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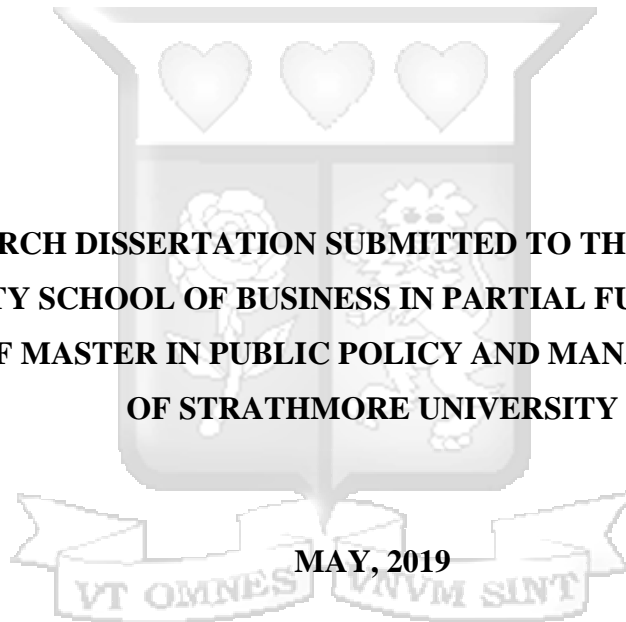
**REVENUE DIVERSIFICATION IN COUNTIES WITH A FOCUS ON OWN
SOURCE REVENUES**

VICTOR ODANGA

MPPM/90798/15

**A RESEARCH DISSERTATION SUBMITTED TO THE STRATHMORE
UNIVERSITY SCHOOL OF BUSINESS IN PARTIAL FULFILMENT FOR A
DEGREE OF MASTER IN PUBLIC POLICY AND MANAGEMENT (MPPM)
OF STRATHMORE UNIVERSITY**

MAY, 2019



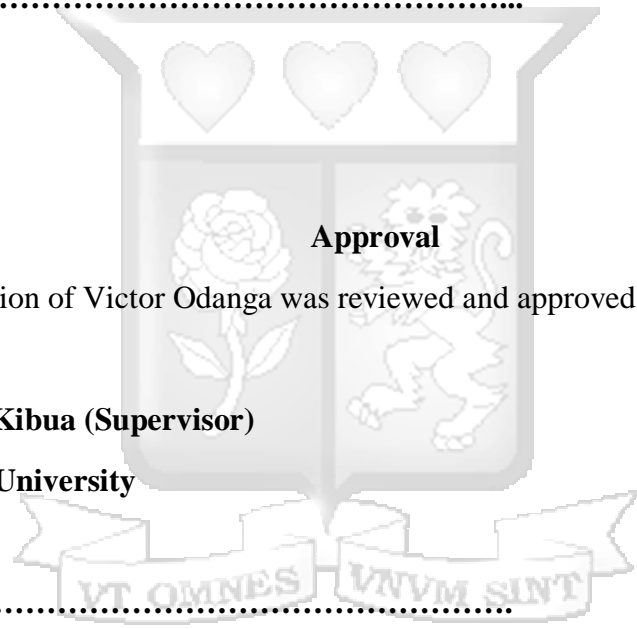
DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the dissertation contains no material previously published or written by another person except where due reference is made in the dissertation itself.

Victor Odanga

Signature.....

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Approval

This dissertation of Victor Odanga was reviewed and approved by the following:

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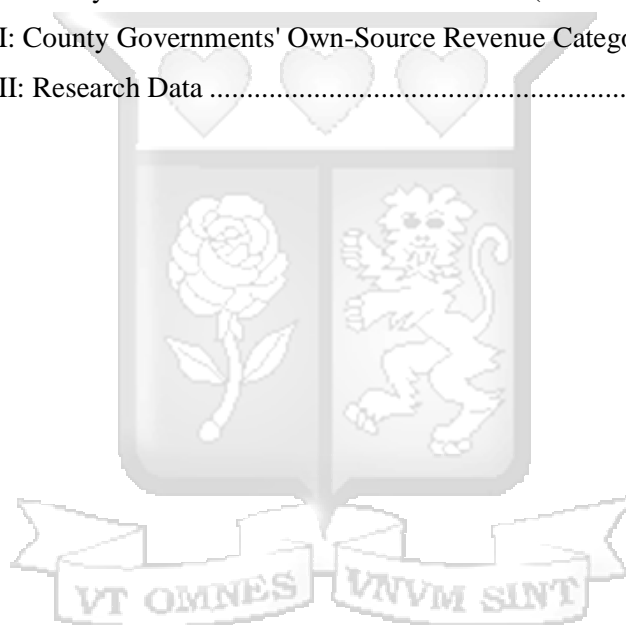
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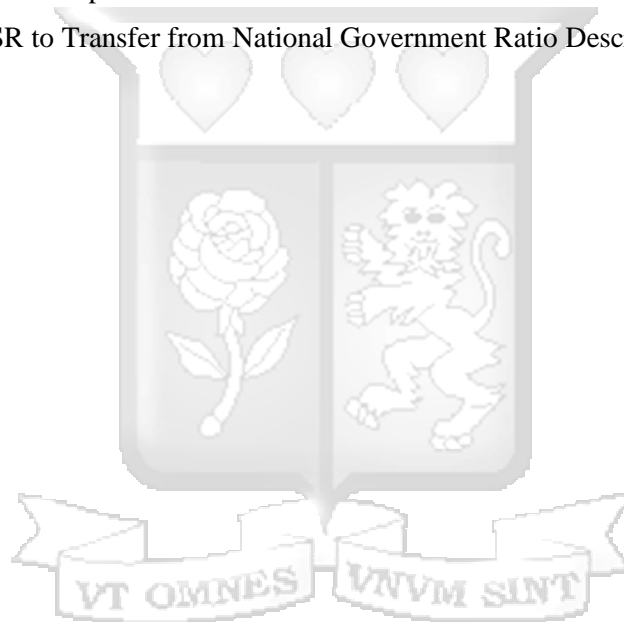
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LIST OF ABBREVIATIONS

CBIRR	County Budget Implementation Review Report
CoB	Controller of Budget
CGs	County Governments
CoK	Constitution of Kenya, 2010
CRF	County Revenue Fund
GPT	Graduated Personal Tax
LAs	Local Authorities
LATF	Local Authorities Trust Fund
OSR	Own Source Revenue
NT	National Treasury
SHS	Shillings



ABSTRACT

With the devolved system of governance in Kenya, financial autonomy is a key tenet of the County Governments sustainability. The general objective was to identify strategies through which County Governments Own Source Revenue (OSR) can be diversified to promote enhanced local revenues. The specific objectives were to establish the factors which contribute to the current revenue collection trends by County Governments in Kenya and to establish the performance of counties in Kenya on revenue generation. The Resource Dependency Theory was utilized in the study. The research design applied was an ex post facto descriptive research design using quantitative data. The study employed non-probability sampling approach of purposive sampling. The 47 counties were lumped into eight regions based on the former provincial administrative units, thus a county in each of the eight administrative units served as a sample therefore constituting a sample of eight counties. A combination of primary and secondary sources of data were employed in the study. Questionnaires were administered to fulfill the overall objective and the first specific objective. Secondary data was collected in order to satisfy the second specific objective. Descriptive and factor analysis was applied for the general objective and the first specific objective. Descriptive statistics was used to fulfill the second specific objective. The study established that; there are seven factors being utilized in the counties to diversify revenue, there are five factors which are the main challenges existing in county governments resulting in the current revenue generation trends, and the overall revenue generation of the counties is quite low. Policy recommendations were that policy makers in the sector could use the strategies established in the study to recommend them on enhancing sub-national governments OSR and also try to address the challenges identified in the study. Individual Counties' are also recommended to isolate those strategies used by other counties to diversify their revenues. They can also be aware of the challenges weighing in on OSR and try to address them in order to improve local revenue collection. Various practitioners carrying out other studies can fill the gaps left out in this study for the purposes of providing sustainable solutions towards revenue mobilization.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Kenya promulgated a new constitution in August 2010 introducing a new system of Governance comprising of two levels of Government: the National and County Governments. There are 47 County Governments as highlighted by the Constitution of Kenya 2010, which are listed by name but whose boundaries are not defined.

According to Kangu (2015), the 47 Counties listed by name in the First schedule of the Constitution bear names similar to those of the 41 districts provided for in the independence Constitution, as amended and increased to 47 districts by the 1992 Districts and Provinces Act. The focus on this study therefore will be the 47 County Governments as noted in the fourth schedule of the Constitution. Counties are the new sub national governments as introduced by the Constitution and have been given resource mobilization responsibility by the same constitution hence the focus.

1.1.1 Revenue Diversification

Revenue diversification is originally derived from the modern portfolio theory (Markowitz, 1952), a basic tenet of which is that investors aim to maximize the expected rate of return and minimize risk by striking the right combinations of various assets in the portfolio. By diversifying funding mechanisms, a nonprofit can avoid drastic revenue downturns in the event of withdrawal or decline of one particular income source by increasing revenues from other sources. In (Markowitz, 1952) other words, maintaining multiple funding bases creates a safety net for nonprofits.

Kotler & Armstrong (1993) additionally notes that diversification is a strategy in which an organization sets up or acquires business outside its current products and markets. Within the Kenyan and devolution context, this concept can be linked to what (Hendrick, 2002) suggests which is, expanding the revenue sources has the advantage of accommodating new growing spending requirement of a local government in terms of new judicial regulations, political actions and ever changing economic cycle in a government. To cope with these emerging challenges therefore a diversified and broad base of revenue source should be established.

1.1.2 Own Source Revenues

According to Chisholm (1911), government revenue is money received by a government. It is an important tool of the fiscal policy of the government and is the opposite factor of government spending. Revenues earned by the government are received from sources such as taxes levied on the incomes and wealth accumulation of individuals and corporations and on the goods and services produced, exports and imports, non-taxable sources such as government-owned corporations' incomes, central bank revenue and capital receipts in the form of external loans and debts from international financial institutions. It is used to benefit the country. Governments use revenue to better develop the country, to fix roads, build homes, fix schools etc. The money that government collects pays for the services that is provided for the people. The sources of finance used by the central government are mainly taxes paid by the public.

According to a Kenya's National Treasury (2018), the government's revenues comprises of the following four main sources namely; Tax revenues such as taxes on property, Non-tax revenues including social security contributions, International Grants from foreign governments and organizations and lastly Loans either domestic borrowing and international borrowing.

The Constitution of Kenya through Article 206 thereby provides that there shall be established a consolidated fund through which shall be paid all money raised or received by or behalf of the national government. That means all the revenues collected from the government streams shall be deposited at the consolidated fund account.

The Constitution of Kenya (2010) under Article 209 depicts Own Source Revenues (OSR) as revenues generated by one level of government in this case the County Governments revenues generated through property taxes, entertainment taxes, fees and charges from the services they provide.

1.1.3 Legal Framework on Revenue Mobilization

(Kangu, 2015) notes that the success of a non-centralized system of government is dependent upon not only a clear assignment of functions and competencies but also

an adequate allocation of financial resources to enable the levels of government to effectively discharge their functions.

Kangu (2015) further noted that the Constitution of Kenya (2010) establishes County Governments that are meant to have financial autonomy in two respects; access to sufficient revenue from both their own sources and transfers from revenues raised nationally, and ability to determine their own budgets and budgetary priorities. In terms of the Constitution of Kenya (2010) Article 175(b), County Governments must have ‘reliable sources of revenues to enable them govern and deliver services effectively’.

The defined County Governments’ funding sources include: Equitable share of at least 15 percent of most-recently audited revenue raised nationally Constitution of Kenya (2010) Article 202(1) and 203(2); Additional conditional and unconditional grants from the National Government’s share of revenue Article 202(2); Equalization Fund based on half of one percent of revenue raised nationally (Article 204); Local revenues in form of taxes, charges and fees; and Loans and grants.

The Constitution of Kenya (2010) under Article 209(3) allows County Governments to impose property rates, entertainment taxes and any other tax it is authorized to impose by an Act of Parliament. The concept of the Equitable Share as depicted in Article 202 of the Constitution builds on the financial model which the Constitution has adopted and one of the principles of public finance set out in Constitution of Kenya (2010) Article 201(b)(ii). (Kangu 2015) opines that the equitable share is a right of each government and not a discretionary donation by national government to the County Governments, and is such an entitlement, which is justiciable. The County entitlement stems from the fact that because national government is assigned all major taxing sources, this revenue does not accrue exclusively to it.

As part of the Counties OSR raising measures, the National Policy to Support Enhancement of County Governments’ Own Source Revenues (2018) defines the revenue streams as;

1.1.4 Taxes

Compulsory government levies for which nothing is received directly in return. Taxes do not necessarily involve the use or derivation of direct benefits from services, regulation or goods. Rather, taxes are unrequited transfers intended primarily to generate revenue for the government. Examples are property rates and entertainment taxes.

1.1.5 User Charges and Fees

Payments for publicly-provided services, or charge for using a public facility such as vehicle parking lot, market, health facility or park. User fees/charges may correspond to usage of services provided, or may be for the bulk or time-limited use of services such as water. The main economic rationale of user fees/charges is not to produce revenue but to promote economic efficiency. Well-designed user fees/charges achieve this goal by: i) providing different information to public-sector suppliers e.g. how much clients are willing to pay for particular services, the type of services to be supplied, the quantity and quality, and to whom; and, ii) ensuring that what the public sector supplies is valued at least at (marginal) cost by citizens.

