, the average salary-to-development ratio is 1.13, suggesting that development spending is frequently outpaced by labor costs. This disparity is a result of administrative inefficiencies, where counties prioritize ongoing costs, especially those related to human resources, above capital expenditures that could directly support efforts to increase revenue.

Although it is widely believed that a larger workforce would facilitate better revenue collection, the data shows no discernible positive relationship between OSR effectiveness and increased personnel expense. This implies that unless the personnel is efficiently organized, trained, and assigned to revenue-generating tasks, merely raising staffing levels will not result in better collection.

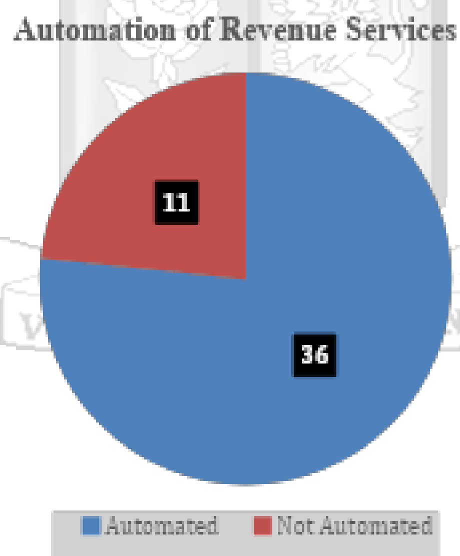
Nairobi County spends more than KES 6 billion a year on salaries, making it the most expensive city county. Nairobi has the largest human resource capacity, however its OSR performance is still lacking. Administrative complexity, personnel duplication, and a lack of sub-county revenue responsibility are attributed to the performance. Kisumu and Kiambu are among the counties that spend the most on personnel when they raise more than KES 1 billion. Despite implementing measures like outsourcing and some automation, Kiambu continues to spend an excessive chunk of its budget. Homa Bay and Bungoma devote a large amount of their meager budgets to staffing for counties that raise Kes 1 Billion in the last few Financial years and less than KES 1 billion on average. They have ordinary OSR performance in spite of this investment, which suggests either a lack of strategic deployment or underuse of revenue officers. The problem in these counties is not just the quantity spent, but also the absence of revenue targets connected to staff appraisal systems, poor internal controls, and a lack of performance tracking.

The discrepancy between actual revenue outcomes and human resource expenditures is a persistent concern across all categories. Few counties have used human resource rationalization or performance-based budgeting techniques that explicitly tie employee numbers and pay to OSR objectives. Consequently, counties continue to pay high wages without experiencing commensurate improvements own source revenue.

### 4.3.2 Automation and Revenue Collection Systems

The National policy on Own Source Revenue emphasizes that a revenue management system by Counties permits seamless integration with IFMIS. The policy also prescribes core process among the revenue mapping, forecasting, collection which includes invoicing (or billing) and receipting, receiving and processing payments through multiple e-payments including mobile money, direct bank debits, credit and debit card and e-wallet, cash and bank reconciliation, revenue human resource management against the streams and performance, reporting and integration with existing technologies used by Counties among them IFMIS and GHRIS.

**Figure 7: Automation of Revenue Services**




**Source: Research Data 2026**

Policy documents and county-level reports attest to the use of e-payment platforms and digital revenue systems in a number of counties, though none of the County has reported full automation such as cashless payment of all revenue streams. Thirty-six Counties reported to use a cashless revenue collection in a single or several revenue streams. In most Counties including Nairobi, Kwale, Makueni, Murang'a, and Mombasa automation platforms are for the main revenue streams, for instance in City Counties, Single Business Permits and Parking fee are through cashless platforms even though not in the entire County but in the most business concentrated areas/zones. The introduction of these technologies aimed to increase revenue collection transparency, decrease leaks, and boost efficiency. For example, Nairobi County centralized and digitalized income streams like parking fees, licenses, and property taxes by implementing the Nairobi income System (NRS). KWALEPAY, a mobile platform that integrates M-Pesa with market fees, permits, and licenses, was approved by Kwale County. In the same vein, Makueni County established an internal digital platform connected to the county's Revenue Administration Act to handle land charges and company permits. Additionally, Murang'a County implemented a digital revenue collection system that at first appeared promising, especially in terms of collecting market fees. Nevertheless, performance gains have only been slight even with automation. According to reports, obstacles to full efficacy include staff reluctance, enforcement difficulties, and low public awareness.

