RELATIONSHIP BETWEEN FISCAL GOVERNANCE AND PERFORMANCE OF COUNTY GOVERNMENTS IN KENYA

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(Leadership and Governance)

JOMO KENYATTA UNIVERSITY OF

AGRICULTURE AND TECHNOLOGY

2018

Relationship between Fiscal Governance and Performance of County Governments in Kenya

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A Thesis Submitted in Partial fulfillment for the Degree of Doctor of Philosophy in Leadership and Governance in the Jomo Kenyatta University of Agriculture and Technology

2018

DECLARATION

This thesis is my original work and has not been presented for a degree in any other University.

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DEDICATION

To my wife, Dr. Violet Chesang: and, My Daughter Sylvan Lamaon for the great encouragement and support during this study.

ACKNOWLEDGEMENTS

I wish to sincerely thank my Supervisors Dr. Jane Omwenga and Prof. Mike Iravo for their guidance, inspiration and support throughout this study. I wish to also thank the entire lecturers of JKUAT Westlands Campus that taught us during our coursework. You were great people who have inspired and guided us in our studies. I wish to also acknowledge my colleagues of the Governance PHD Class 2014 for the support and friendship we have accorded one another throughout the study.

I wish to also acknowledge the support of my colleagues, my board for their support and understanding through this study.

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LIST OF ABBREVIATIONS AND ACRONYMS

CAS	County Assemblies
CRA	Commission on Revenue Allocation
COB	Controller of Budget
CG	County Government
CEC	County Executive Committee
COK	Constitution of Kenya
CIC	Constitution for the Implementation Constitution
CS	Cabinet Secretary
DARA	Division of Revenue Act
DARB	Division of Revenue Bill
EACC	East African Community
FRSB	Financial Sustainability Review Board
GOK	Government of Kenya
GDP	Gross Domestic Product
ICT	Information Communication and Technology
IEA	Institute of Economic Affairs
KPI	Key Performance Indicators
LA	Local Authorities
LAIFOM	Local Authority Integrated Financial Operating
LATF	Local Authority Transfer Fund

DEFINITION OF TERMS

Corporate Governance- Corporate governance refers to mechanisms that are concerned with ways in which all parties interested in the well-being of the firm (the stakeholders) attempt to ensure that managers and other insiders take measures or adopt mechanisms that safeguard the interests of the stakeholders (Mutero,2007).

Decentralization- Decentralization represents the transfer of resources from higher to lower levels of government usually accompanied by an enhancement in responsibility and functions. (Dasqupta & Victoria, 2007).

Devolution- Devolution is as a system of government whereby the state allows the establishment of Local units of government with powers and Authority to make Local decisions on matters that affect the Local communities and to mobilize Local resources for implementation or execution of the decisions made (Mcluskey & Fransen, 2005).

Governance- Governance refers to the establishment of policies and continuous monitoring of their proper implementation by the members of the governing body. It also refers to the processes of governing whether undertaken by a government, market or a network whether over a family, tribe, formal or informal organization or territory and whether through laws, norms, power or language. (Dasqupta & Victoria, 2007).

GDP- GDP also gross domestic product refers to the broadest quantitative measure of nation's total economic activity. It refers to the value of countries overall output of goods and services (typically during one fiscal year at market rates). (Dasqupta & Victoria, 2007).

Fiscal- Fiscal refers to the relation to taxation, public revenues, public expenditure or public debt or expenditure. (Dasqupta & Victoria, 2007).

Fiscal Governance- fiscal governance refers to the combination of institutions, rules and norms that structure governance in these policy areas. It is also defined as those rules, regulations and procedures that influence on how budgeting policy is planned, approved, carried out and monitored. (Dasqupta & Victoria, 2007).

Fiscal Decentralization- It is defined as the devolution of policy responsibilities from central government to local government in respect of spending and revenue collection decisions. (Dasqupta & Victoria, 2007).

Financial Distress- It is a condition where a company has difficulty paying off its financial obligations to its creditors as they come due (Business Dictionary, 2010). A state when a firm's business deteriorates to the point where it cannot meet its financial obligations, the firm is said to have entered the state of financial distress. The first signals of distress are usually violations of debt covenants coupled with the omission or reduction of dividends (Miring'uh & Mwakio, 2006).

Human Resource Management- Human resource Management (HRM) is a set of tools to help you organize, plan, and implement personnel practices in organizations (Mathew, 2007).

Information Technology- Information technology is defined as technologies that ensure a more accurate and cost effective knowledge to support decision making, reduces mental and physical efforts in solving certain tasks; reduces or eliminates inefficient practices, it rivals the manual system and improves services rendered to customers (Awe, 2007).

Government Regulation- Government regulation is defined as a rule of order having the force of law, prescribed by a superior or competent Authority, relating to the actions of those under the Authority's control (West's Encyclopedia of American Law, 2008).

ABSTRACT

Fiscal Governance and prudent Management of Public resources contributes to improved performance of public institutions. The General objective of the study was to establish the relationship between fiscal governance and performance of County Governments (CGs) in Kenya. The Specific objectives were to assess the relationship between funding from National Government, Locally generated revenues, loans, grants and borrowings and budget control function and the overall performance of county governments in Kenya. The study also tested the Null hypothesis that funding from National Government, locally generated revenues, borrowings, loans and grants and budget control function have no relationship with the performance of County Governments in Kenya. The study covered the period of three years that devolution had been in existence in Kenya. The study population comprised of 2,858 County Government officers from County Governments in Kenya. A descriptive research design was used to conduct the study. The study used Stratified random sampling and simple random sampling techniques to get a sample of counties and County government officials to be included in the study .A sample of 288 respondents from the 5 Counties was selected for the study. This data was collected using semi – structured questionnaires with a response rate of 70.1% with 202 respondents returning questionnaires. The data was analyzed using descriptive statistics and multiple linear regression models as an inferential analysis. The study used regression analysis and moderated multiple regressions to analyse the relationship between the funding options available to county governments and performance of county governments. The study findings revealed that Fiscal Governance had a statistically significant relationship with performance of county governments in Kenya. The study specifically found out that Funding from National Government, Locally generated revenue, borrowings/grants/loans and budget control function had positive and significant relationships with performance of county governments. The findings of the study concludes that fiscal governance can affect the performance of county governments and due to their geographical closeness to the population which fosters stronger accountability and enhancement of efficiency in the delivery of public goods and services. As such, the alternative hypothesis in relation to fiscal governance and performance in County governments in Kenya is accepted. The variables tested had a significant relationship with performance of county governments in Kenya. The study recommends that the enhancement of revenue decentralization to county governments is worthwhile in improving performance of county government. The study also recommends that while conditional grants are important, its allocations should be equitable and should not compromise the independence of the county government as regards budgeting, planning and budget execution. The study also recommends that fiscal governance can improve the fiscal balance of county governments as they are under strong pressures than the national government to provide more public goods with limited resources However, the study also recommends fiscal decentralization alone is not sufficient in improving performance and that political and administrative decentralizations need to be enhanced for improved performance of county governments in Kenya.

CHAPTER ONE

INTRODUCTION

1.1 Overview of the Chapter

Chapter explores the historical background of fiscal decentralization, its evolution in Kenya and generally in other regions. The study then defines the problem statement, the objectives of the study, research questions, justification, the scope and the limitations of the study

1.2 Background of the Study

According to Mapesa and Kibua, (2006) it is over the last 30 years in Kenya that there has been a renewed interest in decentralization programs as a way to reverse inequality and tackle poverty. Such decentralized programs that have been introduced over the last three decades are elaborated as follows- Devolution or decentralization is the statutory granting of powers from the Central Government of a sovereign state to Government at a sub-national level, such as a regional, local, or state level. Devolution can be mainly financial or administrative. Devolution was poised as a perfect political and economic response to societal disparities, inequality, economic stagnation and inefficient use of public resources.

According to article 10 (2) (a) of the constitution of Kenya, devolution and sharing of power were identified as values and principles that would guide our governance system. However, Decentralization is not new in Kenya. The quest for this form of governance began as early as 1963 before the Country got its independence. The Majimbo Constitution provided for devolution of governance to regional assemblies in the context of a bicameral, Westminster –type parliament with a Senate and a National Assembly (SID 2011).

Recent studies on Decentralization in Kenya concurred that as early as at independence in 1963, the Government of Kenya (G.O.K) inherited a nation characterized by disparities in income and economic development as measured by economic standard indicators such as literacy level, infant and maternal mortality and life expectance, these disparities were found to exist by gender and region (Thulow, Kiringai & Gautum, 2006).

As far as Article, 174 of the Kenyan Constitution 2010, the entire spirit of devolution was therefore to fragment the country into 47 economic units referred to us counties. Where the ability to govern and manage locally and coordinate inter locally will become more important. It is clear therefore that the devolved system did not only bring Government resources and services closer to the people, but also gives powers and responsibilities to the people and leaders at the county level in decision making and determining the direction they want to go in development and politics.

In turn the public administrators and political leaders will be forced to shift their efforts towards such technical issues as economy, efficiency and effective use of tax monies as well as toward practical matters of economic development and regional cooperation and of which are attributes of a growing economy according to Cole et al. (1999).