1.1.6 Licenses

Charges in respect of authorization granted to an entity to undertake a certain action and is mainly issued for regulatory purposes. Examples include business and outdoor advertising licenses.

1.1.7 Performance of Counties in Kenya on Revenue Generation

The National Treasury through the National Policy to Support Enhancement of County Governments' Own Source Revenues (2018) notes that in the first 4 years of devolution, OSR contributed 12 percent of Counties' total receipts; transfers from the National Government (i.e. equitable share and conditional allocations) contributed more than 88 percent. **(Table 1)**. During this period OSR increased initially (by nearly 20 percent between FY 2013/14 and 2014/15) before contracting in the subsequent two years.

Additionally the policy notes that County Governments impose tens of user fees and charges, although 70 percent of collections comes from about 10 revenue streams **(Table 2)**. 40 percent of Counties' OSR in FY 2016/17 was generated from three

imposts namely: i) business licenses (14.8 percent); ii) property-related income i.e. “poll rates” and plot rents (14.1 percent); and, iii) vehicle parking (12.2 percent).

In their study on Resource Mobilization and Tax Elasticities in Pakistan, Chaudhary and Hamid (2001) noted that Pakistan was facing a serious problem in raising public revenue. The consistent failure in improving public revenue led the public sector to rely on borrowing. As a result, the public debt was piled up to the tune of over 90% of the Country’s Gross Domestic Product (GDP). These imbalances they noted had further effects on the economy. The outcome was failure to fulfill not only demands for financing development projects but it even became difficult to meet the then expenditures.

As noted by (Oates, 2005) the application of different sources of revenues ensures the predictability and stability of sources of revenue in public finance. He reiterates that no one source of finance has control or is relied upon at the expense of other sources of finance. This ensures that there is continuity in the service delivery in the public sector as income flow is consistent.

To this end it would be important in the Kenyan context to promote revenue diversification in County Governments to enhance financial autonomy and financial own effort to ensure continuity in service delivery.

1.2 Statement of the Problem

Local governments have tried to find alternative funding strategies to maintain the current level of public spending and public service quality without raising tax rates and levies (Sosin, 2012). Revenue diversification has been considered one of the important funding strategies for those who try to increase public expenditures for public demands as well as to establish revenue stability for uncertainty and risk (Martin et al., 2012; Carroll, 2009).

With the level of revenue generation in Counties as earlier shown in Table 1.1 through the numerous revenue streams highlighted in Table 1.2, it was important to determine strategies through which County Government can diversify their revenues through OSR to promote sustainable development.

A study done on Influence of Revenue Diversification on Performance of Counties in Kenya by (Nyanumba, Rotich,Gekara, Keraro, Okari ,2017) revealed that revenue diversification has a direct influence on performance of Counties in Kenya. The study recommended that all Counties should explore various ways to diversify their sources of revenue besides allocation from National Government, as this will help to adequately deliver services to the citizens

Another study carried out by (Ngicuru, 2017) revealed that revenue diversification have an effect on revenue collection in Nairobi County. The study therefore recommended that the County administrators and the members of County representatives' need to come up with more areas/ channels where revenues can be gotten from in order to increase the amount collected in the County. Additionally the study recommended that ways be improved where the tax administrators and staff are trained on how they can improve their education on tax matters in order to increase on the amount of tax that that can be collected in the county.

From the existing studies done, revenue diversification has been cited as being necessary for self-sustainability however the modes of diversification do not seem to be adequately discussed. In short the 'how to' is missing. Hence the purpose of this study.

1.3 Research Objectives

With what has already been done on this subject by other researchers, there is evidence that there is still a gap in focus of Counties OSR as a means of revenue diversification by Counties. The general objective of this study was therefore to recommend strategies through which County Governments in Kenya can diversify their revenues with a key focus on OSR.

Specific objectives were:

1. To establish the factors which contribute to the current revenue collection trends by County Governments in Kenya.
2. To establish the performance of counties in Kenya on revenue generation.

1.4 Scope of the Study

To enhance reliability, the study focused on the 47 County Governments as listed in the 4th Schedule of the Constitution of Kenya and the period covered were between

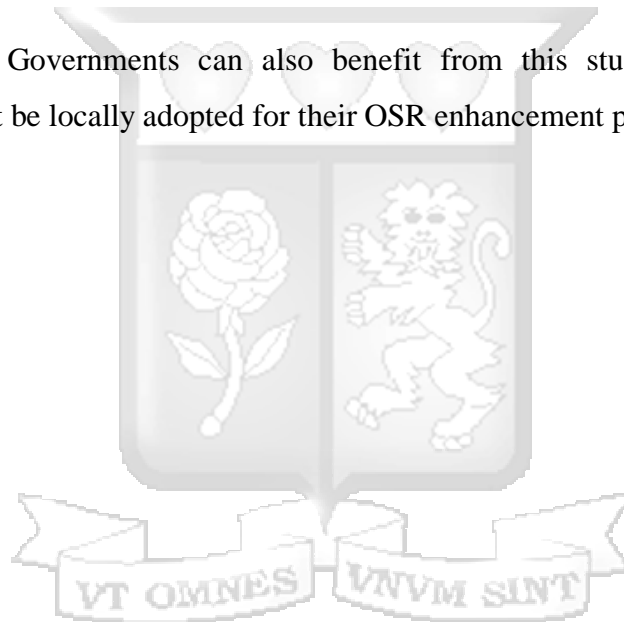
2013/14 – 2016/17 financial years which is a four fiscal year gap. The four year period is chosen to mirror the government of Kenya’s medium term expenditure framework to promote predictability of the planning and implementation process.

1.5 Significance of the Study

This study is useful to policy makers in the sector who would be interested in coming up with policies that would be used to recommend strategies on enhancing sub-national governments OSR.

Additionally this study is useful to practitioners in carrying out other studies that would fill in the gaps left out in this study for the purposes of providing sustainable solutions towards revenue mobilization.

The County Governments can also benefit from this study by isolating those strategies that be locally adopted for their OSR enhancement processes.



CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Foundation

This chapter reviewed in depth the existing legal framework that gives the Counties responsibility over revenue mobilization. Additionally, literature was reviewed on revenue diversification from the global perspective, regional perspective and local perspective through the application of the research objectives to identify different strategies that have so far been recommended and highlight study gaps that this study seek to fill. The literature hence identified the relevant theoretical framework through which revenue diversification is anchored.

The linkage between revenue diversification through OSR and service delivery was also illustrated through the conceptual framework.

2.1.1 Resource Dependency Theory

The assertion of resource dependence theory is simply stated by Pfeffer and Salancik (1978) in which they opine that the key to organizational survival is the ability to acquire and maintain resources. This task can however be noted to be problematic due to environmental conditions of scarcity and uncertainty. Broadly, resources are not adequate, stable, or assured. Ultimately, the resource imperative results in the adaptation of organizations to requirements of important resource providers. Understanding the underlying dynamics of resource dependence relies on an open-systems perspective as discussed by (Katz & Kahn, 1966). Acquiring and maintaining adequate resources requires an organization to interact with individuals and groups that control resources. According to Buckley (1967), that a system is open means, not simply, that it engages in interchange with the environment, but that the interchange is an essential factor underlying the system's viability".

The theory is relevant to this study because the is intending to identify ways in which County Governments in Kenya can self-sustain themselves through OSR diversification to limit over-reliance on national transfers by keeping in mind the underlying concept of resource dependency theory. The county governments acquire their resources from the external environment which include; the external government and individuals and body corporate who reside and operate in the

counties. The resources are the revenues which the counties require in order to operate. In order to acquire adequate resources from the external environment, county governments should seek methods and strategies to diversify revenues.

2.3 Existing Legal Framework

2.3.1 Pre-Devolution Context

The National Policy to Support Enhancement of County Governments' Own Source Revenues (2018) notes that at Independence, Kenya inherited a system of Local Authorities (LAs), whose basis was the Local Government Act (Cap. 265). LAs derived revenue-raising powers from several legal instruments including: i) the Local Government Act (Cap 265, sections 216-217) which empowered LAs to establish and maintain a General Rate Fund; ii) the Valuation for Rating Act (Cap 266) and the Rating Act (Cap 267): The Rating Act provided for imposition and collection of property rates by rating authorities while the Valuation for Rating Act (Cap 266) provided for valuation of properties for the purpose of levying rates. The latter laid out procedures for preparing a valuation roll, which contains information on all rateable properties within a specific jurisdiction; iii) the Trade Licensing Act (Cap 497) which empowered LAs to impose business licenses; and, iv) the Local Government Act (section 222) which empowered LAs to borrow, including through issuance of stocks or bonds, although this facility was rarely used.

A series of reforms and Constitutional amendments between 1969 and 1989 led to removal of LAs' powers to the Central Government. Through the Transfer of Functions Act (1969), primary health, health services and other functions were removed from LAs, except in the seven municipalities. This eroded LAs' revenue base leading to income decline. The Transfer of Functions Act removed the right of municipalities to levy their most important revenue source, the Graduated Personal Tax (GPT), which was replaced with a grants system. In 1989, the specific grants were replaced with a service charge levied on business premises and employees in formal and informal sector. A County Council grant system then in existence was also removed. In 1998, the service charge was abolished following introduction of the Local Authorities Transfer Fund (LATF). By this time, LAs were permitted a narrow range of local taxes, fees and charges, which undermined collections, and introduced wide variations in revenue generation potential between rural and urban authorities.

Revenue administration under the LAs was undertaken by Finance Departments headed by Town Treasurers. The Treasurers reported to Town Clerks, who were accountable to Finance Committees comprising elected councilors or ward representatives. Subsequently, LAs experienced persistent shortfalls in OSR collection, which caused deficits, encouraged borrowing and led to mounting debt. The LATF was designed to forestall a financial crisis among the Authorities, most of which ended up depending heavily on the Fund. LATF's objectives included assisting LAs to reduce their debt. The goal was to eliminate all debt arrears by 2009/10, but this was never attained. Until their dissolution in 2013, many Authorities could not remunerate their councilors and effectively finance service delivery.

A major impediment to OSR enhancement by the defunct LAs was their laxity in enforcing legislation requiring citizens to pay rates, user fees and other charges. For instance, LAs ineffectively utilized powers under section 17(2) of the Rating Act to enforce rates payments. Outstanding debt repayment remained significant, causing incoming County Governments to inherit considerable liabilities. An exercise to determine and audit liabilities (as well as assets) transferred from the defunct LAs the policy notes is still ongoing, under the Intergovernmental Relations Technical Committee (IGRTC).

2.3.2 Post Devolution Context

The policy further highlights that County Governments inherited all revenue streams previously administered by the defunct LAs. The Counties also inherited revenue administration procedures, guidelines and revenue collection personnel from the LAs. In the process, many inefficiencies were also inherited such as weaknesses in management of OSR -- difficulties with billing, laxity among revenue collectors and poor setting of annual revenue targets. Some Counties have made progress in resolving these problems; others still struggle with technology and implementation of administrative guidelines on the payment of fees and charges, among other challenges. County Governments have maintained the upward trajectory in aggregate OSR growth achieved by defunct LAs, but the pace is slower. What is unclear is how much of the earlier growth in collections is attributable to an expansion in the base or improvements in operational efficiency; in many instances, growth in collections was achieved through increase in rates and introduction of new imposts. It is also unclear

whether current collections are any indication of the underlying potential, since County Governments do not have credible estimates of their revenue potential from the various streams. (National Treasury, 2018)

2.4 Global Perspective

In their study to investigate whether revenue diversification leads to greater stability in the revenue structures of nonprofit organizations, Carroll and Stater (2009) found out that nonprofits can indeed reduce their revenue volatility through diversification, particularly by equalizing their reliance on earned income, investments, and contributions. This positive effect of diversification on revenue stability implies that a diversified portfolio encourages more stable revenues and consequently could promote greater organizational longevity. Despite any additional complexity or crowding out, nonprofit managers may increase the financial stability of their organizations by adding additional revenue streams (Carroll & Stater, 2009).

Understanding the importance of diversification can help financial managers achieve superior performing portfolios (Sorensen et al. 2004). Therefore, many investors and portfolio managers subscribe to long-term, diversified investing as the core of their investment strategy (Wilson 1997).

It is noted that although the nonprofit sector is unique in its methods of raising capital (Jegers and Verschueren 2006; Steinberg 1990), revenue diversification is nonetheless applicable as a prudent revenue generation strategy to potentially minimize the volatility of revenue portfolios managed by nonprofit organizations (Chang and Tuckman 1996; Froelich 1999; Frumkin and Keating 2002; Jegers 1997; Kingma 1993).

In Carroll and Johnson, (2010) study on how diversified are small town revenues, towns within five states Connecticut, Maine, Minnesota, Vermont, and Wisconsin were examined. These were the only states in which all towns maintained the traditional and unique governing structure of the town meetings. The study therefore revealed that these localities drew from less diverse revenue streams than other state and local governments. They noted that the reasons for these variations included differences in home rule status as well as tax and expenditure limitations imposed by states. Carroll and Johnson, (2010) further noted in there is very sparse research on revenue diversification at the local level of government with respect to town

governments which actually allow citizens to have direct input into how revenue is raised and spent, among other governing decisions.