Initially, a public-private collaboration was used to digitize parking fines, billboard advertising, and single business permits in Mombasa County. However, audits found problems with income leakage, contract management, and system integration, which eventually jeopardized the automation effort's success. This story emphasizes how crucial it is to have robust supervision and accountability systems in place when using digital tools.

### 4.3.3 Forecasting and Data Use

While the dataset does not encompass a direct variable for OSR forecasting models, qualitative reviews show that only some counties have applied established OSR forecasting frameworks. Nairobi, for instance, has tried to apply predictive analytics using GIS mapping to pick out OSR opportunities based on land value and licenses. However, in many counties, targets are politically negotiated or copied from prior years, mainly to unrealistic projections that distort overall performance metrics. The empirical data demonstrated a performance of 65 per cent against the projected revenue.

Notable attempts have been made by Nairobi County to incorporate forecasting technologies into its revenue planning procedure. The county has tested projecting land rates, business license prospects, and property prices across sub-counties using GIS-based analytics. Nairobi's OSR performance is still mediocre in comparison to its potential despite this technical capability, primarily because of institutional inefficiencies, system fragmentation, and uneven political support. During budget deliberations, political pressure frequently overrides forecasts, lessening their impact.

There is little proof that formal forecasting models are being employed to establish OSR targets in Murang'a, Vihiga and Bungoma County with indication that their revenue collection system simulate and forecast. However, according to budget reports, revenue targets are usually based on past performance with slight yearly improvements. Murang'a's OSR performance is steady usually ranging just above or slightly below 60%. The county's capacity to grow its tax base and seize new revenue streams, including levies associated with urbanization, is restricted by the absence of organized forecasting tools. Similarly, there is no formalized OSR forecasting system in Vihiga County. The county frequently uses incremental budgeting, which involves slightly raising prior years' goals without taking into account real collection patterns or economic data. Uneven OSR performance have been caused by this practice. A minor attempt is made by Bungoma County to enhance revenue planning. Although the county lacks a data-driven forecasting mechanism, it has started internal meetings with sub-county revenue officers to help set targets. Bungoma's OSR performance is still unimpressive, albeit it occasionally gets better with the help of targeted campaigns or automation tests.

Instead of being evidence-based, revenue objectives are frequently aspirational due to the lack of organized forecasting methods, which results in underperformance and financial reporting inaccuracies. All things considered, these instances show a broader pattern across counties: OSR targets are typically overly optimistic or politically influenced when formal forecasting tools are either nonexistent or misused, which results in performance distortions. Counties like Nairobi that make investments in trend research and has capacity to collect data by use of digital platforms should prioritize scientific projections.

## 4.4 Political Factors and OSR Performance

Political governance plays a crucial role in shaping Countys' financial behavior, particularly concerning Own Source Revenue. This segment explores the impact of ethical governance practices, corruption, and political reform efforts on OSR performance.

### 4.4.1 Ethical Governance and Corruption Risks

The dataset on corruption from the Ethics and Anti-Corruption Commission (EACC) demonstrate that County Own Source Revenue is highly affected by ethical governance as demonstrated by the earlier findings from regression on variables in the dataset that capture corruption or ethical transgressions. To bring the picture home, reports from the Ethics and Anti-Corruption Commission (EACC), the Controller of Budget, and the Auditor General show that county revenue systems frequently face difficulties. These include irregular remittance practices, bribes at collecting stations, revenue leakage, and under banking. The gap between prospective and actual Own Source Revenue (OSR) collections is widened by such actions. Up to 87.4% of people who utilize public services have experienced bribery or unethical behavior in public offices, according to the EACC's 2018 National Survey on Corruption and Ethics. From the correlation results, ethical Governance Index exhibited a positive correlation with a significance of (r = +0.524). This highlights that counties with stronger governance, accountability, and lower corruption levels tend to perform substantially better in OSR mobilization. This confirms that integrity-driven reforms could have a powerful impact on revenue outcomes. Kwale, Nyeri, and Makueni exhibit better internal controls and fewer audit flags pertaining to corruption. Even though these counties have lower economies than Nairobi or Kiambu, they often have greater OSR performance ratios, frequently surpassing 70%. This emphasizes how important ethics, openness, and institutional discipline are to successful revenue collection. The results point to a definite negative correlation between OSR performance and perceived corruption. Counties are more likely to accomplish their OSR goals when they uphold accountability, improve ethical standards, and limit potential for income leakage. Therefore, enhancing OSR effectiveness throughout Kenyan counties requires anti-corruption initiatives like personnel rotation, digital traceability, and public reporting.