Countries that are turning to decentralization are doing so with the hope that it is the only sure way of getting rid of the traps of ineffective and inefficient governance in service delivery and in adequate economic growth. Economists and policy makers are of the view that proper form of decentralization is an effective strategy to promote economic growth and development (Malik, Hassan & Hussain, 2006). Fiscal Decentralization can be used to refer to either a territorial or area-based phenomena (such as the CDF and LATF) or functional phenomena (such as HELB, the HIV/AIDS Fund and the Bursary Fund). One involves the transfer of responsibility and authority for public functions to organizations with well-defined sub-national, spatial or political boundaries such as a province, a religion, municipality or county (Gituto, 2007).

The other forms of decentralization involve transfer of authority to perform specific tasks in regards to revenue and expenditure to specialized organizations that operate nationally or regionally. It is important to note that regions are not out there waiting to be discovered. They are socially constructed, both discursively and materially, in relation to specific criteria, although political actors and particular interest groups may seek to define and defend them in essentialist terms, it is important to understand why this is so, not least in relation to arguments about regional devolution (Hudson, 2006).

Although there is no clear indications of just to what extent shall the new constitution add fuel to the economic trends, it is however certain that there shall be some critical benefits that shall accrue to the nation. This is so since Devolved Governments are unanimously associated with implied greater efficiencies, increased local civic engagement and participation in state processes, greater accountability to grassroots and other stakeholders and communities, a reduced bureaucracy and red tape especially for local development projects, and increased flexibility on the initiation and implementation of development interventions (Gituto, 2007).

It can also be valuable in the mobilization of extra-budgetary resources and improving the links between market forces and local economies. Hudson (2006) outlines a number of possible benefits of devolution as to include the following: first, he says devolution will bring about benefits in terms of new forms of participative democracy, greater political accountability and transparency in policy making process within the region. Second, existing forms of top down regional economic policy through which Central Government acted at a distance on the region, had manifestly failed and been rendered obsolete by the neoliberal globalising economy.

Thirdly, an elected assembly would strengthen the position of the regions in competition for inward investment and associated new employment. Regions in the late modern world of the European Union and the USA have been successful in making the transition to the high road of economic development. Regional success stories such as Baden-Wurttermberg, the Third Italy, and Silicon Valley are characterized by devolved forms of governance and regulation and this is seen as causally related to their economic success. The effectiveness of physical decentralization depends upon appropriate expenditure assignment with divisions of functions among different levels of government depending upon their comparative advantage, appropriate tax or revenue assignment, the efficient design of a system or transfer and its proper implementation (Kadar, 2006).

Nevertheless, it is in the year 2010 that Kenyans voted overwhelmingly for the current constitution that ushered in a devolved system of government. This system devolves political and administrative powers to the counties. Schedule 4 of the constitution delineates Agriculture, health services, water, county planning and development among others as functions that shall be undertaken by County Governments. Kenyans adopted this form of governance as a means to improved service delivery and accountability in the utilization of public resources. Among the more prominent arguments for devolution – is the issue of efficiency of the expectation that decentralizing functions to the lowest feasible level of decision-making and optimizes information flows and reduces transaction costs. (SID 2011). In addition, the economic dividend of devolution arises through devolved administrations ability to tailor policies to local needs, generate innovation in service delivery provisions through inter- territorial competition and stimulate participation and accountability by reducing the distance between those in power and their electorate.

1.2.1 Fiscal Decentralization and Governance

According to Saavedra, (2010) fiscal decentralization allows localities to provide different mixes of such services so that, in principle, every household can find a locality that offers the bundle of public goods and services that they prefer or desire in equilibrium. Thiessen (2001) views fiscal decentralization as entailing "a transfer of responsibility associated with accountability to sub- national governments". It could thus be viewed as the ability of lower governments to raise tax revenues, and decide on how to spend their money on different programs within legal criteria. There is the belief that fiscal decentralization leads to economic growth even though there could be implications for resource redistribution (Martinez- Vazquez & McNab, 2001).

Fiscal Decentralisation in the US, has often been seen as part of the reform package that contributed to improved efficiency of public sector, to increase competition among sub- national governments in delivering public services, and to stimulate economic growth (Bird & Wallich, 1993). The International conference on

Federalism (2002) had a theme summary that highlighted the fact that fiscal decentralization remains a much-debated political issue in many Counties this Century.

According to Ammons (2007), Organizations which appreciate the value of performance measurement are able to identify operating strengths and weaknesses and recognize improvements when they occur, for efficient and effective service delivery (Ammons, 2007). Saavedra (2010) argues that decentralization aims at bringing decision makers and decision-making processes closer to people and their needs. He further argues that local decision-makers have access to better information on local conditions than central authorities; this knowledge allows them to better tailor services and public spending patterns to local needs and preferences; this in turn, is expected to improve efficiency and quality of services for local constituents. McLure (2002) argues that, decentralized framework of service provision must be backed with sufficient fiscal resources and discretion over them. If local governments are to carry out expenditure responsibilities and provide public services in a decentralized manner effectively, they should be able to have an adequate level of revenues to afford those decentralized functions, either through locally raised revenues, which could bring greater accountability.

In Kenya, service delivery under the former regime of governance was centralized, with the central government delegating some functions to provincial level and local authorities (LAs). Policies were implemented and functions performed on behalf of the central government and therefore performance measurement was for the central government. With the new regime of government, fiscal decentralization, provision of government operation and services have been decentralized as per the fourth schedule of Constitution of Kenya 2010, making counties responsible for setting operational policies for enabling them perform the decentralized operations. Operational policies are the instruments and practices by which organizations rationalize and continuously improve the work they do through available knowledge and technology (Martin, 2009).

1.3 Statement of the Problem

It is fairly evident that the success and failure of devolved systems of government depends on the crucial factors of political and Fiscal decentralization. Political decentralization which, involves decentralization of power from the Central Government to County Government, has already been effected in Kenya as per Kenyan Constitution (2010) but it is heavily observed that it is the fiscal decentralization and its governance that will determine the future and sustainability of County Governments.

Fiscal decentralization encompasses all that appertains to how the National Government and county governments relate to each other when it comes to Money. This include the kind of revenue allocated by the Central Government to County Governments, the revenue generated by the County Governments, the funds borrowed by CGs or grants received by the County Governments and more so how they manage their budget function.

According to the Controller of Budget report for 2013/14, the first year of devolution in Kenya, the County Governments approved expenditure outlay amounted to 5.4 percent of GDP. The County Government targeted to collect 1.2 percent of GDP as own source of revenue while receiving transfers approved at Kshs.210 billion, which is equivalent 4.3 percent of GDP. County Governments were only able to collect 0.5 percent of GDP as own- source of revenue and national transfers amounted to 3.9 percent of GDP.

Again, of the total available revenue, counties overall expenditure reached 3.4 percent of GDP leaving only 1 Percent of GDP as surplus. This report explains further that the following counties of Bungoma, Elgeyo Marakwet, Embu, Garissa, Homa Bay, Isiolo, Kirinyaga, Kisii, Kisumu, Marsabit, Nyandarua, Siaya, Taita Taveta, and Tana River counties revenue collections were lower than former local authorities in their jurisdiction in 2011/12 by a combined Kshs.1 billion. This in turn explains the loss of billions of shillings that have remained uncollected in the counties. According to the World Bank Report Titles, Decision Time; Spend More Spend Smart?. The fiscal environ in County Government generally paints a picture of wastage, lethargy in implementing projects, wrong priorities in some sectors and weak revenues mobilization.

Arising from the above reports, it is becoming more evident that devolution is encountering fiscal pressures emerging from fiscal expansion and the governance challenges and how the same will affect the performance of County Governments in the delivery of most of the devolved functions of Health, water and agriculture and infrastructure services that are supposed to be availed closer to the people is contributing more pressures to the devolved governments.

This fiscal pressure has been demonstrated by continued clamour by both the Council of Governors and the Opposition's push for more allocation or improvement of the allocation of revenue from National Government from the 15 % as per the Kenya's 2010 Constitution.

On the other hand, Kenya's devolution in its first two years of 2013/2014 and 2014/2015 has been characterised by poor service delivery by the County Governments ranging from low absorption of expenditure which has averaged 35 percent for development and 85 percent for recurrent expenditure and the composition of the administrative costs that have gone high compared to service delivery where County Governments cumulative allocation for health and agriculture have gone higher than the National Government allocation prior to the set up of devolved units. Again there have been only a handful of counties that reached the 30 % percent threshold of development spending as revenue collection from counties were below targeted expectation in majority of the counties. It is however noteworthy that though the actual revenues represent an improvement from the defunct local authorities as the annual reports of Controller of Budget.

Previous studies have focused on challenges facing revenue mobilization in the public sector. For Instance Wanjohi (2003) undertook a study on modern local government in Kenya. Odhiambo (2005) undertook a study on management of resources by local authorities. Ntoiti (2013) undertook a study on the determinants of financial distress facing local authorities in Kenya. Studies have not been carried on the relationship between fiscal governance and performance of service delivery in the devolved counties in Kenya.

This study seeks to fill the existing knowledge gap by establishing the relationship between the different aspect of fiscal governance and performance of service delivery in Counties over the last two years of devolution. This research seeks to answer the question, what is the relationship between fiscal governance and performance of County Governments in Kenya.

1.4 Study Objectives

The study was guided by the following objectives;

1.4.1 General Objective

The general objective of this study was to establish the relationship between fiscal governance and performance of County Governments in Kenya.

1.4.2 Specific Objectives

The specific objectives were as follows:

1. To assess the relationship between funding from National and performance of County Governments in Kenya.
2. To establish the relationship between locally generated revenue and performance of County Governments in Kenya.
3. To determine the relationship between loans and grants and performance of County Governments in Kenya.