Additionally the study was able to conclude that revenue diversification among town governments is substantively different from other local governments and states. Town governments rely much less on sales taxation than states and municipalities, primarily because of their limited opportunities to do so.

In his study on Municipality financial strategy responses to fiscal austerity, the case of Taiwan, (Tsai, 2018) highlighted that the biggest challenge for municipalities has been how to address a surge in expenditure at a time of revenue stagnation. The response of this surge in expenditure has involved an excessive dependence on the centralized system of taxes and grants. Of the five municipalities in Taiwan that (Tsai, 2018) studied —New Taipei, Taipei, Taichung, Tainan and Kaohsiung— Tainan City has the highest financial dependence on the centralized system, receiving 38.88 per cent of its average annual expenditure from grants. The large gap between revenue and expenditure has resulted in a major debt burden in Taiwan. Municipalities have had to deliver public services to meet citizen demands despite this continuing fiscal imbalance.

In order to manage the fiscal imbalance, (Tsai, 2018) opines that in 2014, Taiwan's Ministry of Finance (MoF) announced its Local Fiscal Consolidation Project to promote local fiscal autonomy and control debt. Its practical strategies for local government included increasing resources for self-financing, reducing expenditure and debt and providing financial counselling. Local governments were encouraged to accept greater autonomy despite still being highly dependent on central government fiscal resources.

Since the 1990s many scholars in Taiwan had analyzed the revenue structure of their local governments and problems of insufficient financial resources, and had provided practical advice such as to increase taxes, broaden the concept of user pays and examine other options aimed at increasing revenue (Shan 1996). Hence one of their key areas of focus for sustaining fiscal autonomy at the local level was revenue enhancement through strategies that included levying additional user fees, increasing tax rates or bases and drawing down fiscal reserves. According to empirical research,

governments in the United States and Europe prefer to levy additional user fees because the concept of 'user pays' is readily accepted by their citizens (Pammer 1990; Walzer et al. 1992). Increasing tax rates or bases is an option for increasing revenue, but the political costs are very high and citizens have a strong antipathy towards taxation increases.

2.5 Regional Perspective

The literature on fiscal decentralization (Oates 1998, Tanzi 2000, Manor 1999) has recognized the importance of development of a state's own fiscal resources, not only for the central state but also for its sub-national units. This is particularly true when sub-national units are granted substantial political autonomy, competencies and powers, implying their own responsibilities. Real political autonomy of municipalities exists only to the extent to which these municipalities are able to finance their services through their own revenues.

According to Moore (2001), the successful development of constant and substantial revenue to finance its own activities is the decisive factor for a consolidated and sustainable modern State. For developing countries - and especially those of Sub-Saharan Africa - Moore identifies some key difficulties. First, most developing countries are poor and have only a small proportion of their workforce in formal economy sectors, drastically reducing the state's capacity to obtain a surplus from its citizenry. Second, as many African States have been created top-down and in a rather artificial way, their effective control might not reach the peripheral countryside and thirdly unearned state income and, in some circumstances, foreign aid make the regime less dependent on its citizens and may diminish the authorities responsiveness.

In their study on fiscal management in Dangila Municipality, Ethiopia, Mbedzi and Gondo (2010) highlights that local governments are becoming increasingly dependent on their own-source revenues to cover recurrent expenditures. Municipalities are among the local urban governments and dependent on local revenue sources to finance some of public infrastructure and services. This therefore calls for a focus in enhancing the local revenues. Gianakis and Mccue (1999), argue that evaluating current tax structures and exploring alternative revenue options in a productive manner require an integrated and comprehensive approach. Hence, an

integrated revenue management system is concerned with establishing revenue performance standards, documenting revenue performance, comparing actual with expected performance, initiating corrective action and designing controlling mechanisms.

In Ethiopia it is noted that one of the reasons for poor performance of municipal revenue mobilization is shortage of skilled manpower within departments or work units of municipalities (Federal Democratic Republic of Ethiopia, 2005).

A study on Taxation, coercion and donors: local government tax enforcement in Tanzania by (Fjeldstad 2001) notes that there are four main revenue sources available to almost all district councils in Tanzania. These are 'development levy' (a head tax), crop and livestock cess (agricultural cess), business licences and market fees. In 1997 these sources averaged two-thirds (66 per cent) of the reported tax revenues in a sample of 42 district councils studied. Development levy dominated (30 per cent of total own revenues), followed by agricultural cess (22 per cent), business licences (about 9 per cent) and market fees (5 per cent). (Fjeldstad, 2001) further highlights in his study that total tax revenues per capita revealed substantial differences between councils. In 1995, in a sample of twenty councils, reported revenues per person above the age of 18 ranged from TSh 344 in Lindi DC, to TSh 1,541 in Mbinga DC. Some of these differences may as he notes can be explained by different economic structures, revenue bases, population densities, income per capita, and the level and quality of public service. Additionally the study also revealed variations in revenue performance between councils that apparently have fairly similar socioeconomic characteristics, such as Kibaha DC and Kilosa DC.

2.6 Local Perspective

There have been outcries that County Governments in Kenya are not collecting sufficient revenues to match with the expenditure needs and hence naturally resorting to the intergovernmental transfers which have ultimately become erratic in their disbursements by the National Treasury.

To understand the magnitude of under-mobilization of revenues by Kenya and to a larger extent County Governments, (Kimathi 2017) in her study on Challenges of the Devolved Health Sector in Kenya: Teething Problems or Systematic Contradictions, she notes that the Government of Kenya over the past four years had drastically, and

even dangerously, cut the financing of the health sector. In 2010, for example Kenya spent Sh7.20 out of every Sh100 on healthcare. This fell to Sh6.10 in 2011 and was further cut to Sh5.9 in 2013. In 2014, (Kimathi 2017) noted that the national and county governments planned to spend Sh5.70 per Sh100 on the sector, translating to 5.7 per cent of the Sh1.6 trillion budget, a far cry from the 14 per cent pledged as per the Abuja of which Kenya is committed to . These drastic cuts in healthcare provision have led to poor services, lack of drugs and frequent strikes as well as increased mortality and morbidity rates.

According to the National Policy to Support Enhancement of County Governments OSR, County Governments were noted of not meeting their revenue targets, in part because the targets are unrealistic (National Treasury, 2018). The Controller of Budget (CoB) on her part through the County Budget Implementation Review Report (CBIRR) 2017, emphasized that Counties' collections in FY 2016/17 was 54 percent of their aggregate projections, representing a drop from the performance of 69.3 percent in FY 2015/16. Nineteen Counties realized less than half of their FY 2016/17 target, again a deterioration compared with FY 2015/16, when thirteen Counties failed to do so. The CoB suggests that the noted underperformance can be attributed to lack of capacity to prepare credible revenue projections. In making credible projections, the CoB recommends that the Counties should refer to the macroeconomic environment, previous year's performance and status of the tax base. Revenue projections form part of Counties' expected resources, thus failure to realize the projections implies budget deficits. Most Counties do not include detailed revenue forecasts in their County Budget Review and Outlook Papers (CBROPs) in line with the PFM Act, 2012.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Methodology Overview

This section dealt with research design, sampling, data sources and analysis and ethical consideration of the study.

The methodology focused on diversification of County Governments' Revenues with a key focus on OSR for sustainable development. This was a quantitative research that sought to establish how to diversify Counties revenues through OSR, what are the reasons for the current revenue generation trends in County Governments', and which are the best performing Counties in terms of revenue generation over the last five financial years.

3.2 Research design

Babbie (2008) looks at research design as the organization of conditions for collection and analysis of data in a way that is able to combine both relevance to the research purpose and economy in the procedure. The research design adopted in this study is an experimental and descriptive research design. The study variables were not manipulated but simply measured as they are. The trend of the study variables were then analyzed and classified into relevant clusters. It is a survey set in a field setting and the unit of analysis is a county. This design is preferred because it is able to answers questions such as who, how, what which, when and how much (Cooper and Schindler, 2006). The survey study was carefully designed to ensure complete description of the situation, making sure that there is minimum bias in the collection of data and to reduce errors in interpreting the data collected. The researcher was able to collect in depth information about the population being studied using descriptive survey design. Data was collected with the aim of analysing how revenue diversification shall be carried out with a focus on Counties' OSR.

3.3 Population of the Study

According to Cooper and Emory (1995) population is the entire collection of elements about which the researcher wishes to make some inferences. An element is the subject on which the measurement is being taken and is the unit of the study. A study population entails the entire groups of individuals, objects, items, cases, articles, or things with common characteristics existing in space at a particular point

of time (Kothari, 2008). The study population involved all the forty seven counties in Kenya. The target population is all the staff and legislators whose mandate and roles involve revenue collection in the counties.

3.4 Sampling Design

In order to realize the overall objective and the first specific objective, the study will employ use non-probability sampling approach of purposive sampling. In this type of sampling the items for the sample were selected deliberately by the researcher whereby the choice concerning the sample remained supreme (Kothari, 2008). The 47 counties were lumped into eight regions based on the former provincial administrative units, thus a county in each of the eight administrative units served as a sample therefore constituting a sample of eight counties. The respondents selected for the study in each county are listed Table 3.1. The respondents were chosen because of their knowledge in the counties revenue collection matters. The third objective was realized by considering the whole population of forty seven counties.

Table 3.1: Study Sample

Staff	Size
County Chief Officers of Trade and Finance	2
Finance Dept Staff	6
Members of County Assembly in the Budget and Appropriation Committee	8

Source: Author (2019)

3.5 Data Methods and Tools

In the overall objective and the first specific objective, primary data was collected. The data was collected through administration of structured questionnaires consisting of closed-ended questions. The questionnaire consisted of two sections where the first section captured questions on the characteristics of the respondents and the second section contained questions on how to diversify counties revenues through OSR and what are the reasons for the current revenue generation trends in County Governments'. The third objective was obtained from secondary sources of data. The sources included documents, records and case studies like; the Controller of Budgets County Implementation Reports, The Division of Revenue Act and Commission on

Revenue Allocation annual reports. The questionnaires were administered through electronic mail. They were mailed to the county secretaries to forward to the County Chief Officers of trade and finance and the finance department staff and to the county staff to forward to the Members of County Assembly who are members of the budget and appropriation committees.

3.6 Research Quality

Validity of an instrument relates to the ability of the instrument to measure the construct as purported. Construct validity is to measure whether the operational definition of variables actually reflects the true theoretical meaning of a concept. For the purposes of this study, the questionnaire will be developed based on similar prior studies with modifications aimed at addressing the study objectives. Content validity will be confirmed through the guidance of the expert opinion (Cooper & Schindler, 2014). This will include the supervisor, whose scrutiny and competent opinions will ensure that the questionnaire covers all the study variables. The supervisor will also double check the document to ensure that the theoretical dimensions emerge as conceptualized.

Reliability is the extent to which results are free from error or degree to which a research instrument yields consistent results (Cooper & Schindler, 2014). Test of reliability will be carried out to check the internal consistency of data measurement instrument. The Cronbach alpha will be used to ascertain the reliability of the research instruments. Cronbach's Alpha is important to a researcher since the researcher is able to know if the instruments will give reliable and consistent responses even if the questions are replaced with similar ones. A variable is stable if it gives a stable response from a similar set of questions. Cronbach's Alpha indicates reliability by giving a true score of the 'base' or 'underlying' construct (Valencia-GO, 2015).

Cronbach's Alpha is based on the formula indicated below.

$$\alpha = \frac{rk}{(I + (K-I) r)}$$

Where;

k is the number of variables in the analysis

r is the mean of the inter-item correlation.

A rule of thumb that applies to most situations is given in Table 3.2. Normally, reliabilities of 0.7 range is considered acceptable and over 0.8 is good

Table 3.2: Chronbach's Rule on Internal Consistency

Chronbach's Alpha	Internal Consistency
$\alpha \geq 0.9$	Excellent
$0.9 > \alpha \geq 0.8$	Good
$0.8 > \alpha \geq 0.7$	Acceptable
$0.7 > \alpha \geq 0.6$	Questionable
$0.6 > \alpha \geq 0.5$	Poor
$0.5 > \alpha$	Unacceptable

Source: (Sekaran, 2003)

3.7 Data Analysis

In the first two objectives, data was analyzed using descriptive statistics such as frequencies, percentages, mean and standard deviation. The descriptive statistics according to Creswell (1994) is the use of measures of central tendencies such as the mean, median, and the mode and measures of dispersion such as the range, quartile deviation, standard deviation and variance to describe a group of subjects. Descriptive analysis is relevant to this study because the researcher can generalize the findings beyond the sample. The researcher also used factor analysis, a technique used to reduce a large number of variables into fewer numbers of factors. This technique extracts maximum common variance from all variables and puts them into a common score.

The second objective was realized by calculating the ratio of OSR and total revenue of all the counties over the financial periods of 2013/14 to 2016/2017. Descriptive

statistics were then employed through use of measures of central tendencies such as the mean, median, and the mode and measures of dispersion such as the range, standard deviation and variance. The ratio was developed as follows.

OSR to Total Revenue Ratio = OSR

OSR + Transfers from National Government

3.8 Ethical Considerations

Confidentiality and privacy were observed by keeping all the information gathered confidential and strictly using it for the purpose of research. The participants were informed that the information was for academic research findings and no undesirable person is to access the questionnaire. This research abstained from asking embarrassing questions or expressing shock or disgust, not using threatening statements or compelling response along certain lines, not causing fear or anxiety during data collection.