### 4.4.2 Legal Reforms and Political Will

Political commitment is often necessary for fiscal reforms to be implemented successfully. To improve compliance, some Counties have passed via-legal or OSR laws, while others are lagging behind because of vested interests or political opposition. For example, there are observable performance trends overall in counties that have implemented OSR management boards or laws pertaining to the valuation of property for collection of property rates. The existence of well-established political support legitimizes OSR attempts and supports enforcement. On the other hand, revenue attempts fail when political leaders sabotage revenue dreams or utilize OSR institutions for personal gain.

Fiscal policies are often based on political dedication. Some counties have implemented legal signals to enhance compliance, while others are lagging behind due to political resistance or vested interests. For example, the counties that have institutionalized legal guidelines or OSR boards/authorities have seen specific overall performance trends compared to those without such structure. The presence of mounted political aid complements the enforcement and legalizes OSR mobilization efforts. Conversely, in which political leaders infiltrate with OSR dreams or use OSR systems for conservation, selling efforts go to the pot by being popular. The assessment confirms that institutional capacity and political rule greatly affects OSR performance, although the effects are more structural than immediate. Political interference in OSR camouflage in staffing, political sabotage of introduction and collection of taxes and fees through uninformed tax holidays and waivers, and lack of political will in regulating OSR mobilization.

## 4.5 Regression analysis

A multiple linear regression was conducted to determine the effect of independent variables (GCP, Equitable share, development Expenditure, Automation, Staff capacity, Automation*staff capacity, ethical standards and county category) on the dependent variable (own Source Revenue).

Results presented in table 6 below indicate that R squared value of 0.523 indicating that the independent variables; GCP, Equitable share, development Expenditure, Automation, Staff capacity, Automation*staff capacity, ethical standards and county category explain 52.3% of changes in own source revenue while 47.7% is explained by factors outside this model. The results also indicate that model is significant with an F statistic of 8.89 and a p-value of 0.00

**Table 6:Regression analysis**

Model Statistics:
N = 47 counties
R-squared = 0.523
Adjusted R-squared = 0.514
F(10, 506) = 8.89, p = 0.0000
Root MSE = 0.238

| Variable | Coefficient | Std. Error | t-statistic | P-value | 95% CI | |
|---|---|---|---|---|---|---|
| Automation | 0.1488 | 0.0699 | 2.13 | 0.034 | 0.0112 | 0.2863 |
| Staff Capacity | 0.1823 | 0.0765 | 2.38 | 0.018 | 0.0315 | 0.3332 |
| Automation × Staff | 0.229 | 0.0943 | 2.43 | 0.015 | 0.0435 | 0.4145 |
| GCP | 0.1123 | 0.0635 | 1.77 | 0.077 | -0.0123 | 0.237 |
| Equitable Share | 0.0877 | 0.0432 | 2.03 | 0.043 | 0.0023 | 0.173 |
| Ethical Governance | -0.0946 | 0.0412 | -2.29 | 0.022 | -0.1757 | -0.0135 |
| Development Expenditure | -0.0679 | 0.0589 | -1.15 | 0.25 | -0.1835 | 0.0477 |
| Agricultural(Commercial/Industrial) | -0.2653 | 0.0891 | -2.98 | 0.003 | -0.4402 | -0.0904 |
| Tourism (Commercial/Industrial) | -0.1667 | 0.0865 | -1.93 | 0.054 | -0.3368 | 0.0034 |
| Pastoralist(Commercial/Industrial) | -0.4888 | 0.1679 | -2.91 | 0.004 | -0.8181 | -0.1595 |
| Constant | 0.5323 | 0.0988 | 5.39 | 0 | 0.3385 | 0.7262 |