4. To establish the relationship between budget control function, management and performance of County Governments in Kenya.

1.5 Research Hypothesis

i. Ho: Funds from National Government do not have a significant relationship with the performance of County Governments in Kenya.

   H1: Funds from National Government have significant a relationship with the performance of County Governments in Kenya.

ii. H0: Locally generated revenues do not a significant relationship with the performance of County Governments in Kenya.

   H1: Locally generated revenues have a significant relationship with the performance of Counties in Kenya.

iii. H0: Borrowings, grants and loans do not have a significant relationship with the Performance of County Governments in Kenya.

   H1: Borrowings, grants and loans have a significant relationship with the performance of County Governments in Kenya.

iv. H0: Budget Control function and Management does not have a relationship with performance of County Governments in Kenya.

   H1: Budget Control function and management has a relationship with the Performance of County Governments in Kenya.

1.6 Significance of the Study

1.6.1 Policy Makers

The findings of this study may be used to influence policy in the area of fiscal and governance especially in relations to funding and performance in decentralized units. The study may also help address the causes of budget deficits being encountered in the devolved units in Kenya. In addition the findings may influence policy in the improvement of capacity and performance in the County Governments.

1.6.2 County Government Policy Makers

The findings of the study may be used by County Governments in addressing their fiscal and revenue generation challenges and also in exploring ways of improving the fiscal capacity of County Governments. The study explored the low fiscal capacity and the lack of effective management mechanisms in enhancing performance in counties. This mechanism relate to financial management, governance, information technology, human resource practices and regulations. Specifically, it is hypothetically argued in this study that low fiscal governance, low human resource capacity, inadequate use of information technology in country revenue management process may be contributors of the poor performance being encountered in County Governments over the last two years of devolution.

1.6.3 National Government Policy Makers

The study findings may be of use to the National Government as it may highlight the financial challenges facing County Governments and which also impact negatively on performance in County Governments. The economic growth of the country and achievement of Vision 2030 is heavily dependent on the performance of County Governments in both revenue generation and service delivery. The findings of this study may be of use by national government in analyzing the policy and capacity needs that’s required from national government in future to improve on performance in county governments in Kenya. Commission such as Commission on Revenue Allocation (CRA) may use the findings of this study in recommending policy advice on allocation of revenues to counties and the need to reconsider and review the effectiveness of the delivery of the functions that were allocated to the County Governments and their funding.

1.6.4 Residents of County Governments

The residents of County Governments may find the results of this study useful as the results may shed light on the fiscal governance challenges that County Governments are facing in its formative stages and are affecting the performance of County governments. Residents of CGs are expected to contribute to the provision of performance in their county governments through payments of taxes, levies and rates.

1.6.5 Banks, Financiers and Investors

Banks and generally financiers and investors may find the findings of this study useful as the study highlights the fiscal and Governance capacities and equally the challenges facing CGs. The findings may therefore be appropriate in making investment decisions on whether to invests in Public Private Participations or county bonds or invest directly in infrastructure such as schools, roads and hospitals. Also depending on the nature of fiscal governance challenges facing, investors may make decisions on whether to engage s in trade through supplies and purchase of tenders that payment may not be forthcoming. This justification may actually be realised if fiscal governance challenges are fully addressed and mitigated.

1.6.6 Scholars, Researchers and Students

The findings of this study contribute to the growth of knowledge and information in the areas of governance, fiscal challenges and service delivery in decentralized units in Kenya and the world over. This contributes in enhancing the body of knowledge for researchers and students and enhances the Literature review. Therefore, students of finance, public management, governance, and Human resource management, and law may find these research findings critical in terms of broadening their minds in this areas.

1.7 Scope of the Study

From a contextual point of view, the study is on the relationship between fiscal governance and performance of County Governments in Kenya over the first two years 2013/2014 and 2014/2015. Fiscal Governance in this study may be considered from the point of view of both revenue generation and management and expenditure management at the counties. The study also analyzed and reported on the performance of s in revenue generation over the last two years of devolution and also relate with the allocation from national government, revenues generates by the CGs and grants or loans borrowed by CGs. The study also evaluated service delivery in CGs from the perspective of the devolved functions of health, agriculture and infrastructure;, and established relationship of the performance of the same services to all the revenues available to the County Government and the budget management over the last two years of devolution. The study was restricted to 5 County Governments in Kenya.

1.8 Limitations of the Study

The study experienced several challenges majorly arising from carrying out research during an electioneering period in the entire Country that majority of the County Governments officials and residents were involved. The officials from the County Government took a long time to respond to questionnaires, as they were busy in the campaigns going over the study period. The study also experienced resistance from the respondents who were always suspicious of the study intentions despite formal assurance that the findings and study was purely for academic purposes. The respondents also felt intruded when requested to complete questionnaires that required them to confirm and share revenue and financial data that they categorised as confidential to their nature of work. In order to mitigate this confidentiality, the respondents were fully assured of the confidentiality and ethical handing of the study through the introductory letters, approvals and the research permits.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses various theoretical arguments advanced by scholars, researcher and philosophers to explain Fiscal Decentralization and governance. It also discusses the conceptual framework, and how the variables discussed affects and relate to service delivery performance in County Government in devolved government.

2.2 Theoretical Framework

The theoretical literature reviewed the following theories; Accountability theory, Cost recovery theory, Agency theory and Souffle theory of decentralization. The foundation of the theories was discussed and its argument in regards to fiscal decentralization and governance and service delivery performance.

2.2.1 Accountability Theory

According to Ostrom, Schroeder and Wynne (1993), the accountability theory advocates or suggests that decentralization is there to promote accountability in provision of service delivery and reduce corruption in the government. Since sub-national Governments are closer to the people, citizens are considered to be more aware of sub- National Governments" actions than they are of actions of the Central Government. Also, the resulting competition between sub-national providers of public goods is seen to impose discipline on Sub-National Governments, as citizens averse to corruption may exit to alternative jurisdiction or providers. Corruption represents a breakdown of cooperative behavior, in which the few collude to the detriment of all.

Devolving functions to smaller units that are closer to the population should, in theory, increase consensus and legitimacy concerning the choice of public services. This, in turn, can be expected to foster cooperation, vigilance, as well as acceptance of and adherence to rules of public sector integrity. This would be especially true where the financing of public services is devolved via the assignment of tax instruments or the collection of user fees. In plural or socially fractionalized nations, the question then arises whether jurisdictions can be so designed so as to maximize social (e.g. ethno-linguistic) homogeneity and social capital, and therefore the propensity to cooperate at the local level (Meagher, 1999).

2.2.2 Cost Recovery Theory

The cost recovery theory which emphasizes that making service more demand responsive through decentralization has added benefit that increases households" willingness to pay for services (Briscoe & Garn 1,995). Households are argued to be more willing to pay for and maintain services that match their demand: this is the flip side of the allocative efficiency coin. Moreover, a relatively close match between supply and local demand, if coupled with transparency and with local cost-sharing or cost recovery, can provide the incentives and information base for effective local monitoring. The latter is a necessary ingredient in an overall anti-corruption strategy, and in particular helps to shrink the information asymmetries and leakages that can undercut both allocative efficiency and cost recovery (Litvack & Seddon, 1999).

On the other hand the allocative efficiency theory argues that the most common theoretical argument for decentralization is that it improves the efficiency of resource allocation. Decentralized levels of government have their reason in the provision of goods and services whose consumption is limited to their own jurisdictions. By tailoring outputs of such goods and services to the particular preferences and circumstances of their constituencies, decentralized provision increases economic welfare above that which results from the more uniform levels of such services that are likely under national provision.

The basic point here is simply that the efficient level of output of a local public good (i.e. that for which the sum of residents" marginal benefits equals marginal cost) is likely to vary across jurisdictions as a result of both differences in preferences and cost differentials (Oates, 1999).

Since Sub-National Governments are closer to the people than the Central Government, they are considered to have better information about the preferences of local populations than the Central Government (Musgrave, 1998). Hence, such governments, it is argued, are better informed to respond to the variations in demands for goods and Services. Second, sub-national governments are also considered to be most responsive to the variations in demands for and cost of providing public goods. Decentralization is thought to increase the likelihood that Governments respond to the demand of the local population by promoting competition among Sub-National Governments (Tiebout, 1996).

Competition among Sub-National Governments is said to allow for a variety of bundles of local public goods to be produced, and individuals are said to reveal their preferences for those goods by moving to those jurisdictions that satisfy their tastes that is, by "voting with their feet." This is seen to pressure Sub-National Governments to pay attention to the preferences of their constituents and tailor the service delivery accordingly, whilst risking the loss of tax revenues Breton (1996). This "voting with feet" is thus argued to enhance the efficiency of resource allocation by increasing the likelihood that Governments satisfy the wishes of citizens. Where geographic mobility is constrained, as in many developing and transition countries, alternative service providers such as private firms and NGOs are potentially important in providing exit options (Qian & Weingast, 1997)

2.2.3 Principal –Agent Theory

The Principal-Agent theory (also referred to as Agency Theory) is one of the dominant theoretical perspectives for analyzing and describing public governance reforms. This theory was proposed by Jensen and Meckling (1976). The theory proposes a 'principal' with specific objectives and 'agents' who are required to implement activities in achieving those objectives. The core of the principal-agent theory is the agency relationship, which depends on power positions and information flows between principals and agents. The question, then, is how principals can manage the interests of agents so that they are in line with the goals they (principals) wish to achieve (Masanyiwa, Niehof, & Termeer, 2012).