The purpose of the research was disclosed on factual truths. Respondents' requests for anonymity were adhered to. The identity of the respondents was concealed and kept confidential as their names were not indicated in the questionnaires. The subjects were requested to participate in the research voluntarily through a research introduction letter and informed consent sought through filling the information consent form. The findings were disseminated based on true findings, free of any bias. Ethical clearance was obtained from the Strathmore University Ethical Review Committee and research permit obtained from the National Commission for Science, Technology and Innovations (NACOSTI).

CHAPTER FOUR DATA

DATA ANALYSIS, RESEARCH FINDINGS AND INTERPRETATION

4.1 Introduction

In this section, data analysis, interpretation and discussion of the findings have been done. The chapter will be divided into five sections. They included; response rate, demographics, ways in which County Governments can diversify revenue, reasons for the current revenue generation trends in County Governments', and discussion of findings. In summary, the chapter showcases data analysis, presentation, and interpretations of the study. The presentation, interpretation and discussion of the findings was done based on the objectives of the study, which were to determine ways in which County Governments can diversify revenue, reasons for the current revenue generation trends in County Governments', and to establish the performance of counties in Kenya on revenue generation. The chapter therefore presents an analysis and presentation of the findings based on the objective of the study.

4.2 Response Rate

Table 4.1: Response Rate

Response	Frequency	Percentage
Returned	92	71.88
Unreturned	36	28.12
Total	128	100

Source: Author (2019)

Out of the 128 questionnaires that were issued to the target respondents who were; county chief officers, finance department staff, and Members of County Assembly, 92 were filled up and returned. The overall response rate for the study was 71.88%.

The results in Table 4.1 indicate an overall successful response rate of 71.88%. Therefore, the response rate documented for the analysis was found fit for analysis since it is supported by Mugenda and Mugenda (2010) that any response rate of 70% and above is considered excellent for analysis and making conclusions.

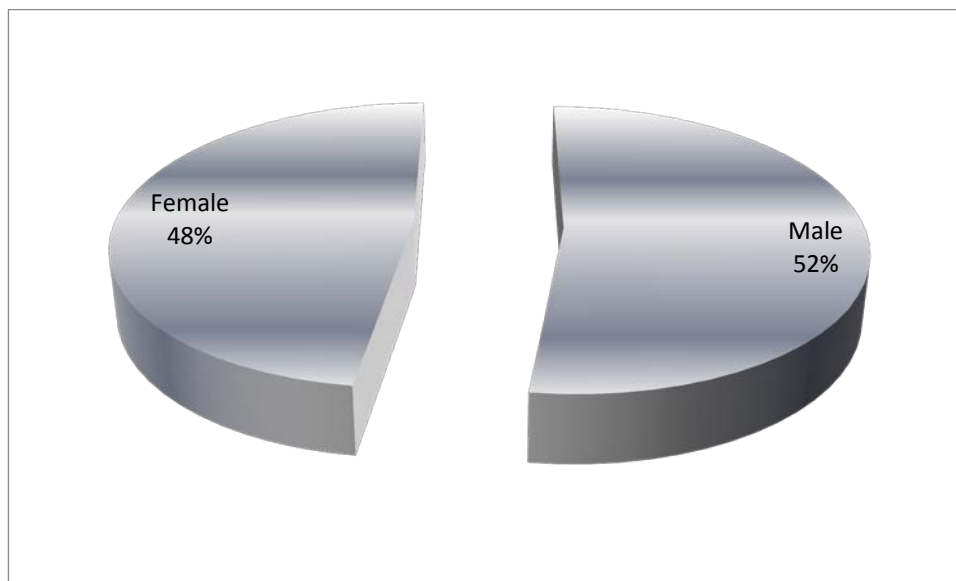
4.3 Demographics

Sixteen respondents in eight counties were picked for the study. Enumerated below is their characteristics derived from the Part A of this study's questionnaire.

4.3.1 Gender of respondents

From the questionnaires, the respondents were asked to indicate their gender. It was necessary to indicate the gender; a person's gender can have a huge effect on their way of thinking, thus majorly affecting the result of a study. Males and females may have a differing opinion on ways in which County Governments can diversify revenue and the reasons for the current revenue generation trends in County Governments'.

Figure 4.1: Gender of respondents



Source: Author (2019)

Figure 4.1 shows the gender of the respondents. The male gender has the highest percentage, which is 52% while the female gender constitutes a proportion of 48%. Thus, the genders of the respondents is almost equal.

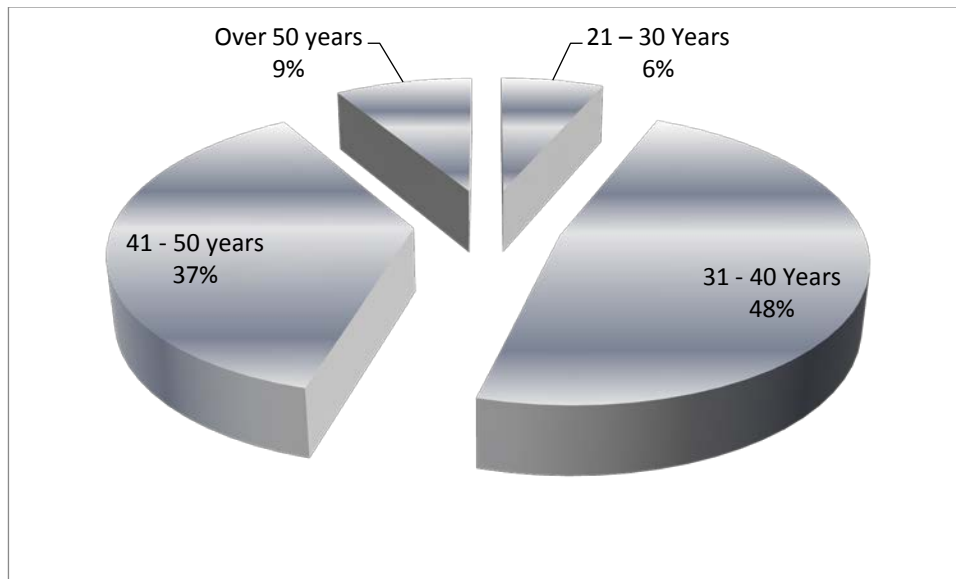
4.3.2 Age of respondents

From the questionnaires, the respondents were asked to indicate their age. It was necessary to indicate the age because it may have a bearing on their opinion on ways in which County Governments can diversify revenue and the reasons for the current revenue generation trends in County Governments'. This is because age can be used as a proxy for experience.

Results in Figure 4.2 show that the highest proportion of the respondents which is 48% were aged between 31 and 40 years. The age bracket of 41 to 50 years had the second highest proportion of 37%. Respondents over 50 years constituted 9% while

those in the age bracket of between 21-30 years had the lowest proportion of 6%. The results indicate that most of the respondents were middle aged.

Figure 4.2: Age of respondents



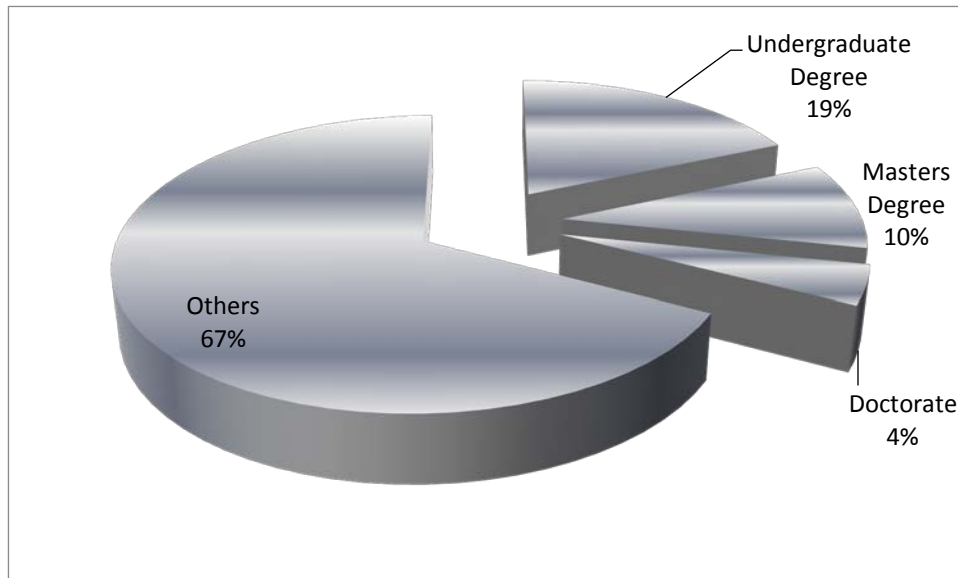
Source: Author (2019)

4.3.3 Education

From the questionnaires, the respondents were asked to indicate their education level. It was necessary to indicate the education level because it may have a bearing on their opinion on ways in which County Governments can diversify revenue and the reasons for the current revenue generation trends in County Governments'. This is because higher education level can be used as a proxy for better grasp of issues.

Results in Figure 4.3 exhibit that the highest proportion of the respondents which is 67% did not have a university qualification. This can be attributed to the fact that majority of the respondents were Members of County Assembly and having a degree is no educational requirement for the position. The second highest proportion which was 19%, had undergraduate degrees. 10% of the respondents had masters degrees while 4% had doctorate degrees.

Figure 4.3: Education Level

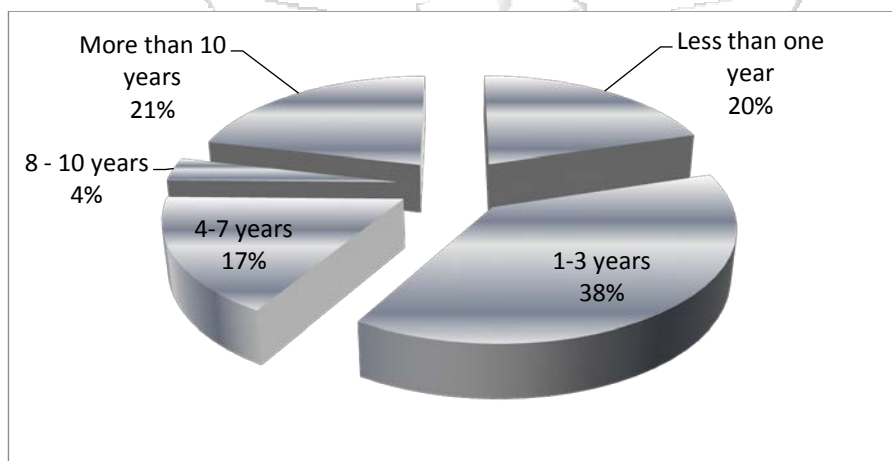


Source: Author (2019)

4.2.4 Years of Service

From the questionnaires, the respondents were asked to indicate their years of service in their respective positions. It was necessary to indicate the years of service because it may have a bearing on their opinion on ways in which County Governments can diversify revenue and the reasons for the current revenue generation trends in County Governments'. This is because years of service can be used as a proxy for experience.

Figure 4.4: Years of Service



Results in Figure 4.4 display that the highest proportion of the respondents which is 38% had served in the range of 1 – 3 years. This can be attributed to the fact that majority of the respondents were Members of County Assembly and it is an elective position where individuals are elected after every five years with the last general

election being held in 2017. The second highest proportion, which was 21% had respondents who have served over 10 years. This can be attributed to the fact that staff who used to work in the defunct municipal and town councils were inherited by the county governments. 20% of the respondents had served under one year, 17% in the range of 4 – 7 years, and 4% within the range of 8 – 10 years.

4.4 Ways in which County Governments can Diversify Revenue

In this study, descriptive statistics and factor analysis were selected to fulfill the general objective. Descriptive statistics in this study were employed to describe and analyze the ways in which County Governments can diversify revenue. A descriptive study tries to explain or describe a subject frequently by establishing an outline of a collection of problems, individuals, or events, by collecting data and the tabulation of the frequencies of research variables or their relationship. It provides a range of research objectives such as; explanation of an event or characteristics linked with a subject population, approximation of extent of the population that possesses these features, and unearthing of linkages among varying variables (Ngechu, 2004).

Table 4.2: Ways in which County Governments can Diversify Revenue

	N	Mean	Std. Deviation
The County Governments has developed principal revenue legislation and policies on which to anchor their taxes, fees and charges.	87	4.0690	.94982
Revenue Authority / Corporation	85	4.0235	.93829
The County Government has planned, surveyed and registered Trading centre/market centres so as to have them rated	92	3.8804	.97036
communication system	81	3.8519	1.05013
The county uses third party agents to collect revenue	77	3.8312	.95149
The County Government regularly updates development plans as well as base map cadastral plans so as to ensure all rateable properties are captured	92	3.8043	1.18821
There is adequate tax education in the County	81	3.7654	1.10986
There is flexibility in the tax system implemented in the county	85	3.7647	1.05387
The county finances for development are also sourced from donors	92	3.7609	.65246
There are Competent staff in the Tax Collection	87	3.7241	1.12776

The county has partnered with those in the diaspora for increased investment	92	3.6957	1.27304
The tax system is equitable	82	3.6220	1.04987
The county sets their tariffs to recover the full (or part of the) cost of services being provided, or bring about a surplus that can be utilized to subsidize other services	84	3.5119	1.23692
The tax system is easy and simple to use	87	3.4138	1.10550
There is digitization of Tax Collection through a system	78	3.4103	1.15585
The county has an autonomous County	74	3.3919	1.23663
The county engages in inter-county trade (across county borders) around Kenya for financial sustainability	81	3.3704	1.26930
The county has an internal revenue Administration department	90	3.2444	1.10475
There is availability of postal and	85	3.2353	1.31518
The County Government has taken deliberate measures to improve efficiency and effectiveness of personnel involved in the revenue function	80	3.0250	1.22190
	91	2.9231	1.22230
Mean		3.586629	1.103976

Source: Author (2019)

From the study findings, we can see that the highest mean is 4.0690 of the the County Governments has developed principal revenue legislation and policies on which to anchor their taxes, fees and charges. It has a standard deviation of 0.94982. The attribute with the lowest mean is the County Government has taken deliberate measures to improve efficiency and effectiveness of personnel involved in the revenue function which has a mean of 2.9231, standard deviation of 1.22230. The attributes have a mean of 3.586629 and a standard deviation of 1.103976. This implies that the methods that County Governments employ to diversify revenue which are listed in this study are applied to a high extent.