Dependent Variable: Own Source Revenue Performance

**Source: Research Data 2026**

The Table above indicates that all independent variables are significant in explaining changes in performance of own source revenue apart from Development Expenditure. Therefore, results in the above table defines the OSR performance linear regression as;

$$
\begin{aligned}
OSR_{it} = 0.5323 + 0.11GCPi_t + 0.0877EquitableSharei_t + 0.1488Automationi_t \\
+ 0.1823staffcapacityi_t + 0.229staffcapacityi_t * Automation \\
- 0.0946EthicalGovernancei_t + \beta_7 Categoryi_t + \mu_i + \lambda_t + \epsilon
\end{aligned}
$$

The findings indicate that, when independent variables are held constant own source revenue collection performance would stand 53.23%

### 4.5.1 Economic Factors and own source revenue performance

The study defined economic factors that affect own source revenue performance as GCP, equitable share and Development expenditure. Development expenditure was found to be insignificant since it had a P value of 0.25 higher that required maximum of 0.1

However, GCP was observed to be significant with a p Value of 0.077 and a coefficient of 0.1123. This indicates that a unit change in GCP changes Owns source revenue performance by 11.23%.

Equitable share was also significant with a p value of 0.045 below the 0.05 at 96% confidence level with a 0.0877 coefficient. This indicates that a unit increase in Equitable share would increase own source revenue performance by 8.77%.

To determine whether the economic category of a county has an effect on own source revenue performance, the study analyzed sub categories agriculture, pastoralist, commercial and industrial and tourism and the effect on own source revenue performance with Industrial and commercial as the baseline. The study found that OSR performance in pastoralist counties were 0.48 units lower than commercial and industrial counties 0.2653 units lower for agricultural counties and 0.1667 units lower for tourism with all category variables being significant at 95% confidence interval

### 4.5.2 Political Factors and Own source revenue performance

Political factors were identified by ethical governance measured by the average bribe given in a county to access services. The study found that ethical governance was significant with a p value of 0.022 at 0.05 significance level and a -0.0946 coefficient. This indicates a unit increase in corruption or unethical governance would reduce own source revenue performance by 9.46%.

### 4.5.2Institutional and technological factors on own source revenue performance

Institutional and technological factors in our model were identified by automation of revenue collection services, technical staff capacity and an interaction between automation and staff capacity.

The results indicate that automation was significant in explaining own source revenue performance with a p value of 0.034 and a 0.1488 coefficient. This indicates that increase in automation of revenue services increases own source revenue by 14.88%.

Staff capacity was also significant in explaining own source revenue performance with a p value 0.018 and 0.1823 coefficient. This indicates that increasing staff capacity by 1 unit increases own source revenue performance by 18.23 %. An interaction variable of staff capacity and automation was created and was observed to be significant in explaining changes in own source revenue performance with a p value of .015 and a 0.229 coefficient. This implies that a unit increase in the interaction variable increases own source revenue performance by 22.9% This implies that the interaction variable between automation and staff capacity has a higher impact on own source revenue performance than automation and staff capacity variable individually.

## 4.6 Summary of Findings

To conclude the findings, each variable presents a unique interaction with own source revenue performance as demonstrated below.

**Table 7:Relationships Between Key Variables and OSR Performance**

| Variable/Strategy | Relationship with OSR Performance | Type of Influence |
|---|---|---|
| Gross County Product | positive | Economic |
| Equitable Share | Positive | Economic |
| Development Expenditure | Statistically insignificant | Economic |
| Category | Negative(with industrial/commercial baseline | Economic |
| Staff capacity | Positive | Institutional |
| Automation | Positive | Institutional |
| Staff capacity* Automation | Positive | Institutional |
| Ethical Governance | Negative | Political |

**Source: Research Data 2026**

# CHAPTER FIVE

# DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter discusses the study's important findings on Own Source Revenue (OSR) performance amongst Kenya's forty-seven County Governments, as Chapter Four offers. It integrates theoretical and empirical perspectives to interpret the relationships between OSR and diverse economic, institutional&technological, and political factors. The chapter additionally covers implications, highlights the study's challenges, offers actionable recommendations for stakeholders, and concludes with a summary of the key contributions.