According to Mewes (2011) the agency theory is related to top down and bottom-up models. In the top down model, local governments are agents, exercising responsibilities on behalf of the central government (principal). In the bottom-up model, the ultimate principals are the citizens or service users, while politicians as representatives in decision-making organs are agents. In turn, local government administrators responsible for executing service delivery functions are agents of local political leaders and service users. Consequently, Kayode et al. (2013) further posits that in a democratic polity, the ultimate principals are the citizens who are consumers of specific services provided by the government. In the Principal –Agent theory, they are principal in the sense that politicians as agents seek their mandate from and act as the representatives of the public.

Later Scholars and Critics however argue that the Agency-Theory model is one-sided because it negatively characterizes an agent's behavior as self-seeking. They argue that it ignores agent loyalty, pride, and professionalism in aligning with the principal's goals (Davis, Donaldson, & Schoorman, 1997; Kayode et al., 2013). Another criticism of the agency theory is that it omits opportunistic behavior by principals. This is especially so in public services where politicians and bureaucrats personally stand to gain from colluding with private agents (Kamara, Ofori-Owusu, & Sesay, 2012). Furthermore, Masanyiwa (2012) citing Batley (2004) criticized the agency-theory model for focusing on the vertical relationship between the centre and periphery in a 'one-dimensional' way. Therefore, this makes it difficult to analyze multiple principals and agents, especially if they are of different administrative levels.

The Kenyan Constitutional framework of devolution is relevant to the Agency-Theory model as it provides a good basis for understanding the relationship in which one party (the principal) delegates work to another (the agent), who performs the task. Politicians act as the agents of citizens and must act in good faith to fulfil the principles of the Principal. Without addressing the principal agent problems, poor governance practices such as lack of social accountability have risen.

The Principal-Agent theory has become a widely used paradigm for analysing public accountability. This is because it provides a flexible framework for modelling innumerable variations in institutional arrangements, and in comparing their potential for inducing desirable behaviour by agents (Gailmard, 2012). Researchers also adopt Principal-Agent theory to understand the social accountability practices between citizens and politicians. The principals are the citizens or service users, while politicians as representatives in decision-making organs are agents.

2.2.4 The Souffle Theory of Decentralization

The Souffle theory of decentralization which was proposed by Parker (1995) that advocated for decentralization as the way forward for rural development, argued that there are three major elements of decentralization, namely: administrative, fiscal and political decentralization. Parker (1995) emphasized that decentralization is a multi-dimensional process that proceeds with successes and setbacks. The theory argues like a Souffle that needs just the right combination of milk, eggs and heat to rise. Thus, a successful program of decentralization must include just the right combination of political, fiscal, and institutional elements in improving rural development outcomes (Farooq, Shamail, & Awais, 2008; Laryea-Adjei, 2006).

Decentralisation initiatives will therefore be subject to a continuous process of modification, which reflects changes in the social, political, and economic conditions (Laryea-Adjei, 2006). There is therefore the need to include all dimensions of political, fiscal, and administrative decentralisation. Parker (1995) suggested a conceptual model, the soufflé theory, which incorporates the essential elements of the political, fiscal, and administrative decentralisation. This is because they are combined to realise desired outcomes. Political decentralisation transfers policy and legislative powers from the central government to the elected local authorities (Azfar, 1999). However, the allocation of the power of decision making to local authorities is not enough to create successful decentralisation if local officials are not accountable to the local population (Elsageer & Mbwambo, 2004).

Local accountability might be promoted through various mechanisms such as third party monitoring by media and NGOs, extensive participation, and central government oversight of local governments (Godda, 2014). All in all, soufflé theory is relevant as it provides an in-depth understanding of political decentralization. Despite the propositions of the Soufflé theorist that are in favor of decentralization, devolved governance has been criticized due to several limitations. Saito (2001) posits that decentralization may foster more local loyalty to regional identities than the national identity. Therefore, this may encourage more autonomy from the central government and even a territorial secession in multi-ethnic and multi-religious societies, particularly in Africa.

This puts the national integrity itself at risk. Secondly, decentralization may increase corruption at local level and thus this would not improve accountability. Lastly, the increased efficiency and effectiveness of public resources may not be realized, since resources (capital, human, and even social) available at the local level in low-income countries are very limited.

These scarce resources are more effectively utilized when they are concentrated at the national level. Therefore, decentralization may also jeopardize equity among different localities. In Kenya, the Soufflé theory is at the centre of devolution. The devolution process of the three powers (political, fiscal, and administrative) proposed by the Scouffle theory were achieved at once with the ratification of the constitution. Specifically, the theory provides an in-depth understanding of financial decentralization, political decentralization, and administrative decentralization exercised by County Governments in Kenya.

This theory advocates for decentralization of fiscal resources, fiscal autonomy and fiscal decision making which informs the variable of budget control for devolved units and autonomy of the management of the devolved resources available to County Government.

2.3 Conceptual Framework and Review of Variables

The development of conceptual framework was arrived at after reviewing the work of Akaranga (2010), Sean (2009) and Schwella (1988) that guided the schematic interpretation explaining the relationship between the dependent and independent variables .The independent variables in this study are the fiscal or financing sources for the County Government and the management of its budget function. This includes the funds allocated from National government to the counties, revenues generated and collected by the CGs, borrowings or grants received by County and the management of its budget function. The dependent variables in this study remain the service delivery performance of the County Governments measured in the efficiency and effectiveness of its service delivery in the devolved functions of Agriculture, health, water provision and infrastructure. The Conceptual framework for this study illustrated in Fig.2.1below.

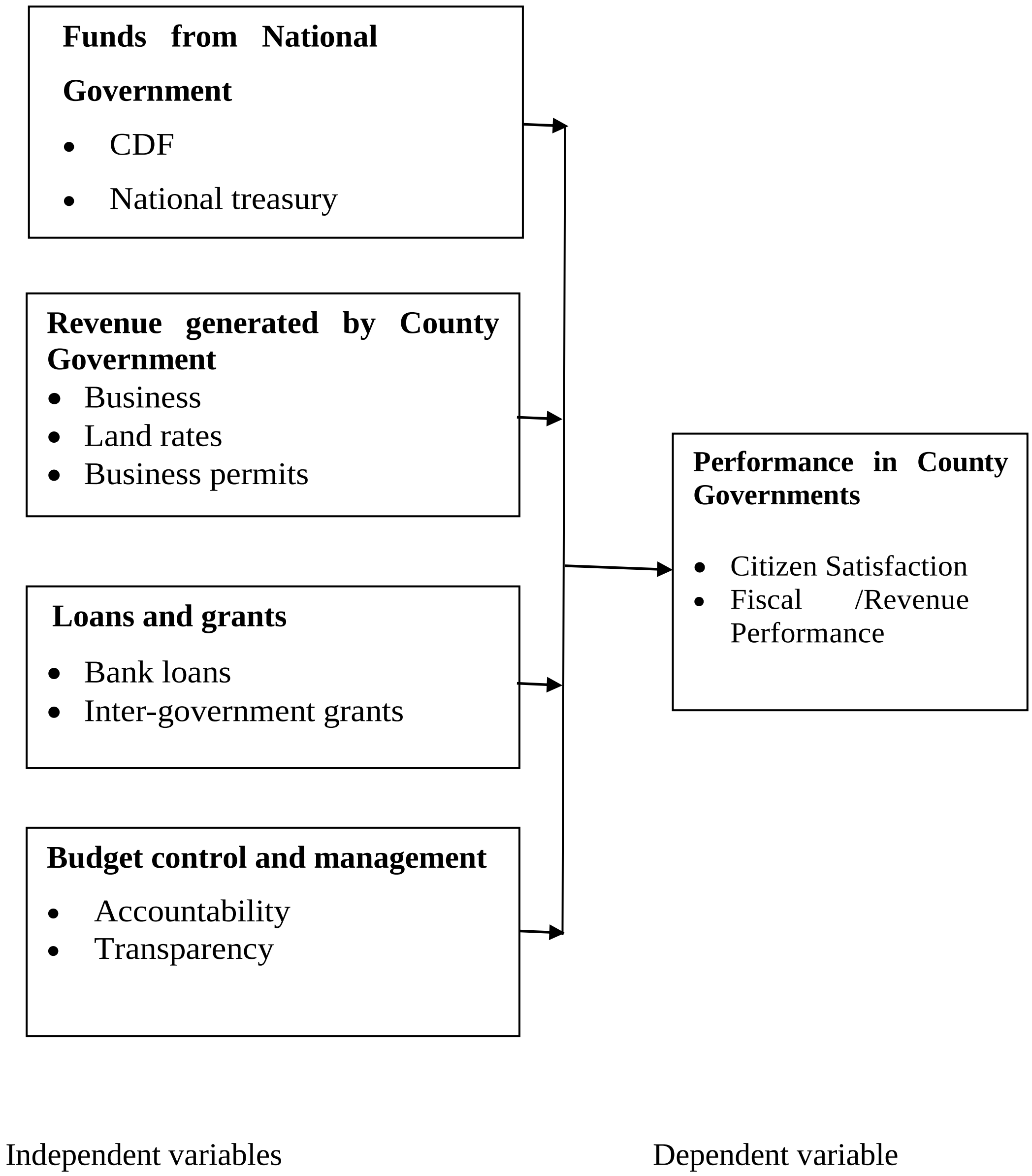

Figure 2.1: Conceptual Framework

Since Independence, evidence of the fiscal governance and its decentralisation in Kenya has not been exploited fully due to their nature of decentralisation. Overall, the few studies have provided the theoretical framework for the performance of decentralised functions and services. In the initial two years of Kenya's devolution, there has been little effort by researchers to correlate fiscal decentralisation and governance with the performance of service delivery in the CGs. That is what this particular study sought to address.