Factor analysis is decomposing information content in a set of variables into information about an inherent set of latent components. Thus, factor analysis is a statistical technique used to identify a relatively small number of factors that can be used to represent relationship among a set of many interrelated variables. It helps to identify the underlying, not directly observable constructs.

Factor analysis is a multivariate method intended to explain relationships among several difficult-to-interpret, correlated variables in terms of a few conceptually meaningful, relatively independent factors. It replaces original variables by a smaller number of underlying variables. Factor analysis is often used to split original variables into groups which are highly correlated with each other within a group and not highly correlated between groups. Within groups, correlations are high but between groups, correlations are low.

The goal of factor analysis is to identify not-directly-observable factors based on a set of observable variables. Its purposes are; to identify underlying factors or constructs that explain correlations among a set of variables, test hypotheses about structure of variables, summarize a large number of variables with a smaller number of derived variables, and to determine the number of dimensions required to represent a set of variables.

The purpose of utilising factor analysis in fulfilling this objective is to summarize the 21 components that denote ways in which County Governments can diversify revenue into a smaller number of derived factors. The study will utilise the principle component analysis approach which decomposes variation in multivariate data set into a set of components such that first component accounts for as much of variation in data as possible and the second component accounts for second largest proportion of variation, and so on. Rotation method was also used where the sums of squared loadings values were rotated and showed information for the extracted factors after rotation. The study used the Statistical Software Package for Social Sciences (SPSS) version 20 to perform the factor analysis. When there were missing values because a respondent did not leave a response for a particular attribute, it was replaced with the attribute mean.

After conducting the factor analysis, Table 4.3 was first generated detailing the actual factors that were extracted. Thus, there were nine factors with eigen values greater than 1. The “% of variance” column indicates how much of the total variability in all of the variables together can be accounted for by each of the factors extracted. Therefore, factor 1 accounts for 28.765% of the variability in all 21 attributes, and so on.

Table 4.3: Total Variance Explained

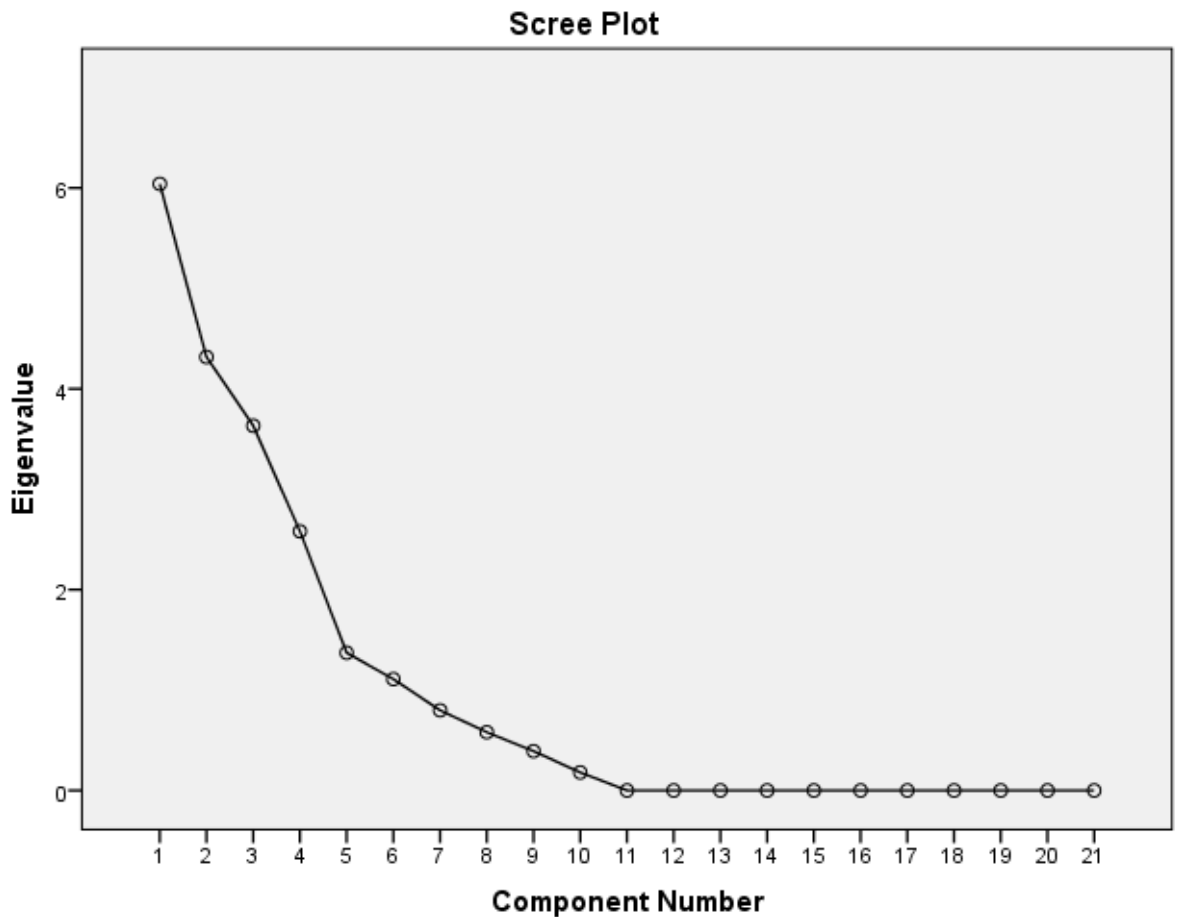
Component	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1	6.041	28.765	28.765
2	4.317	20.556	49.321
3	3.632	17.296	66.617
4	2.581	12.292	78.909
5	1.371	6.530	85.440
6	1.108	5.278	90.718
7	.798	3.801	94.519
8	.580	2.762	97.280
9	.392	1.866	99.146
10	.179	.854	100.000
11	1.123E-015	5.348E-015	100.000
12	6.521E-016	3.105E-015	100.000
13	4.346E-016	2.070E-015	100.000
14	2.714E-016	1.293E-015	100.000
15	1.562E-016	7.440E-016	100.000
16	1.022E-016	4.865E-016	100.000
17	-7.637E-018	-3.637E-017	100.000
18	-7.306E-017	-3.479E-016	100.000
19	-2.101E-016	-1.000E-015	100.000
20	-3.510E-016	-1.671E-015	100.000
21	-4.828E-016	-2.299E-015	100.000

Extraction Method: Principal Component Analysis.

Source: Author (2019)

The Scree plot is a plot of total variance associated with each factor and shows a distinct break between steep slope of large factors and gradually trailing off of rest of factors. Thus, from scree plot displayed in Figure 4.5, it appears that a 7 factor model should be sufficient. This is because the curve levels out after the seventh factor.

Figure 4.5: Scree Plot



Source: Author (2019)

Finally, the Rotated Component Matrix illustrated in Table 4.4 was generated, it showed the factor loadings for each variable. After going across each row, the factor that each variable loaded most strongly on was picked and highlighted in yellow. Seven components were extracted.

Table 4.4: Rotated Component Matrix

	Component						
	1	2	3	4	5	6	7
There are Competent staff in the Tax Collection	.059	-.178	-.026	.159	-.012	.138	.790
There is digitization of Tax Collection through a system	-.154	-.145	.737	.230	.078	-.205	.221
There is availability of postal and	-.077	.235	.110	-.122	.826	-.130	.137

communication system	-.044	.066	.849	.174	-.080	.120	-.074
The county uses third party agents to collect revenue	.067	.514	-.060	.079	.109	.599	-.387
There is adequate tax education in the County	.225	.778	.045	-.303	.040	-.025	-.002
There is flexibility in the tax system implemented in the county	.218	-.285	-.471	.117	.619	.208	-.204
The tax system is equitable	.400	.020	.338	.172	-.665	.079	.194
The tax system is easy and simple to use	.287	.759	.045	.194	.158	.234	-.168
The county has an internal revenue Administration department	-.214	.086	-.138	-.730	-.077	.356	-.040
The county has an autonomous County Revenue Authority / Corporation	-.171	-.044	.084	.864	-.183	.133	.122
The County Governments has developed principal revenue legislation and policies on which to anchor their taxes, fees and charges.	.500	-.045	.112	.560	-.469	.067	.168
The county sets their tariffs to recover the full (or part of the) cost of services being provided, or bring about a surplus that can be utilized to subsidize other services	.914	.146	.016	.039	.149	-.034	.137

The County Government has taken deliberate measures to improve efficiency and effectiveness of personnel involved in the revenue function	.880	.201	-.005	.080	-.228	-.119	-.157
The County Government regularly updates development plans as well as base map cadastral plans so as to ensure all rateable properties are captured	.849	-.096	-.264	-.030	-.191	.012	.030
The County Government has planned, surveyed and registered Trading centre/market centres so as to have them rated	.441	-.723	-.030	.188	.038	.111	.148
The county has partnered with those in the diaspora for increased investment	.576	-.517	.466	-.277	.032	.086	-.160
The county finances for development are also sourced from donors	-.003	-.172	-.158	.216	.024	-.644	-.289
The county engages in inter-county trade (across county borders) around Kenya for financial sustainability	.091	.157	.118	-.092	.119	-.835	-.050

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 15 iterations.

Source: Author (2019)

The seven factors that denote ways in which County Governments can diversify revenue which were extracted are classified as illustrated in Table 4.5.

Table 4.5: Factor Interpretation

Factor	Interpretation
1	Establishing Strategic Management
2	Establishing Tax Systems
3	Establishing Efficient and Effective Administration
4	Establishing Good Legislation on Tax
5	Flexibility in Tax Systems and Legislation
6	External Sources of Funds apart from Central Government
7	Efficiency and Effectiveness of Human Resources

Source: Author (2019)

4.5 Reasons for the Current Revenue Generation Trends in County Governments

Descriptive statistics and factor analysis were used to fulfill the first specific objective. Descriptive statistics were derived for the reasons for the current revenue generation trends in county governments. The results are presented in Table 4.3.

Table 4.6: Reasons for the Current Revenue Generation Trends in County Governments

	N	Mean	Std. Deviation
The County Governments are yet to enact or operationalize required legislation to underpin revenue-raising measures	79	3.4684	1.32854
There is lack of clear policy and legal frameworks is undermining revenue optimization by County Governments	90	3.7444	.80114
The County Governments are offering waivers to ratepayers to encourage compliance, but most of these have no legal basis	92	4.0978	1.22304
Citizens and businesses are adversely affected by the haphazard manner in which the County Government are levying user fees and charges	92	4.1087	.80461

There is no clear understanding of the County Governments' revenue collection costs, or the efficiency of its revenue administration systems by staff	92	4.3152	.70989
The county does not retain revenue from rates, fees and charges in urban areas for service provision	92	3.4674	.67043
County Government revenue administrators lack basic skills for the function.	88	4.0227	1.06109
Adoption by the county of ICT systems is below par, and manual revenue collection is prevalent with its inherent risks of abuse and rent seeking	87	4.1839	.72383
The county government has unrealistic revenue targets	87	4.1149	.84117
The County Government operates multiple revenue collection accounts	91	3.1099	.76667
The County Government lacks effective internal controls and audit mechanisms contributes to loss of revenue	92	3.5326	1.01040
Mean		3.833264	0.90371
Valid N (listwise)	69		

Source: Author (2019)

From the study findings, we can see that the highest mean is 4.3152 of there is no clear understanding of the County Governments' revenue collection costs, or the efficiency of its revenue administration systems by staff. It has a standard deviation of 0.70989. The attribute with the lowest mean is the County Government operates multiple revenue collection accounts which has a mean of 3.1099, standard deviation of 0.76667. The attributes have a mean of 3.833264 and a standard deviation of 0.90371. This implies that the reasons for the current revenue generation trends in county governments that are listed in this study occur to a high extent.

The purpose of utilising factor analysis in fulfilling this objective is to summarize the 11 components that denote the reasons for the current revenue generation trends in

County Governments into a smaller number of derived factors. A missing value for a particular attribute was replaced with the attribute mean.

After conducting the factor analysis, Table 4.7 was first generated detailing the actual factors that were extracted. Thus, there were nine factors with eigen values greater than 1. The “% of variance” column indicates how much of the total variability in all of the variables together can be accounted for by each of the factors extracted. Therefore, factor 1 accounts for 24.106% of the variability in all 11 attributes, and so on.