## 5.2 Interpretation of Research Findings

The findings verify that a complex interaction of factors beyond economic capabilities influences OSR performance. The common OSR overall performance across counties has become approximately 62.6%, indicating that most counties continuously fall short of their revenue series targets (Singh et al., 2023). The analysis revealed a significant positive correlation between GCP and OSR performance, suggesting that counties with larger economic bases are likely to meet their targets but do always meet their set targets. This demonstrates that economic strength provides a tax base, which can be realized when paired with effective revenue systems to translate into stronger results.

Equitable share allocations have proven a positive relationship but weak with OSR overall performance, reinforcing that counties heavily reliant on nationally raised/equitable transfers can also have limited motivation to enhance their internal revenue efforts. This points to a structural issue with Kenya's devolution model with high dependency on equitable share. Transfers are necessary for equity, however, for the transfers to spur yield on service delivery and economic growth, they need to be combined with incentives that recognize and reward revenue mobilization efforts, particularly in counties with unrealized revenue potential. This aligns with the fiscal federalism theory's disincentive hypothesis, which contends that excessive intergovernmental transfers may stifle local tax effort and deter innovation in autonomous revenue mobilization.

Additionally, development expenditure showed a weak correlation, and no significance to own source revenue performance indicating a disconnect between county investments and real OSR outcomes. Challenges of development investment with unrealized results is rather common in the Kenyan devolution as reported across literature with numerous incomplete projects, investments in projects that yield political mileage and hence little or no result and commonly, non-economical viable investments. Another challenge is, even though in the budget Counties allocate 30 per cent as required by PFM Act, in the budget implementation reports (OCOB,2023 and BPS,2022), Counties did not spend the allocated amounts in development with reallocation of budgets severally done each Fiscal Year.

Institutional variables, Staff capacity measured by personal emoluments paid has also been tested. The research confirmed that even though counties invest heavily in staffing spending a median of KES 1.21 billion yearly this does not translate into better revenue performance. Many counties spend more on recurrent expenses than on development even above the set ceilings in the Public Finance Management Act of seventy to thirty on recurrent vs development which may additionally limit their capacity to invest in revenue-improving infrastructure or efforts. These inefficiencies suggest that institutional systems, mainly around human management and budgeting priorities, play a major role in shaping OSR results.

Since findings indicate that staff capacity has a positive impact on own source revenue peformance,aligning human resources with key revenue streams, including audit, enforcement, and valuation, should be prioritized by the County Public Service Board. Qualitative conclusions indicate that automation by itself ensures better OSR performance across all of these counties. However, Successful counties, like Kwale and Makueni, have combined automation with explicit enforcement mechanisms, capacity building, legislation, and community participation. Counties like Murang'a and Mombasa show that automation solutions run the danger of being underutilized or ineffectual in the absence of governmental support, personnel buy-in, and system integration. This is in line with the findings from the data that shows that interaction between staff capacity and automation has a higher impact on OSR performance than staff capacity and automation independently

Political and governance-associated factors, emerged as full-size through qualitative evaluation. Ethical governance practices, political commitment, and the enactment of permitting legal guidelines have been recognized as vital drivers of OSR overall performance. The study found that unethical governance has a negative effect on OSR performance.  Counties with stated corruption or political interference in OSR administration—including Nairobi and Kiambu—often have low compliance and high revenue leakages. On the other hand, counties like Makueni and Kwale that have carried out OSR legal guidelines, promoted transparency, and invested in citizen trust-building mechanisms tend to perform better.The evaluation also showed that counties implementing various techniques including, GIS mapping, outsourcing, and revenue reforms—outperform single or fragmented approaches.