2.3.2 Influence of Funding from National Governments on Performance

According to Brown (2011), the aim of devolution is to bring about a reduction in the size and influence of the national government by reducing federal taxes and expenditures and by shifting many federal responsibilities to the states. Because one feature of devolution involves sharp reductions in federal aid, states are compelled to assume important new responsibilities with substantially less revenue to finance them. In some cases, federal programs are shared, whereby the states must match federal monies to benefit from a program, such as the Children's Health Insurance Program (CHIP), or risk losing these funds.

The rules governing the flow of transfer payments are part of the laws on intergovernmental fiscal relations. Transfer payments are typically allocated from a specific revenue source that is controlled by the higher level government (e.g. a national value added tax, income tax, or oil revenues) (Blazek, 2005). Transfer payments may be allocated downward on an established formula basis, or an ad hoc basis. Transfer payments may be stable and predictable over time, or they may vary substantially from year to year. Regardless of their characteristics, transfer payments are not ―own source revenue‖ because they are not under the direct control of the local government (Abonyo, 2003).

The system of transfers plays a pivotal role in drawing together the other elements of the intergovernmental fiscal system making up for the vertical and horizontal gaps that own source revenues and revenue sharing cannot meet, not undermining local tax effort, creating incentives for externality generating spending that local governments would not fund out of their own sources, not undermining incentives for creditworthy municipalities to borrow, and so on. This all requires a carefully executed structure of transfers, using different instruments to pursue different objectives and making sure these instruments do not work against each other (Khadingala & Mitulla, 2004).

With the exception of a few countries, the current system of transfers to local governments in Latin America lacks a clear orientation. Most countries still have to introduce unconditional equalization grants that incorporate in some formula-based measures of expenditure needs and fiscal capacity. When some equalization elements are introduced into the revenue sharing formulas, actual revenue collections are often used instead of measures of tax capacity, thereby creating problems of negative incentives for tax effort. The current approaches used to incorporate differences in expenditure needs in the revenue sharing formulas are also problematic (Thuronyi, 2001).

A broaden tax base through tax policy reforms and mobilizing a domestic resources is absolutely essential for sustaining poverty reduction over the long run. The informal sector being effectively immune from taxation, governments of developing countries have fewer tax instruments than rich countries (Wallace, 1994). By imposing taxes on some branches of the economy and not on others they create high economic distortions. Economic growth is not a guarantee of poverty reduction, unless we have a well-designed pro-poor tax policy in place which helps to generate more income-earning opportunities so that poor people can engage in productive and well-paid work (Bray, 2008). The average taxation ratio of developed countries as a proportion of GDP lay between 29 and 32%, whereas the corresponding range for developing countries in the medium-income category was from 17 to 22%. The average taxation ratio in the poorest countries lies between 13 and 16%. The problem is a vast gap exists between the tax payments required by law and those actually surrendered to the state. The taxation authorities often inadequately staffed, institutionally weak and lacking in political support - are not in a position to collect the amounts outstanding (Robbins, 2005).

2.3.2 Influence of Locally Generated Revenue on Performance

According to Bahemuka (2001) local revenue is the income collected from taxes by the local government on behalf of the state or income collected by Local Government from sources within its jurisdiction. Local Governments should budget for Local revenue basing it on the previous year’s revenue. To improve on Local revenue performance, Local Governments are also required to budget for revenue enhancement activities. That is to say, their cost and the income from such activities will be applied. Byakusaaga – Bisobye (2000) dwelt on the significance of tax collection in the generalities of tax revenue, which revenue is used for service delivery. He urged that the revenue collection depends largely on collection of machinery available, tools and the competence of revenue collectors and compatibility of tax collection machinery.

Local revenues come from taxes, administrative fees, licenses, and property income. Article 191(2) of the constitution of the Republic of Uganda stipulates the fees and taxes to be levied, charged, collected and appropriated to include rent, rates, royalties, stamp duties, fees on registration and licensing and any other fees and taxes that parliament may prescribe. Worse still local authorities are poor at collecting these local revenue because of poor tax administration that is in record keeping, computation and poor accountability Nsibambi (1984). For example, Local Governments fail to avoid unrealistic increases from revenue enhancement activities, which make the realization of revenue and service delivery to be more of a dream than a reality. In order to create incentive to the local revenue generation at the local level, revenue from the local government need to target services which are visible and not administrative expenses which are rarely appreciated by the service beneficiaries and tax payers (Ndifuna, 2008). Hence local revenue contributes a reasonable percentage in funding service delivery.

According to Carnegie and Baxter (2006) the local revenue generated constitutes 75% of the revenue used in the provision of services to the local communities in the developed countries. The main source of revenue is through taxation which can be defined as an implicit contract between citizens and their government (Moore, 1998). Grants are given to local governments for several reasons. The major objectives of extending grants to local authorities is to ensure that all LGs are able to provide minimum of social services.

Local revenue performance is the percentage of budgeted collections that is actually collected. Local governments are supposed to use their own-revenues to finance local services (Odd-Helge, 2004). He adds that Local authorities are able to derive revenue from property tax, service tax etc, however, it's important to note that taxes don't only provide revenue but also act to decrease private investment and consumption (Hansen & Nanivska, 1990). They further argue that the advice effects of taxation on private investment and consumption are more significant with regard to personal income tax than graduated tax. By impacting on private investment and consumption, taxation becomes an important instrument of fiscal policy.

In most countries in Africa, own source revenues compose a small percentage of total sub national revenue and their share has either not improved much or has actually declined. This means that sub national governments have not reduced their dependence on central government transfers (Taliercio, 2001). This was made worse by the removal of graduated tax, which was the major source of revenue of the local government affecting the quality service delivery greatly. (Wakudumira, 2005).

Local Governments are capable of providing public services, mobilizing community resources, stimulating private investments, expanding rural-urban linkages, adopting national development to Local conditions and investing in Local infrastructure (Ssentamu 2004). A description indicating how services are being delivered to the community throughout the Local Government can be formulated. For example there

is a section that sets out the summary for the District as a whole, then a section that splits the sector budget into geographical areas (for example the Local council, and provides information on the service outputs. Indicators may be on service delivery levels and not traditional activities. For example in education, information on the enrolment and number of teachers, textbooks and pupils in a given sub county/division will be provided in place of indicators on the number of activities. This service being delivered data will provide information on the service delivery outputs, such as the pupil to teacher and textbook ratios.

Being a major source of revenue to Local Governments, taxes are used to finance the recurrent and development expenditures. Local revenue contributes to service delivery with such services as feeder roads, health centers, and donations to schools, among others. This is done through Local Government development programs (LGDP). Local revenue is not subject to central Government control and it encourages ownership of Local investments by taxpayers thereby linking their taxes directly to usage. Local revenue allows maintenance and servicing Local Governments' sustainable investments and it finances remuneration of all elected leaders in Local council systems. Such services offered by Local Governments are effectively undertaken with sufficient and efficient revenue collections. A decline in revenue collection will mean less or poor services offered by Local Governments to the Local community. This is because Local revenue contributes a reasonable percentage in funding service delivery.

The Local Government Act, 1997; Local Governments budgetary powers laid down in the Local Governments Act, 1997, Section 78(1), which states that Local Governments shall have the right and obligation to formulate, approve and execute their budgets and plans provided the budgets should be balanced. Local Government serves as an administrative management instrument providing detailed information about revenues to be collected and the expenditures to carry out the projects and activities set by the council hence effective service delivery. The Local Government Financial and Accounting Regulations, 1998; The Local Government financial and accounting regulations, 1998 make up the principal financial management framework for Local Governments. The main regulations concerning Local, Government budgets are contained in parts III of the Local Government financial and accounting regulations 1998. Therefore, the Local Government financial and accounting regulations enable the Local Governments to collect revenue and thereafter deliver services to the people. Compliance with national priorities; It is a legal requirement for Local Governments to comply with national priorities by implementing various national programmes to ensure service delivery. The central Government ensures that national priorities are reflected in Local Government budgets through allocation and transfer of conditional grants to Local Governments.

2.3.3 Effect of borrowings, loans and grants on performance

Local Government borrowing - is the least advanced in the developing countries, and only few countries have well-functioning systems for this, and most experiences are still from problems with various forms of informal borrowing and LGs with high level of unpaid obligations/liabilities/arrears – local governments under fiscal stress. However LG borrowing is a potential source, which may gain importance over the next decades along with improved creditworthiness of Local Government s, particularly in the larger and urban authorities. Much of the capacity building, revenue mobilisation and performance incentives also promote a future system of LG borrowing (Holloway, 2013).

There are several good reasons for Local Government borrowing for longer-term capital development projects. Many projects are necessary here and now, but will benefit the future generations hence it is not possible and fair to demand a funding of all costs in year one. Strategic borrowing in growth or income generating activities may also provide LGs with future high yielding revenues (Tibaijuka, 2015).