Table 4.7: Total Variance Explained

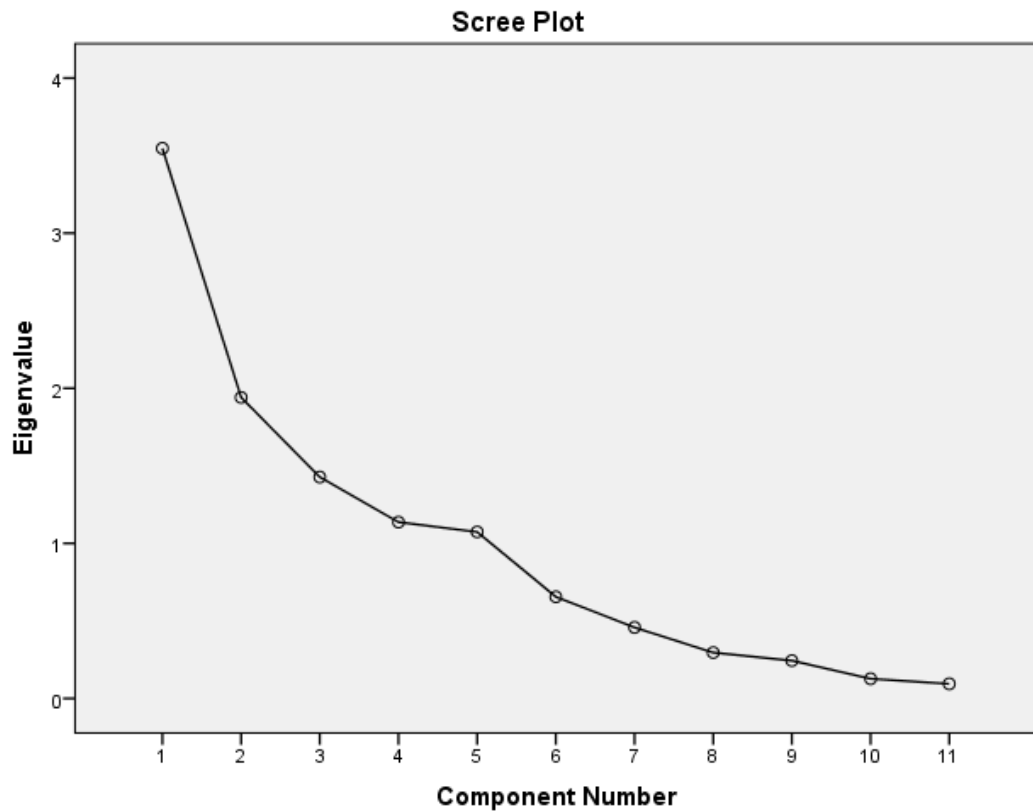
Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.547	32.242	32.242	2.652	24.106	24.106
2	1.941	17.644	49.886	2.182	19.836	43.942
3	1.428	12.978	62.864	1.755	15.954	59.896
4	1.137	10.335	73.200	1.277	11.606	71.502
5	1.074	9.760	82.959	1.260	11.457	82.959
6	.655	5.957	88.916			
7	.458	4.166	93.082			
8	.296	2.688	95.770			
9	.244	2.217	97.987			
10	.127	1.155	99.142			
11	.094	.858	100.000			

Extraction Method: Principal Component Analysis.

Source: Author (2019)

From scree plot displayed in Figure 4.6, it appears that a 5 factor model should be sufficient. This is because the curve levels out after the fifth factor.

Figure 4.6: Scree Plot



Source: Author (2019)

Finally, the Rotated Component Matrix illustrated in Table 4.8 was generated, it showed the factor loadings for each variable. After going across each row, the factor that each variable loaded most strongly on was picked and highlighted in yellow. Seven components were extracted.

Table 4.8: Rotated Component Matrix

	Component				
	1	2	3	4	5
The County Governments are yet to enact or operationalize required legislation to underpin revenue-raising measures	.101	.154	.884	.316	-.072
There is lack of clear policy and legal frameworks is undermining revenue optimization by County Governments	.018	.090	-.867	.233	-.252

The County Governments are offering waivers to ratepayers to encourage compliance, but most of these have no legal basis	.668	-.319	.211	-.142	-.286
Citizens and businesses are adversely affected by the haphazard manner in which the County Government are levying user fees and charges	.513	-.445	-.375	-.394	.180
There is no clear understanding of the County Governments' revenue collection costs, or the efficiency of its revenue administration systems by staff	-.118	.912	.103	.042	-.136
The county does not retain revenue from rates, fees and charges in urban areas for service provision	.127	-.173	.025	.890	.207
County Government revenue administrators lack basic skills for the function.	.890	.099	.030	.038	.197
Adoption by the county of ICT systems is below par, and manual revenue collection is prevalent with its inherent risks of abuse and rent seeking	.713	-.433	-.048	.179	-.250
The county government has unrealistic revenue targets	-.208	.876	-.068	-.277	.134
The County Government operates multiple revenue collection accounts	-.041	-.029	.129	.168	.946
The County Government lacks effective internal controls and audit mechanisms contributes to loss of revenue	.746	-.151	-.013	.119	-.031

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 7 iterations.
Source: Author (2019)

The five factors that denote the reasons for the current revenue generation trends in County Governments are classified as illustrated in Table 4.9.

Table 4.9: Factor Interpretation

Factor	Interpretation
1	Lack of Effective Tax Administration
2	Lack of Communication
3	Inadequate Legislation and Policies
4	Lack of Diversifying Revenue Streams
5	Lack of Coordination

Source: Author (2019)

4.6 The Performance of Counties in Kenya on Revenue Generation

The second specific objective was achieved by descriptive statistics, where the ratio of OSR and total revenue of all the counties over the past from the financial year 2013/14 to 2016/17 to 2017 was calculated. Data for the financial period 2013/14 was not available in the Office of the Controller of Budget annual County Governments budget implementation review reports. Descriptive statistics were then employed through use of measures of central tendencies such as the mean, median, and the mode and measures of dispersion such as the range, quartile deviation, standard deviation and variance. The ratio was developed as follows.

OSR Ratio to Total Revenue = OSR

OSR + Transfers from National Government

Table 4.10: OSR to Transfer from National Government Ratio Descriptive Statistics

	N	Range	Mean	Std. Deviation	Variance
Baringo	3	.00	.0506	.00029	.000
Bomet	3	.01	.0369	.00605	.000
Bungoma	3	.01	.0639	.00414	.000
Busia	3	.02	.0466	.00886	.000

E/Marakwet	3	.01	.0309	.00580	.000
Embu	3	.01	.0815	.00522	.000
Garissa	3	.01	.0154	.00462	.000
Homa Bay	3	.01	.0245	.00382	.000
Isiolo	3	.02	.0312	.00844	.000
Kajiado	3	.06	.1131	.03046	.001
Kakamega	3	.01	.0449	.00600	.000
Kericho	3	.00	.0792	.00249	.000
Kiambu	3	.05	.1909	.02848	.001
Kilifi	3	.01	.0592	.00508	.000
Kirinyaga	3	.02	.0753	.01153	.000
Kisii	3	.01	.0340	.00289	.000
Kisumu	3	.01	.1258	.00638	.000
Kitui	3	.01	.0403	.00713	.000
Kwale	3	.02	.0376	.00868	.000
Laikipia	3	.02	.0963	.00823	.000
Lamu	3	.01	.0260	.00323	.000
Machakos	3	.04	.1363	.01792	.000
Makueni	3	.01	.0305	.00270	.000
Mandera	3	.00	.0078	.00213	.000
Marsabit	3	.00	.0184	.00032	.000
Meru	3	.00	.0608	.00169	.000
Migori	3	.01	.0476	.00693	.000
Mombasa	3	.05	.2916	.02561	.001
Murang'a	3	.02	.0842	.01129	.000
Nairobi	3	.06	.4337	.02880	.001
Nakuru	3	.07	.1729	.03613	.001
Nandi	3	.02	.0470	.00840	.000
Narok	3	.05	.2105	.02746	.001
Nyamira	3	.00	.0211	.00253	.000
Nyandarua	3	.00	.0524	.00137	.000
Nyeri	3	.02	.1112	.00839	.000
Samburu	3	.01	.0444	.00550	.000
Siaya	3	.01	.0254	.00341	.000
Taita Taveta	3	.02	.0471	.01001	.000
Tana River	3	.00	.0063	.00154	.000
T/Nithi	3	.02	.0300	.00914	.000
Trans Nzoia	3	.02	.0490	.01252	.000
Turkana	3	.01	.0134	.00326	.000
Uasin Gishu	3	.03	.1119	.01579	.000
Vihiga	3	.01	.0259	.00539	.000
Wajir	3	.01	.0110	.00288	.000
West Pokot	3	.01	.0194	.00318	.000

Mean		0.072636	0.008981
Valid N (listwise)	3		

Source: Author (2019)

Nairobi county has the highest mean of 0.4337 and a standard deviation of 0.02880. Mandera County has the lowest mean of 0.0078 and a standard deviation of 0.00213. The counties have an average mean of 0.072636 and an average standard deviation of 0.008981. The county with the largest range is Nakuru County, it had a range of 0.07.

4.7 Interpretation of Findings

The study sought to determine ways in which County Governments can diversify revenue, establish reasons for the current revenue generation trends in County Governments', and to establish the performance of counties in Kenya on revenue generation.

4.7.1 Ways in which County Governments can Diversify Revenue

The study established through descriptive statistics that methods are employed to a high extent in the County Governments to diversify revenue. The factor analysis established that seven factors are utilised in the counties to diversify revenue, these are; establishing strategic management practices, establishing tax systems, establishing an efficient and effective administration, Instituting good legislation on tax, flexibility in tax systems and legislation, having external sources of funds apart from the Central Government and OSR, and efficiency and effectiveness of human resources.

4.7.2 Reasons for the Current Revenue Generation Trends in County Governments

The study established through descriptive statistics that challenges exist to a high extent resulting in the current revenue generation trends in the County Governments. The factor analysis established that five factors are the main challenges existing in county governments resulting in the current revenue generation trends, these are; lack of effective tax administration, lack of communication, inadequate legislation and policies, lack of diversifying revenue streams, and lack of coordination.

4.7.3 The Performance of Counties in Kenya on Revenue Generation

The study established that the best performing county in Kenya is Nairobi County in terms of OSR while the most improved county over the three year period is Nakuru County. The overall revenue generation of the counties is quite low with the average local collection of revenue when contrasted with total revenue being 7.26%.



CHAPTER FIVE

SUMMARY, DISCUSSIONS, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This section discusses the summary of the study's findings and offers conclusions and recommendations of the study on; ways in which County Governments can diversify revenue, reasons for the current revenue generation trends in County Governments', and to establish the performance of counties in Kenya on revenue generation. It further goes on to state the limitations of the study and provide suggestions for further research.

5.2 Summary

This study aimed at determining the ways in which County Governments can diversify revenue, establishing the reasons for the current revenue generation trends in County Governments', and to establish the performance of counties in Kenya on revenue generation. It was a cross-sectional study done across several counties in one time period. Primary method of data collection was utilized where questionnaires were administered to a sample of 16 county officers in each county, a single county was selected in each of the eight regions. The study employed the use of descriptive statistics and factor analysis to realize the study objectives.

5.2.1 Ways in which County Governments can Diversify Revenue

The study findings were that various strategies are employed to a high extent in the County Governments to diversify revenue. The study also established that there are seven factors being utilized in the counties to diversify revenue, these are; establishing strategic management practices, establishing tax systems, establishing an efficient and effective administration, Instituting good legislation on tax, flexibility in tax systems and legislation, having external sources of funds apart from the Central Government and OSR, and efficiency and effectiveness of human resources.

5.2.2 Reasons for the Current Revenue Generation Trends in County Governments

The study findings were that challenges exist to a high extent resulting in the current revenue generation trends in the County Governments. The study also established that five factors are the main challenges existing in county governments resulting in

the current revenue generation trends, these are; lack of effective tax administration, lack of communication, inadequate legislation and policies, lack of diversifying revenue streams, and lack of coordination.

5.2.3 The Performance of Counties in Kenya on Revenue Generation

The study findings were that the best performing county in Kenya is Nairobi County in terms of OSR while the most improved county over the three year period is Nakuru County. The study also established that the overall revenue generation of the counties is quite low with the average local collection of revenue when contrasted with total revenue being 7.26%.

5.3 Discussion of Findings

The following are the discussions from the findings of the study. The findings of the study were based on the objectives of the study which were; ascertaining how County Governments can diversify revenue, establishing the reasons for the current revenue generation trends in County Governments', and to establish the performance of counties in Kenya on revenue generation.

5.3.1 Ways in which County Governments can Diversify Revenue

The study findings were in tandem with the resource dependence theory stated by Pfeffer and Salancik (1978) in which they opine that the key to organizational survival is the ability to acquire and maintain resources. In order to acquire adequate resources from the external environment, county governments are seeking methods and strategies to diversify revenues.

The study findings are also in agreement with Oates (2005) that the application of different sources of revenues ensures the predictability and stability of sources of revenue in public finance and that no one source of finance has control or is relied upon at the expense of other sources of finance which ensures that there is continuity in the service delivery in the public sector as income flow is consistent. The study findings also resonate with a study by Sosin (2012) who stated that local governments have tried to find alternative funding strategies to maintain the current level of public spending and public service quality without raising tax rates and levies. The study findings are also in tandem with a studies done by Martin et al. (2012) and Carroll (2009) who opined that revenue diversification has been considered one of the important funding strategies for those who try to increase

public expenditures for public demands as well as to establish revenue stability for uncertainty and risk.