**Industrial and Commercial Counties**

The first category consists of City Counties, which are Kenya's most urbanized and economically diverse regions. These include Nairobi City, Mombasa, and Kisumu. These counties consistently record the highest levels of Own Source Revenue (OSR), with Nairobi leading the country by raising over Ksh 10 billion in the last two Fiscal Years followed by Mombasa and Kisumu. However, their impressive collections mask significant structural challenges. The bulk of their revenue base comes from highly informal sectors, resulting in substantial leakages and enforcement difficulties. Furthermore, politically driven budgets and combined with governance bottlenecks, have diluted the impact of investments on OSR mobilization such as automation.

**Agriculture, Trade, And Tourism Counties**

The second category comprises counties anchored on agriculture, trade, and tourism, contributing to their relatively high OSR performance and generating more than KSh 1 billion annually. This group includes Kiambu, Nakuru, Narok, Machakos, Kakamega, Uasin Gishu, and Meru. However, despite their potential, they still grapple with inconsistent automation across sub-counties, political interference in revenue decisions, and outdated valuation rolls for property rates.

**Pastoralist and Agricultural Counties (Below KSh 1 Billion OSR)**

The third category covers counties with anchored on agriculture and Pastoralism and with annual OSR below KSh 1 billion, largely rural and economically less diversified. This group includes Isiolo, Tana River, West Pokot, Samburu, Wajir, Mandera, Lamu, Taita Taveta, Tharaka Nithi, Vihiga, Busia, Nyamira, Elgeyo Marakwet, and Baringo. These counties rely heavily on the equitable share from the national government, as their own revenue streams are modest and often manually managed. Structural challenges such as limited administrative capacity, inadequate ICT infrastructure, and public resistance to new levies hinder revenue performance

## 5.3 Implications of the Study

The findings of this study have numerous implications for Kenya's economic governance. Firstly, they display that economic power alone is insufficient to ensure the overall performance of OSR. Even wealthier counties fail to fulfill their objectives without the right institutional and political frameworks. Technology alone does not result in advanced outcomes except when accompanied by a staff capacity improvements and enforcement mechanisms.

Thirdly, the study emphasizes the importance of political dedication and ethical management. Counties with energetic assistance from county assemblies and government management generally tend to have higher legislative frameworks and enforcement. Moreover, legislation, including Revenue Administration Acts, valuation rolls, and up-to-date Finance Acts, have a fantastic effect on compliance and revenue predictability. Lastly, the findings suggest that national establishments including the National Treasury and Commission on Revenue Allocation should lay out transfer mechanisms that encourage rather than discourage local revenue generation.

### 5.4 Limitations of the Study

Despite its complete scope, the review has numerous obstacles. The analysis relied on secondary information, which can also incorporate inconsistencies due to reporting errors or county classification differences (Filipo Sharevski & Aziz Zeidieh, 2024). Certain institutional and political variables, along with the level of governance, were not immediately available in the dataset and had to be inferred from qualitative critiques. Additionally, the evaluation was performed on the aggregate county level, which may mask intra-county disparities or variations in implementation. Finally, the regression analysis was limited to a subset of measurable signs and did not capture all capacity confounding variables.

### 5.5 Conclusion

In conclusion, Own Source Revenue performance in Kenya is realized using factors other than economic ability. Institutional preparations, political will, and strategic reforms are the real drivers of success. Counties integrating virtual systems, legislative reforms, ethical leadership, and operational performance always perform better than those focusing on monetary performance or indicators. To continuously finance the development agenda for counties and to reduce excessive dependence on nationally raised transfers, Counties should invest in systemic OSR growth strategies. This includes improving revenue collection and administration establishments, empowering employees, taking advantage of era on digitization and aligning political incentives with financial duties. By embracing these measures, the county governments in Kenya can convert their own source revenue abilities into tangible benefits that help in inclusive and responsible development as well as improved service delivery to the citizens.

### 5.6 Recommendations

Based on the study's findings, numerous guidelines are proposed to enhance OSR performance among counties. As this research adopted a categorization approach, the following are strategic approaches to different categories of Counties by revenue outcomes.

**Industrial and Commercial Counties- Nairobi, Mombasa, Kisumu and Uasin Gishu**

To optimize OSR, City Counties need to intensify digital enforcement through comprehensive cashless systems and GIS-linked mapping, specifically for property rates and enterprise licensing. This will enhance efforts into expanding the tax base and improve revenue forecasting accuracy and implement targeted frameworks for informal sector taxation. These approaches will be complemented by strengthened oversight mechanisms to curb revenue leakages.