Furthermore, strong systems of LG borrowing may instil fiscal discipline and good incentives for Local Governments to improve performance in financial management. Various creditworthiness agencies have started operating in some of the (often urban) LGs in some of the most advanced developing countries. This is sometimes supported by various development partners in the initial phases and reviews of how Local Government s can improve creditworthiness in the medium to longer term have often been supported as part of analysis in new grant programmes (Houghton, 2015).

However, there are many pitfalls and bad examples of Local Government borrowing, such as debt crises in Latin America and problems with intermediate borrowing institutions in some African countries (e.g. the Tanzanian Local Government Loans Board – lots of loans have not been repaid) and the Chinese experiences from bail out of Local Governments which have problems in balancing expenditure and revenues and numerous informal borrowing arrangements and Local Governments' involvement in micro-credit (e.g. Nepal). Even in cases where there are strong restrictions on Local Government borrowing, Local Governments are often entering in more informal banking overdrafts, arrears in payments of service providers/various creditors, informal borrowing etc (Sprinkel, 2015).

There are numerous examples from this in e.g. Kenya, Zambia, China and India. In India the Centre has not been able to exercise full control over state borrowing and the states have been able to avert debt controls through off-budget borrowings and guarantees (Westman, 2014). Similar problems are observed in many other places at the Local Government level. The reasons for these problems may vary from non-conducive environment for fiscal decentralisation, e.g. transfer of un-funded mandates to LGs, initiatives to undermine Local Government revenue assignments (e.g. abolition of taxes), to lack of Local Government incentives to improve PFM and hopes to be bailed out by central government in cases of failure to honour commitments. Many Local Governments have poor records and commitment control systems to ensure that funds are available when entering new fiscal obligations (Horngen, Foster, & Datar, 2007).

2.3.4 Budget Control Function and Management and the Performance of County Governments

Budgets provide managers and trustees with the tools to achieve their monetary objectives (Fowler, 2004). The planning process culminates in budgets, which is the commencement of a good management system (Kubasu, 2003). Many local governments in Kenya lack sound budgeting processes, both at the organizational level and within programs. The use of the budget to control funds and guard against over or under expenditure is a critical element in management. Jeremy and Fraser (2003) state that a good budget must be realistic taking into account, past experience prevailing circumstances and forecasts of the future. Accounting information is an important tool in decision-making and resource allocation. It follows that proper management of the organization cannot take place in a situation where financial transactions are not kept track and reported accurately.

The budget process is a relatively short-term measure that is just one part of the overall organisational strategy (Brookson, 2002). It is a tactic that is used in the implementation of the activities and programs for which management has planned for: organisations plan for the long-term using the strategic plan, while for the short-term they use the operational plan (Robbins, 2005). In order to put into practice the operational plan, the organisation must consider appropriate planning procedures to work out, what to do, when and the necessary control including budget process to ensure that anticipated results are actually achieved (Brookson, 2002).

The budget process is the tactical implementation of the operation plan. It is incorporated in the operational planning and the control process. The organisations choose strategic options that will create long term plans to implement these strategies. These long-term plans are then translated into the departments budgeted annual operational plans (Schemerhon, Hunt, & Osborn, 2003).

The organisational strategy is the roadmap of where the organisation wants to be within a certain period normally three to five years. The organisation strategy normally identifies courses of action (Robbins, 2005). This normally involves amongst others an assessment of the environment in which the organisation operates in and the resources it provides. An organisation has the responsibility to review its mission statement, its specific goals and activities for achieving the mission.

Monitoring of the budgets through variance analysis would help in translating abstract goals into controllable parts. It will also facilitate coordination and cooperation between the various programs and financial departments. The budget, once adopted, is used by the staff as a management tool to gauge operational performance. Updating of budgets when situations change enhances its value as a monitoring system. Periodic budget comparison to actual financial performance can help reveal problems and should allow the board and staff to respond quickly to changing financial conditions. This provides a measurement of financial performance in relation to the NGO‘s expectations (Bowman, 2003).

In addition, the budget should provide indicators for gauging staff performance and give staff goals to reach and steps to achieve them. Methodical tracking and classification of program expenditures enhance management‘s ability to report on service efforts and accomplishments (Bowman, 2003). Both operating decisions and financing decisions must be monitored closely. Operating decisions focus on the acquisition and use of scarce resources. Financing decisions focus on how to get the funds to acquire resources. On the other hand, there is a natural tendency to emphasise cost control because of uncertainty; the presence of such controls can at times stifle creative responses to a change in demand for an organization‘s services (Antony et al., 2004). The board and senior staff should provide leadership as to the

usefulness and flexibility of the budget. The budget process and the subsequent use of the budget as a touch point for financial performance should not overshadow the ability of an organisation to respond to the pace of rapid societal change (Blazek, 2006).

2.3.5 Performance of County Governments

According to Lebans and Euske (2006) Performance is defined as a set of financial and non financial indicators which offer information on the degree of achievement of objectives and expected results. Organisations measure their performance to sustain their growth. According to Santa et Al. (2010), improving operational effectiveness involves determining key performance objectives and establishing bench marks. Benchmarking as an efficiency tool is based on the principle of measuring the performance of one organisation against a standard whether absolute or relative to other organisations. This can be used to; assess performance objectively, expose areas where improvement is needed to identify organisations with processes resulting in superior performance with a view to their adoption and to test whether improvement programmes have been successful. Organisations which appreciate the value of performance measurement are able to identify operating strengths and weakness and recognize improvements when they occur for prudent and efficient service delivery (Ammons, 2007).

According to the theory of Performance (ToP), to perform is to produce valid and measurable results and a performer in that instance can be an individual or an organisations or a group of people engaged in a collaborative effort. This theory further emphasizes that the performance of a system depends on the components of the system and on the interractions between the components of the system. Equally, the level of performance of an individual or an organisation depends on the component parts. The significance of this theory is helping in understanding the concept of performance in relations to viability and sustainability of performance and service delivery.

Performance or general Service delivery in Many African Countries is confronted with many challenges, which constrain its ability to perform, exist and offer services to its citizens. The perennial problem has always been the issue of funding for the operations and equally the management of the same in ensuring consistent service delivery. The issue of Governance and erosion of ethics and accountability in the management of public affairs has continued to bedevil County Governments in delivering public services to the people effectively. Public Sector reforms meant to address these challenges have achieved minimal results if any (Lienert, 2003).

According to Saavedra (2010), any form of decentralization, be it financial, political or social is aimed at bringing decision-making closer to people and their needs. He further argues that Local decision-makers have access to better information on local conditions than central authorities; this knowledge allows them to better tailor services and public spending patterns to local needs and preferences; this in turn, is expected to improve efficiency and quality of services for local constituents.

In Kenya, Service delivery under previous regimes of governance was centralised, with the central Government delegating some functions to provincial level and local authorities and there regions. Policies were implemented and functions performed on behalf of the central Government and therefore performance measurement was equally for Central Government. The Kenyan Constitution (2010), ushered a new governance framework with the introduction of County Governments that has decentralised operations and service delivery to County Governments with funding from both national government and also from revenues generated by the Counties and this has continued to define and hamper their performance of county Governments

2.4 Empirical Literature Review

The assignment of the stabilisation function also follows from the chaos that would ensue if Sub-Central Governments are assigned the responsibility. Sub-national policies will lead to sub-optimal policies from the point of view of national welfare. Moreover, given the openness that characterises the relationship between the Regional Governments, they are grossly constrained in carrying out effective stabilisation policies. This is because these lower tiers of Government have very limited capacity to influence local employment levels and inflation (Bonfirm & Shah, 2007).

Ahmad and Mottu (2005) examine how different types of accountability mechanisms between Central and Local Government affect the incentives facing service providers and its impact on service delivery outcomes. The issues include fiscal, financing, regulatory and administrative dimensions and its effect on service delivery. They found that, sound design is important, it should be noted that the implementation may illicit new challenges that may require revisiting the designing issue.

In some countries in sub-Saharan Africa, decentralisation and service delivery have taken place by default. For example, in some Local Governments in Nigeria, officials are never responsive to its constituents but the attempt by the latter to ensure service delivery "forces" the elected officials to attempt in designing the administrative aspect of service delivery. Rodrogues and Gill (2002) argue against devolution concludes in their study on the global trends towards devolution that given the understated heterogeneity of devolutionary processes, the parallel heterogeneity of devolutionary implications were addressed.

The expectation that devolution leads to greater efficiency, as the devolutionists and many policymakers appear to hold, can be called into question on the grounds that the process tends to engender both debt and territorial competition which are harmful to national efficiency.

The gains from devolution through the matching of public services to a heterogeneous population preference structure are a static argument that may overlook dynamic alterations in the behaviour of the actors involved. From perspective, the incentive structure facing the national and Sub National Governments alters and presents the potential for opportunistic interaction that is damaging for the economy as a whole. Although the matching argument remains strong it should be weighed against the expected losses resulting from these factors before any devolutionary processes are undertaken (Rodrogues & Gill, 2002). In terms of equity, evidence was present to support the case that decentralisation of resources is often regressive from a territorial point of view. The combination of dwindling Central Government outlays in relative terms with the greater bargaining power of the richer and/or larger Sub National Authorities frequently leaves weaker and poorer regions in a worse financial state than under a Centralized system eventually slowing down the National economic growth.