5.3.2 Reasons for the Current Revenue Generation Trends in County Governments

The study findings are in tandem with findings by a study by Chaudhary and Hamid (2001) on resource mobilization and tax elasticities in Pakistan where they noted that Pakistan was facing a serious problem in raising public revenue. The consistent failure in improving public revenue led the public sector to rely on borrowing. They are also in unison with a National Treasury, report (2018) which stated that County Governments were noted of not meeting their revenue targets, in part because the targets are unrealistic (National Treasury, 2018).

5.3.3 The Performance of Counties in Kenya on Revenue Generation

The study findings contradict those of a study done by Mbedzi and Gondo (2010) fiscal management in Dangila Municipality, Ethiopia, which established that local governments are becoming increasingly dependent on their own-source revenues to cover recurrent expenditures.

5.4 Conclusion

The specific objectives were realized by determining the reasons for the current revenue generation trends in County Governments', and establishing the performance of counties in Kenya on revenue generation. The general objective was realized by determining ways in which County Governments can diversify revenue.

The study conclusions are similar to study findings by Sosin (2012) that local governments have tried to find alternative funding strategies to maintain the current level of public spending and public service quality without raising tax rates and levies. The study findings are also congruent to a study by Oates (2005) which concluded that the application of different sources of revenues ensures the predictability and stability of sources of revenue in public finance. No one source of finance has control or is relied upon at the expense of other sources of finance. This ensures that there is continuity in the service delivery in the public sector as income flow is consistent.

5.4.1 Ways in which County Governments can Diversify Revenue

The study findings conclude that there are various strategies are employed to a high extent in the County Governments to diversify revenue and that there are seven factors being utilized in the counties to diversify revenue.

5.4.2 Reasons for the Current Revenue Generation Trends in County Governments

The study concludes that challenges exist to a high extent resulting in the current revenue generation trends in the County Governments and that there are five factors which are the main challenges existing in county governments resulting in the current revenue generation trends.

5.4.3 The Performance of Counties in Kenya on Revenue Generation

The study concluded that the overall revenue generation of the counties is quite low, and the best performing county in Kenya in terms of OSR is Nairobi County while the most improved county is Nakuru County.

5.5 Recommendations

Policy recommendations are that policy makers in the sector can use the strategies established in the study to recommend them on enhancing sub-national governments OSR. They can also try to address the challenges identified in the study. Addressing the challenges can lead to improvement in local revenue generation by counties.

The individual County Governments can also benefit from the study findings by isolating those strategies used by other counties to diversify revenue but are not currently being utilized locally. They can also be aware of the challenges weighing in on OSR and try to address them in order to improve local revenue collection. Various practitioners carrying out other studies can fill the gaps left out in this study for the purposes of providing sustainable solutions towards revenue mobilization.

5.6 Limitations of the Study

Due to time and cost limitations, the scope of the study has been limited to only a case study of the eight counties in the eight regions. Thus, it has not been determined if the result findings would hold for over all the 47 counties. In the instances where the study employed primary sources of data, some of the respondents were not readily accessible and the researcher had to go to great lengths to obtain the

responses. The researcher had to personally administer the questionnaires and follow up to ensure that the responses were made. In the instance that the study utilized secondary data, some data were not available since the government agencies began compiling the data after some time period had passed

The data collected had to be coded and inputted into SPSS which is a long and technical process with time and cost implications because the data had to be edited and processed further before the researcher could be able to compile it and payment had to be done to individuals coding the data. The researcher of the current study had to engage clerks to input the data into SPSS for further analysis.

5.7 Recommendations for Further Study

On the basis of information gathered and the knowledge gained in this study, the researcher has suggested some areas for further research.

5.7.1 Ways in which County Governments can Diversify Revenue

The study found out that there are various strategies are employed to a high extent in the County Governments to diversify revenue. Further research can be done to identify and analyze the the effect of these factors on revenue collection. The current study's scope was limited to a case study of the Kenyan counties, further research can be done on other governmental, not for profit and commercial organizations. The scope of the study was also limited to the Kenyan context where counties located in the country was examined. Researchers in other East African, African, and other global countries can conduct the study in these jurisdictions to ascertain whether the current study findings would hold.

Primary data was solely utilized in the study; alternative research can be employed using secondary sources of data. This can then approve or disapprove the current study findings. Factor analysis was were used in this research; further research can incorporate other analysis methods like multiple linear regression and correlation analysis, Granger causality, cluster analysis, and discriminant analysis.

5.7.2 Reasons for the Current Revenue Generation Trends in County Governments

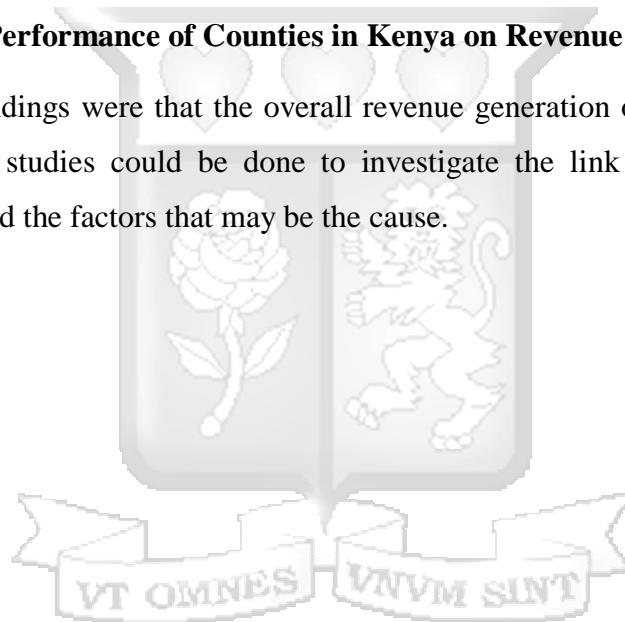
The study found out that there are various that challenges exist to a high extent resulting in the current revenue generation trends in the County Governments. Further research can be done to identify and analyze the effect of these factors on

revenue collection. The current study's scope was limited to a case study of the Kenyan counties, further research can be done on other governmental, not for profit and commercial organizations. The scope of the study was also limited to the Kenyan context where counties located in the country was examined. Researchers in other East African, African, and other global countries can conduct the study in these jurisdictions to ascertain whether the current study findings would hold.

Primary data was solely utilized in the study; alternative research can be employed using secondary sources of data. This can then approve or disapprove the current study findings. Factor analysis was were used in this research; further research can incorporate other analysis methods like multiple linear regression and correlation analysis, Granger causality, cluster analysis, and discriminant analysis.

5.7.3 The Performance of Counties in Kenya on Revenue Generation

The study findings were that the overall revenue generation of the counties is quite low. Further studies could be done to investigate the link between low revenue generation and the factors that may be the cause.



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APPENDICES

Appendix I: Introduction Letter



The Respondent

Dear Sir/Madam,

Re: Request for Research Data

I am a Postgraduate student at Strathmore University Business School Institute for Public Policy and Governance undertaking the degree of Master in Public Policy Management. My research topic is “**Revenue Diversification in Counties with a Focus on Own Source Revenues**”. In order to carry out the research you are therefore kindly requested to assist in providing statistics on revenue diversification and own source revenues.

The information you provide will be treated in strict confidence and is purely for academic purposes only. In no way your name will appear the final research paper. Your assistance and cooperation will be highly appreciated.

Yours sincerely,

Victor Odanga.



Appendix II: Questionnaire

Section A: General Information

1. Gender: Male Female

2. Your age bracket (Tick where appropriate)

21 – 30 Years	<input type="checkbox"/>	31 - 40 Years	<input type="checkbox"/>
41 - 50 years	<input type="checkbox"/>	Over 50 years	<input type="checkbox"/>

3. Kindly indicate the highest level of education that you have attained?

Undergraduate Degree	<input type="checkbox"/>	Masters Degree	<input type="checkbox"/>
Doctorate	<input type="checkbox"/>	Others	<input type="checkbox"/>

4. Please indicate the number of years you have served your position in the County Government?

Less than one year	<input type="checkbox"/>	1-3 years	<input type="checkbox"/>
4-7 years	<input type="checkbox"/>	8 - 10 years	<input type="checkbox"/>
More than 10 years	<input type="checkbox"/>		

5. Please indicate your position in the County Government.

.....



Section B: Ways in which County Governments can Diversify Revenue

This section is about methods County Governments can use to diversify revenue. For each of the statements, please use the scale given below to indicate your level of agreement by ticking the level of agreement on a scale of 1-5: 5-Strongly agree, 4-Agree, 3-Neutral, 2-Disagree and 1-Strongly Disagree.

	1	2	3	4	5
There are Competent staff in the Tax Collection					
There is digitization of Tax Collection					

through a system					
There is availability of postal and communication system					
The county uses third party agents to collect revenue					
There is adequate tax education in the County					
There is flexibility in the tax system implemented in the county					
The tax system is equitable					
The tax system is easy and simple to use					
The county has an internal revenue Administration department					
The county has an autonomous County Revenue Authority / Corporation					
The County Governments has developed principal revenue legislation and policies on which to anchor their taxes, fees and charges.					
The county sets their tariffs to recover the full (or part of the) cost of services being provided, or bring about a surplus that can be utilized to subsidize other services					
The County Government has taken deliberate measures to improve efficiency and effectiveness of personnel involved in the revenue function					

The County Government regularly updates development plans as well as base map cadastral plans so as to ensure all rateable properties are captured					
The County Government has planned, surveyed and registered Trading centre/market centres so as to have them rated					
The county has partnered with those in the diaspora for increased investment					
The county finances for development are also sourced from donors					
The county engages in inter-county trade (across county borders) around Kenya for financial sustainability					

Section C: Reasons for the Current Revenue Generation Trends in County Governments'

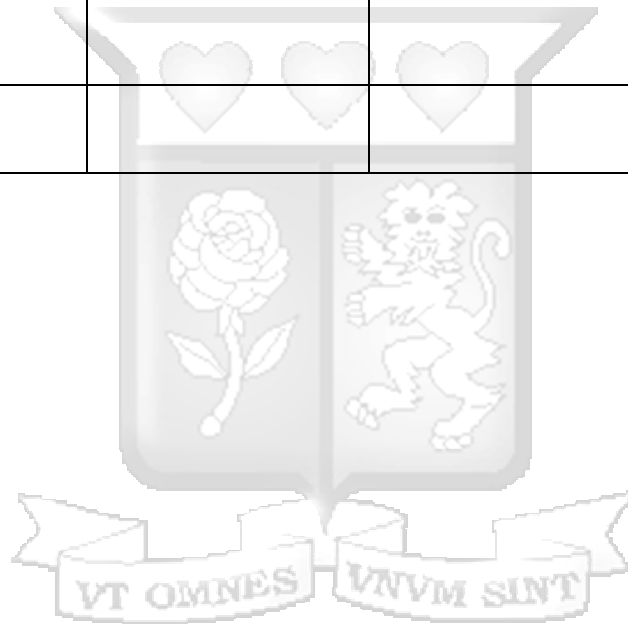
This section is about reasons for the current revenue generation trends in County Governments. For each of the statements, please use the scale given below to indicate your level of agreement by ticking the level of agreement on a scale of 1-5: 5-Strongly agree, 4-Agree, 3-Neutral, 2-Disagree and 1-Strongly Disagree.