**Agriculture, Trade, And Tourism Counties with OSR performance above Kshs 1 Billion**

The focus for these counties should be on fully integrating revenue systems across all streams to seal leakages, professionalizing revenue departments through training and performance-based incentives, and updating property valuation rolls to tap into underutilized property tax potential.

**Pastoralist and Agricultural Counties With OSR performance below Ksh 1 Billion**

Strategic Implications: Strengthening OSR in these counties requires capacity building for revenue staff, investment in basic automation systems with donor and national government support, and improved service delivery, sustained community engagement and tax education to improve voluntary compliance.

**To all the Counties and Devolution Players**

Overall, all Counties will benefit from institutionalizing structures that combine revenue streams, allow real-time monitoring, and guide citizen-friendly payment alternatives (Truphena Okeyo, 2023). These structures ought to be complemented by revenue reforms, enforcement mechanisms, and a team of workers capable of being effective. Second, revenue assignment is not a function of the executives alone, calling for collaboration with legislators at both National and County level and prioritize the passage of enabling legislation along with national own source revenue Act, valuation rolls, complete Finance Acts, and support in revenue forums. These devices offer the structure necessary for sustainable and responsible revenue collection.

Third, intergovernmental transfers have to be tied to fiscal attempts where counties demonstrating constant improvement in OSR performance receiving additional incentives from national allocations. Finally, counties ought to sell inter-county benchmarking and peer learning. High-performing counties, including Kwale, Makueni, Homabay, Muranga and Nyeri, provide fashions that different counties can adopt and adapt to domesticate in the respective contexts for growth in revenue performance. Platforms, such as the Council of Governors (COG) are suitable to facilitate the exchange and learning of the good practices across Counties.

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**APPENDIX**

Appendix:

1. Data Collection Schedule

Data_Collection_Schedule.xlsx

| Data Type | Source | Period Covered | Collection Method | Responsible Pa |
|---|---|---|---|---|
| County OSR Performance Data | Office of the Controller of Budget (OCOB)<br>County Budget Implementation Reports | FY 2013/14 – 2023/24 | Download and extract from reports | Researcher |
| County OSR Potential | Commision on Revenue Allocation(CRA) | Published in 2020 | Download and extract from reports | Researcher |
| Equitable Share Allocations | The National Treasury | FY 2013/14 – 2023/24 | Download and extract from Budget Policy Statements | Researcher |
| Gross County Product (GCP) | Kenya National Bureau of Statistics (KNBS) | 2019 – 2022 | Extract from GCP publications | Researcher |
| Revenue Allocation Formulas | CRA Reports<br>Kenya Gazette | 2013 – 2024 | Document review | Researcher |
| PFM Legal Frameworks | Constitution of Kenya<br>PFM Act,<br>County Government Act | 2010 – Present | Legal and policy document review | Researcher |
| County Planning and Strategies Documents | County Budget Review and Outlook Paper<br>County Fiscal Strategy Paper<br>County Annual Development Plan<br>Finance Bills | 2015 – 2024 | Download from county websites | Researcher |

Sheet1

## Ethical Approval

Strathmore
UNIVERSITY

**30th April 2025**

Ms Wangui Mercy,
mercy.wangui@strathmore.edu

Dear Ms Wangui,

**RE: Performance and Opportunities of Optimizing Revenue Mobilization in Kenya's Devolved Governance**

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU- Masters** proposal. Your application reference number is **SU-ISERC2877/25.** The approval period is from **30th April 2025 to 29th April 2026.**

This approval is subject to compliance with the following requirements:

i. Only approved documents including (informed consents, study instruments, MTA) will be used.
ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 72 hours of notification.
iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 72 hours.
v. Clearance for the export of biological specimens must be obtained from relevant institutions.
vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) https://research-portal.nacosti.go.ke/ and obtain other clearances needed.

Yours sincerely,

**Mr Ambrose Rachier,**
**Chairperson; SU-ISERC**

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