Pasha, Pasha and Khan (2001) in their paper on devolution and fiscal decentralisation in Pakistan conclude that the devolution plan involves substantial fiscal decentralisation to local Governments, and this is unprecedented in the history of Pakistan. Almost 90 billion South African rands, which is 3% of GDP, is transferred from provincial to local budget. This will make them transform from provincial Governments role of direct provision to that of financing, regulation and monitoring the emergency of Local Government as prime delivery agents of services and key player in the process of regional development. The overall effect will be a more cost-effective and sustainable government, which will translate to economic development.

Yilmaz (2009) in a study on fiscal decentralisation and macroeconomic performance argues that the correlation coefficient between local governments spending and GDP partly supports decentralisation theorem. In the developed countries, where Local Governments are more responsive to constituents, there is a high positive correlation between GDP per capita and Local Government spending. On the other hand, in developing countries, the correlation coefficient is very low or even negative. According to Wantchekon and Asadurian (2002), decentralisation in practice appears to have a mixed track record, and countries such as Brazil, Argentina, and Nigeria are cases in point. For example, they argue that decentralisation can increase interregional disparities because national policies designed to correct disparities will be limited, or decentralisation might lead to the under provision of fiscally induced stabilisation policies.

In the empirical literature on the relationship between Government decentralisation and Government size, whether and how fiscal decentralisation affects Government size mainly relies on comparisons of aggregate levels of overall Government spending without any knowledge about the distribution of the power to tax between the different levels of government (Kirchgasser & Schaltegger, 2003). Schou and Haug (2005) conclude that decentralisation can fulfil conflict-mitigating role only if it meets certain conditions. First, it must broaden popular participation, including minority groups. Second, it must incorporate an efficient bargaining process between all the sub- national groups and the Government. Third, decentralisation framework must establish mechanisms for State outreach and control in remote areas. Fourth, the framework must build trust between groups that participate in local governance institutions. Fifth, the intergovernmental fiscal relations framework must facilitate redistribution of resources between regions.

The absence of reliable public accountability mechanisms could jeopardise the successful implementation of decentralisation. To ensure both the accountability of elected representatives to citizens and the accountability of bureaucrats to elected representatives, public accountability mechanisms are a prerequisite. A transparent and competitive political process, as well as relevant and credible information, is critical to accountability. This will help to check waste of public funds that characterise the current local government system. In Kenya, Sub-National Government jurisdiction is closely aligned to ethnic groupings. Whereas this enhances cooperation and collective action within the sub-national units, it certainly limits inter-jurisdictional competition.

Where tribal affiliation influences appointments of bureaucrats who serve in the s, the end result will be incompetent and probably corrupt administration and poor and skewed service delivery. Schou and Haug (2005) note that, the major concerns over decentralisation in ethnically diverse societies are that it encourages ethnic identification, accentuates inter-group differences and fosters discrimination against local minorities – all increasing the likelihood of ethnic conflict. Regional parties may also emerge and precipitate ethnic conflict and the drive to secession by mobilising constituencies on ethnic or geographic grounds. Regional parties may also produce legislation that threatens or isolate other groups in a country (Brancati, 2005). These factors have been consistent in affecting the stability of any form of decentralisation.

It is with this in mind that it is of interest to every Kenyan to see the effective relationship between fiscal governance and performance of service delivery in the devolved County governments in Kenya.

2.5 Critique of Existing Literature Relevant to the Study

According to Seemab ara Farooqi (2013) in his study on the relationship between decentralised service delivery arrangements and the institutional performance of local governments in Pakistan, there is consensus that the problem of service delivery could only be understood through examining the whole system of service delivery. In order to address the concern, the study developed a conceptual framework based on three theoretical perspectives, the economic, political and new public management. The study established in its findings that there is a relationship between decentralisation and institutional performance; however the contextual environment played a significant role in affecting performance of service provision.

A key finding is that it indicated that decentralisation reforms in developing countries will remain focused on structural decentralisation and needed strong political and bureaucratic commitment for real autonomy to be transferred down the hierarchy. However this study was only focused on Pakistan and did not compare its findings with other developed countries in other regions such Africa.

Saavedra (2010) in his study of the impact of decentralisation on access to service delivery in the US, focused its study provided a cross country empirical examination of the core dimensions of decentralisations reform on access to key services; health and improved drinking water sources. The study established there is evidence supporting positive and significant effects of fiscal, administrative and political decentralisation. The study understood the importance of considering all dimensions of the decentralisation process when investigating the effects of this reform on any economic, institutional or social variable. The study focused in selected states within the US and does not cover majority states of the states.

Ssonko (2013) researched and evaluated decentralization and development in Uganda, with a view of establishing whether Uganda could pass the test of a role model. The study identified a number of challenges to the implementation of the decentralization reform, which the lack of decentralization of finances to the local governments which continues to be a major challenge local governments are still unable to mobilize adequate local financial resources more than 15 years after they were formed and those resources have further been constrained by the politically influenced by policy decisions to remove graduated tax which previously, constituted the lion’s share of locally generated funds. The study concluded that strengthening local finances should be core objectives of any decentralisation strategy. The assessment of this paper suggests that Uganda has at best implemented only partial decentralisation and at worst appears to have paid lip service to it.

Other studies in Kenya, that have attempted to unravel the relationship of fiscal decentralisation and performance of institutions include Wabwire (2010), that focused on the effectiveness and sustainability of Kenya’s Constituency Development Fund (CDF), as a fiscal decentralisation initiative aimed at addressing poverty reduction and enhancing access to education. The World bank and the

Institute of Economic Affairs have also researched on the governance and budgetary challenges experienced in Kenya in both CDF and the stimulus package and even the devolved resources currently being administered in the new dispensation of County Government. A key critique of the current literature on fiscal decentralisation in Kenya under the new Constitution is that it is still developing and more will be analysed and reviewed as the devolved government takes root and starts to contribute effective as envisaged in enhancing the provision of service delivery within the Counties.

2.6 Research Gaps

The review of existing literature on all forms decentralization political and fiscal have exposed a lot of research gap in addressing in particular fiscal decentralization as an important aspect of financial institutions in both developing and developed countries. The development of economic theory on fiscal decentralization goes back to the theory of Tiebout (1956) and since this pioneering work much theoretical progress has been made as recently by Oates (1999, 2005, 2008). Many challenging questions on fiscal decentralization however remain despite the theoretical progress. In particular, the effect of fiscal decentralization on economic growth and inter – regional disparities are quite controversial, often providing conflicting answers.

Empirical studies on the effect of decentralization on economic growth have continued to generate all possible answers depending on the region of study and other factors such as culture and politics of each Country.

Another key research gap is arising due to unclear definition of fiscal decentralization in different countries constitutional frameworks. In empirical studies on fiscal decentralization, the shares of sub – central revenue or expenditure are often regarded as the degree of fiscal decentralization.

2.7 Chapter Summary

The study has reviewed the literature on decentralisation forms and the various theories that have expounded and explained more on the independent and dependent variables. The reviewed theories include soufflé theory, principal agent theory and cost recovery theory. The study also explored on the conceptualisation of the relationship between the independent variable and the dependent variables. The study also reviewed secondary data from constitutional offices and reports that were also analysed alongside other primary data in line with methodology of the study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a discussion on the design and methodology that was used to carry out this study and ensure that the objectives of the study are achieved. This comprises of type of research philosophy, research design, population, target population, sampling frame, sample, sample size, sampling technique, instruments to be used, pilot test and the nature of data analysis. Henning, Van Rensburg, Smith (2004) describes research technology as coherent group of methods that complement one another and that have the ability to fit to deliver data and findings that reflects the research question and suit the researchers purpose. According to Polit and Hungler (2004), research methodology is a way of obtaining, organizing and analyzing data and thus methodology decisions often depend on the nature of the research question.

3.2 Research Philosophy and Research Design

3.2.1 Research Philosophy

A research philosophy refers to the belief about the way in which data about a phenomenon should be gathered, analyzed and used. The term epistemology (what is known to be true) as opposed to doxology (what is believed to be true) encompasses the various philosophies of research approach.

The positivist philosophy is derived from that of natural science and is characterized by the testing of hypothesis developed from existing theory (hence deductive or theory testing) through measurement of observable social realities (Saunders, Levis & Thornhill, 2009). This position presumes the social world exists objectively and externally, that knowledge is valid only if it is based on observation of this reality and that universal or general laws exist or that theoretical models can be developed that are generalisable, can explain cause and effect relationships, and which tend themselves to predicting outcomes (Ericksson & Kovalainen, 2008). Positivism is based upon values of reason, truth and validity and there is focus purely on facts, gathered through direct observation and experience and measured empirically using quantitative methods – surveys and experiments – and statistical analysis (Kraus, 2005).

3.2.2 Research Design

Research design refers to how data was collected and analyzed and structured in order to meet the research objectives through empirical evidence economically (Chandran, 2004). According to Cooper and Schindler (2007) research design is the plan and structure of investigation so conceived as to obtain answers to research questions. According to Kerlinger (1986) research design is the plan and structure of investigation so conceived so as to obtain answers to research questions. According to Kothari (2004), a research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

Social science research approaches are classified as descriptive, exploratory or explanatory (Kothari, 2004). Descriptive research aims at producing accurate representation of persons, events and situations and the exploratory research aims at seeking new insights into phenomena, ask questions, and assess the phenomena in a new light (Torochim, 2006; Winter, 2000 and Sekaran, 2006). On the other hand explanatory research focuses on studying a situation or a problem in order to explain the relationships between variables (Saunders, Goldenberg & Gallimore, 2008 and MacNeill, Cavanagh & Silcox, 2005).