	1	2	3	4	5
The County Governments are yet to enact or operationalize required legislation to underpin revenue-raising measures					
There is lack of clear policy and legal frameworks is undermining revenue optimization by County Governments					

The County Governments are offering waivers to ratepayers to encourage compliance, but most of these have no legal basis					
Citizens and businesses are adversely affected by the haphazard manner in which the County Government are levying user fees and charges					
There is no clear understanding of the County Governments' revenue collection costs, or the efficiency of its revenue administration systems by staff					
The county does not retain revenue from rates, fees and charges in urban areas for service provision					
County Government revenue administrators lack basic skills for the function.					
Adoption by the county of ICT systems is below par, and manual revenue collection is prevalent with its inherent risks of abuse and rent seeking					
The county government has unrealistic revenue targets					
The County Government operates multiple revenue collection accounts					
The County Government lacks effective internal controls and audit mechanisms contributes to loss of revenue					

Appendix III: Data Collection Sheet

County Name			Code	
	Own Source Revenues	Transfers from Central Government	OSR Ratio	
2013				
2014				
2015				
2016				
2017				



Appendix IV: List of Counties on the First Schedule of the Constitution as Guided by Article 6(1)

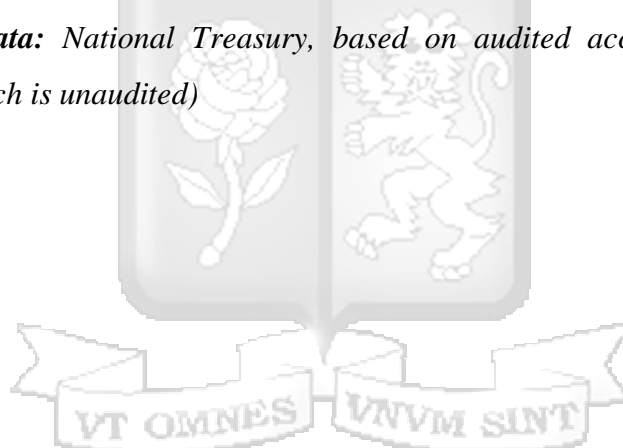
1. Mombasa	25. Samburu
2. Kwale	26. Trans Nzoia
3. Kilifi	27. Uasin Gishu
4. Tana River	28. Elgeyo/Marakwet
5. Lamu	29. Nandi
6. Taita/Taveta	30. Baringo
7. Garissa	31. Laikipia
8. Wajir	32. Nakuru
9. Mandera	33. Narok
10. Marsabit	34. Kajiado
11. Isiolo	35. Kericho
12. Meru	36. Bomet
13. Tharaka-Nithi	37. Kakamega
14. Embu	38. Vihiga
15. Kitui	39. Bungoma
16. Machakos	40. Busia
17. Makueni	41. Siaya
18. Nyandarua	42. Kisumu
19. Nyeri	43. Homabay
20. Kirinyaga	44. Migori
21. Murang'a	45. Kisii
22. Kiambu	46. Nyamira
23. Turkana	47. Nairobi
24. West Pokot	



Appendix V: County Governments' Sources of Revenue (2013/14-2016/17)

Sources of Revenue (<i>Figures in Kshs millions unless indicated otherwise</i>)	2013/14	2014/15	2015/16	2016/17
Transfer from National Treasury	187,239	225,650	264,468	280,300
Own Source Revenue	30,533	36,532	35,723	34,200
Transfers from Other Government Agencies	3,137	1,009	7,925	15,555
Proceeds from Domestic & Foreign Grants	8	256	2,182	4,674
Returned CRF Issues			534	1,229
Proceeds from Sale of Assets	7	11		4
Social Security Contributions		26		
Proceeds from Domestic Borrowings	1,856	298	862	
Proceeds from Foreign Borrowings		12		
Grants Received from other levels of government		36		
Reimbursements & Refunds	7	4	47	
Grand Total	222,788	264,825	311,740	335,963
<i>OSR as % of total receipts</i>	<i>13.7%</i>	<i>13.8%</i>	<i>11.5%</i>	<i>10.2%</i>
<i>OSR growth from previous year</i>		<i>19.6%</i>	<i>-2.2%</i>	<i>-4.3%</i>

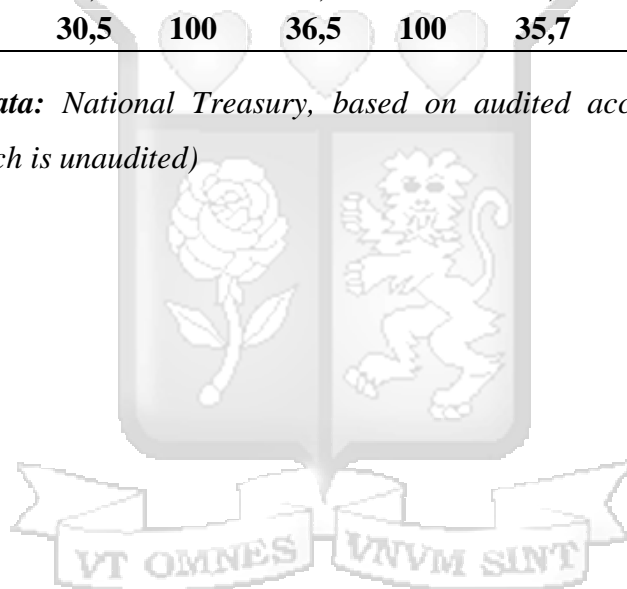
Source of data: National Treasury, based on audited accounts (except for FY 2016/17, which is unaudited)



Appendix VI: County Governments' Own-Source Revenue Categories

OSR category	2013/14		2014/15		2015/16		2016/17	
	Kshs	%	Kshs	%	Kshs	%	Kshs	%
Business	3	1.2	3,5	9.6	4,2	12.0	5,0	14.8
Property-	3,8	12.5	5,4	14.9	6,2	17.4	4,8	14.1
Vehicle	3	1.0	2,9	8.2	3,8	10.8	4,1	12.2
Health	2	0.7	2,3	6.5	2,4	6.9	3,7	11.0
Natural	1,5	5.0	1,8	5.1	1,7	4.8	1,9	5.6
Cesses	7	0.3	9	2.7	1,2	3.6	1,2	3.5
Market/trade	1,0	3.4	1,0	2.7	9	2.7	1,0	3.1
Housing	3	0.1	8	2.2	1,7	4.9	9	2.9
Other	-	0.0	1,8	5.0	2,7	7.6	8	2.6
External	2	0.1	2	0.6	2	0.1	5	1.5
All other	23,1	75.9	15,5	42.5	10,4	29.3	9,7	28.6
Grand	30,5	100	36,5	100	35,7	100	34,2	100

Source of data: National Treasury, based on audited accounts (except for FY 2016/17, which is unaudited)



Appendix VII: Research Data

County	2015			2016			2017		
	Transfers	OSR	OSR Ratio	Transfers	OSR	OSR Ratio	Transfers	OSR	OSR Ratio
Baringo	4,656,934,428	249,723,429	0.05089481 2	5,233,961,425	279,317,203	0.05066263 1	5,445,546,608	288,518,677	0.05031 7
Bomet	4,909,906,160	206,386,334	0.04033904 1	5,408,349,433	166,987,287	0.02995106 8	5,604,674,724	236,697,038	0.04052 1
Bungoma	8,029,195,903	504,623,643	0.05913221 4	8,876,380,198	630,988,485	0.06636836 2	9,325,850,288	661,588,149	0.06624 2
Busia	5,668,513,352	315,202,075	0.05267664 9	6,256,557,033	334,222,084	0.05071055 8	6,790,117,211	256,826,239	0.03644 5
E/Marakwet	3,471,543,872	128,905,771	0.03580268 7	3,823,933,460	128,055,734	0.03240285 5	3,874,344,959	97,323,973	0.02450 5
Embu	4,205,121,593	401,105,103	0.08707888 9	4,771,935,686	396,525,612	0.07672024 4	4,739,146,006	416,272,247	0.08074 5
Garissa	6,351,245,243	130,717,649	0.02016636 8	6,911,228,790	105,943,675	0.01509777 3	7,414,178,799	81,958,151	0.01093 3
Homa Bay	5,911,122,678	157,860,245	0.02601098 8	6,516,573,708	183,765,405	0.02742628 4	6,987,739,413	144,131,692	0.02021
Isiolo	3,199,678,723	133,699,318	0.04010925 7	3,537,827,614	110,108,172	0.03018369 2	3,977,382,371	94,996,063	0.02332 7
Kajiado	4,650,358,927	785,837,768	0.14455653 7	5,215,256,318	650,984,978	0.11097139 5	6,094,273,707	557,094,069	0.08375 6
Kakamega	9,646,227,641	516,889,024	0.05085930 2	10,703,578,916	504,238,292	0.04498987 5	10,958,491,105	443,176,020	0.03886 9
Kericho	4,748,554,101	413,581,432	0.08011828 2	5,252,797,896	434,404,563	0.07638282	5,551,584,745	489,980,629	0.08110 2
Kiambu	8,207,917,647	2,110,856,557	0.20456466 2	9,264,204,773	2,461,351,513	0.20991341 1	10,823,182,396	2,032,980,758	0.15813 3
Kilifi	7,842,163,405	545,499,050	0.06503588	8,563,981,588	519,075,625	0.05714767	10,545,840,12	620,093,575	0.05553

			5			8	2		4
Kirinyaga	3,727,560,086	311,635,045	0.07715275 8	4,159,808,773	390,377,140	0.08579366 8	4,771,955,460	320,638,299	0.06296 2
Kisii	7,772,145,310	296,771,415	0.03677958 6	8,664,058,165	306,129,638	0.03412745	8,488,124,729	271,644,380	0.03101
Kisumu	6,324,406,000	970,903,407	0.13308598 1	6,994,542,675	978,889,261	0.12276887 4	7,264,586,909	1,004,043,906	0.12142 8
Kitui	7,583,499,487	320,521,294	0.04055167 7	8,389,946,573	416,188,728	0.04726122 3	9,236,468,882	315,347,364	0.03301 4
Kwale	5,405,264,065	253,972,260	0.04487747 9	5,986,544,213	248,617,586	0.03987347 8	7,677,172,706	221,011,186	0.02798 3
Laikipia	3,651,034,608	400,484,744	0.09884803 9	4,104,689,637	471,147,987	0.10296431 5	4,849,806,234	462,723,251	0.0871
Lamu	2,172,952,802	61,672,255	0.02759848	2,509,540,339	57,324,400	0.02233245 8	2,651,822,899	76,960,788	0.02820 3
Machakos	7,346,493,531	1,356,559,888	0.15587171 8	8,166,790,848	1,121,680,950	0.12076054 9	8,271,694,407	1,259,304,944	0.13212 7
Makueni	6,234,615,763	215,349,954	0.03338776 7	6,857,630,551	213,170,805	0.03014804	7,501,905,511	216,257,976	0.02801 9
Mandera	9,224,728,949	87,729,461	0.00942065 5	10,084,615,714	88,234,634	0.00867354 1	10,249,597,742	55,843,625	0.00541 9
Marsabit	5,363,688,014	99,107,465	0.01814226 2	5,861,348,668	111,943,205	0.01874062 2	6,917,098,140	128,730,136	0.01827
Meru	8,068,730,716	539,239,910	0.06264425 5	8,695,004,808	548,289,334	0.05931752 5	8,585,775,308	552,668,157	0.06047 7
Migori	6,179,702,331	355,111,556	0.05434149 5	6,742,468,649	339,368,968	0.04792103 2	6,891,937,645	290,815,303	0.04048 8
Mombasa	5,856,541,422	2,492,600,145	0.29854568	6,460,495,121	2,943,520,686	0.31300677 8	8,862,419,593	3,166,240,961	0.26322 5
Murang'a	5,605,841,727	562,227,534	0.0911513	6,224,115,350	617,526,359	0.09025996 8	6,613,083,894	506,685,732	0.07116 6

Nairobi	13,534,170,79 3	11,500,049,48 0	0.45937318 4	14,946,783,24 5	11,710,008,30 0	0.43928798 7	16,219,361,72 3	10,929,830,35 3	0.40258 4
Nakuru	8,909,150,835	2,200,279,602	0.19805512 2	9,841,244,944	2,295,462,842	0.18913389 7	10,225,773,66 8	1,548,294,999	0.1315
Nandi	4,958,627,028	298,042,483	0.05669796 9	5,469,004,415	236,898,601	0.04151816 1	5,461,582,006	244,730,757	0.04288 8
Narok	5,537,068,743	1,639,205,710	0.22842015 3	6,064,109,450	1,752,937,952	0.22424553 2	7,040,079,000	1,533,933,960	0.17890 5
Nyamira	4,358,048,612	104,254,684	0.02336342 4	4,831,602,226	106,981,969	0.02166247 7	5,014,612,763	93,920,087	0.01838 5
Nyandarua	4,490,760,352	240,629,472	0.05085809 5	4,936,245,833	279,226,186	0.05353804 7	5,334,327,342	296,766,563	0.05270 1
Nyeri	5,042,278,330	680,700,067	0.11894157 5	5,600,339,382	709,554,435	0.11245109	5,643,830,440	643,139,153	0.10229 7
Samburu	3,700,905,733	195,715,348	0.05022693 9	4,080,440,211	166,836,134	0.03928073 4	4,101,911,167	187,663,504	0.04374 9
Siaya	5,246,071,112	143,328,488	0.02659451 9	5,797,489,075	127,931,767	0.02159032 6	5,977,911,640	172,837,124	0.0281
Taita Taveta	3,488,332,869	216,603,678	0.05846353 2	3,842,745,714	172,765,506	0.04302453 6	4,159,592,046	172,017,112	0.03971 2
Tana River	4,137,496,801	33,033,490	0.00792069 3	4,627,810,651	28,405,081	0.00610046 5	5,609,335,303	27,417,024	0.00486 4
T/Nithi	3,305,463,744	115,729,722	0.03382729 5	3,652,470,953	139,130,083	0.03669428 3	3,924,653,418	78,569,191	0.01962 6
Trans Nzoia	5,323,073,849	301,267,105	0.05356487 2	5,856,599,951	364,970,035	0.05866204 8	6,029,670,646	217,893,803	0.03487 7
Turkana	10,748,014,43 2	126,524,507	0.01163493 1	11,709,814,81 7	134,015,965	0.01131525 5	10,699,869,91 7	186,316,769	0.01711 5
Uasin Gishu	5,390,581,097	800,823,542	0.12934440 4	5,947,601,606	719,042,325	0.10785671 7	6,070,850,292	663,830,778	0.09856 9
Vihiga	4,054,531,396	115,939,226	0.02780003	4,470,649,135	138,938,281	0.03014115	4,738,599,112	96,033,000	0.01986

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Wajir	7,470,850,704	107,742,634	0.01421670 6	8,159,999,887	81,782,275	0.00992288 7	8,612,138,493	75,908,720	0.00873 7
West Pokot	4,511,622,736	103,899,329	0.02251085 1	4,942,855,225	98,305,114	0.01950049 3	5,067,264,009	83,218,907	0.01615 7