Therefore, descriptive research is the first research about an issue, exploratory research is an attempt to investigate a social phenomenon without a clear anticipation or expectation and explanatory research involves seeking to identify the causes and effects of a social phenomenon and to predict how one variable changed in response to variation in another variable. The nature of the study, whether exploratory, descriptive or explanatory, depends on the stage to which knowledge about the research topic has advanced (Sekaran, 2006).

The current study took a descriptive design, which involved analysis of the relationship between fiscal governance and performance of County governments in Kenya. Descriptive research, also known as statistical research, describes data and characteristics about a population of phenomenon being studied. It answered research questions who, what, where, when and how is the problem. It is used for frequencies, averages and other statistical calculations (Saunders et al., 2009). Descriptive research is used to obtain information concerning the current status of the phenomena to describe “what exists” with respect to variables or conditions in a situation (Key, 1997). It also describes the characteristics or behaviour of a given population in a systematic and accurate version (Sekaran, 2006).

In the present study, the quantitative research paradigm was used in regard to available data or information on fiscal decentralisation in County governments in Kenya over the years 2013/2014 and 2014/2015. Secondly, these research variables were operationalised and tested.

3.3 Population

Population is defined as a large collection of individuals or objects that is the main focus of a scientific query (Parahoo, 1997). It is for the benefit of the population that researches are done (Castilo, 2009). A population also refers to an entire group of individuals, events or objects having a common observable characteristic. Hence it’s an aggregate of all that conforms to a given specification (Mugenda & Mugenda, 2003; Hyndman, 2008). It is also known as a well-defined collection of individuals or objects known to have similar characteristics (Sekaran, 2003).

In this study there are two types of population. These are target population and accessible population. Accessible population refers to the population in research to which the researchers can apply their conclusions (Saunders et al., 2009). Target population refers to the entire group of individuals or objects to which researchers are interested in generalizing the conclusions (Castilo, 2009). According Gall, Gall and Borg (2007), target population consists of all members of a real or hypothetical set of people events or objects from which a researcher wishes to generalize the results of their research while accessible population consists of all the individuals who realistically could be included in the sample.

For the purpose of this study the target population comprised of all 47 County Governments in Kenya. The list of the 47 County Government is given at the appendix. Due to considerations in time and money, a representative sample was selected from which conclusions was drawn. This is referred to as the accessible population as per (Mugenda & Mugenda, 2003).

3.4 Sampling Frame

A sampling frame is a list of population from which a sample was drawn (O'Leary, 2001). It is the source material or device from which list of all elements within a population that can be sampled is drawn (Särndal, Swensson & Wretman, 2002) and may include individuals, households or institutions. It's a published list in which or a set of directions for identifying a population (Gall, Gall & Borg, 2007).

Jessen (1998) highlights its importance based on features such as single representation of each and every element, numerical identifiers, contact information, maps, location and other relevant information presented in a logical and systematic fashion and exclusion of elements outside the population of interest (Sapsford & Jupp, 2006; Bernstein, 1998; Kish, 1995). Examples in real life would be electoral registers, attendance registers and so on.

A sampling frame facilitates formation of a sampling unit that refers to one member of a set of entities being studied which is the material source of the random Variable (Bailey, 2008; Klaus & Oscar, 2008; Cochran, 1977) and Särndal, Swensson & Wretman, 1992). Common examples of a unit would be a single person, animal, plant, or manufactured item that belongs to a larger collection of such entities being studied.For the purpose of this study, sampling frames is defined by the County Governments as per Kenya 2010 Constitution.

3.5 Sample Size and Sampling Technique

A sample is a subset of population as far Hyndman, (2008) is concerned. DeMatteo and Festinger, (2005) defined a sample as a subset of the population to be studied.

Leary, (2001) a sample is a true representative of the entire population to be studied. Similarly sampling is the selection of a subset of individuals from within a population to yield some knowledge about the whole population, especially for the purposes of making predictions based on statistical inference (Scott & Wild, 1986; Black & William, 2004).

Its main advantages are cost, speed, accuracy and quality of the data (Adèr, Mellenbergh, & Hand, 2008). A good sample should be truly representative of the population, result in a small sampling error, viable, economical, and systematic, whose results can be applied to a universe with a reasonable level of confidence (Kothari, 2004). For the purpose of this study and taking into considerations that the County governments are scattered all over the Country, hence presenting logistical problems, a stratified random sampling was used to select the sample of counties that was studied. The study utilised the lottery method as recommended by Kothari (2004) to ensure that at least a minimal of 10% percent of the 47 County Governments in the sample.

The diversity of County Governments in the former Rift Valley Province had to be taken into consideration to ensure that sampled Counties included Counties with rural and urban characteristics. The sampled Counties included the following Bomet, Elgeiyo Marakwet, West Pokot, Kericho, Nandi and Uasin Gishu.

Table 3.1: County Track Performance (2015)

RANK	COUNTY	POPULATION CENSUS 2009	COUNTY TRAK PERFORMANCE INDEX N=600 PER COUNTY
1	BOMET	730,129	58.7%
2	ELGEYO MARAKWET	369,998	58.3%
3	WEST POKOT	512,690	58.2%
4	KERICHO	752,396	57.6%
5	NANDI	752,965	56.5%
6	UASIN GISHU	894,179	56.4%
7	NAKURU	399,227	55.0%
8	SAMBURU	223,947	54.9%
9	NAROK	850,920	54.7%
10	BARINGO	555,561	54.4%
11	TRANS NZOIA	818,757	53.3%
12	KAJIADO	687,312	53.2%
13	LAIKIPIA	399,227	52.8%
14	TURKANA	855,399	49.9%
		8802707	55.3%

Source: Infotrack (2015)

According to Trochom (2000), non-probabilistic sampling does not involve random sampling but a sampling technique where the samples are gathered in a process that does not give all the individuals in the population equal chances of being selected (Castillo, 2009). In probabilistic sampling every unit in the population has a chance of being selected in the sample, and this probability can be accurately determined.

The methods here are simple random, stratified, systematic, and multi stage sampling. In simple random sampling all such subsets of the frame are given an equal probability and each element in the frame has an equal chance of selection (Mugenda & Mugenda, 2003). Systematic sampling relies on arrangement or order schemes coupled with selection of elements at regular intervals i.e. a random start and selection of every kth element from then onwards. In this case, k = (population size/sample size) (Kothari, 2004).

Stratified sampling divides a heterogeneous population into a number of distinct categories or strata of independent sub population from which individual elements can be randomly selected (Trochom, 2000). Cluster or multistage sampling involves two or more levels of units embedded in one another. The first constructs the groups (clusters) while the second randomly selects units from each group (cluster). It applies when the total area of interest is big and needs to be divided into smaller areas with the ultimate goal of drawing the sample from the smaller units (Kothari, 2004).

Non-probabilistic sampling is where some elements of the population have no chance of selection or their probability of selection can't be accurately determined. It involves selection based on assumptions on the population that forms the criteria for selection (Gall, Gall & Borg, 2007; Mugenda & Mugenda, 2003).

The methods available here are convenience, quota sampling and snowballing. Convenience sampling also known as deliberate, purposive or judgmental sampling involves selecting a sample from that part of a population that's readily available and convenient. In quota sampling, the population is segmented into mutually exclusive sub- groups and then judgment is used to select the elements from each segment based on specified proportions (Kothari, 2004). Snowballing entails the use of a few subjects who direct the researcher to others who possess similar characteristics. It's useful when populations with particular characteristics aren't well known (Mugenda & Mugenda, 2003).

Since the number of County Government are scattered all over the country, this study utilized stratified sampling in selecting the 5 counties within the wider Rift Valley Province that was also account ten percent of the County Governments in Kenya. Wesonga, Kombo, Murumba, Makworo, (2011) also used 10% as an appropriate sample size in their study on factors contributing to labour turnover in the sugar industry in Kenya.

The study targeted key staff in the CGs and stakeholders including the residents of the county in the study. The Current staffing details as documented by the Salaries and Remuneration Commission (SRC) and Council of Governors (CoG) was utilized in sampling the sample population from the selected counties from stratified sampling that was exposed to questionnaires.

To arrive at the sample size, the following formula was used.

$$n = \frac{Z^2 pqN}{e^2(N-1) + Z^2 pq}$$

$$n = \frac{1.96^2(0.5)(0.5)(2858)}{0.05^2(2858-1) + 1.96^2(0.5)(0.5)}$$

$$n = 288$$

Where,

n= the desired sample size (if larger than 10,000).

Z = Standard Normal deviate at the required confidence level

P = the proportion in the target population estimated to have characteristics being measured.

q = 1 –P

d = the level of significance.

As far as the structure of the County Government is concerned, the sampling was taken into consideration the key structures as per the recommended structures by the Salaries and Remuneration Commission and also in line with the schedules as Per Kenya 2010 Constitution.

3.6 Data Collection Instruments

The proposed instruments of data collection was through questionnaires. Secondary data on fiscal data was also collected from the Constitutional Commissions such as COB and CRA. A questionnaire is a method of data collection in which respondents provide written answers to written questions (Gall, Gall & Borg, 2007). It's also defined as a research instrument consisting of a series of questions and other prompts for the purpose of gathering more information from respondents (Schilder, 2011). Questionnaires that contain open ended, closed ended and matrix type of questions were administered to the respondents through hard copies (Mugenda & Mugenda, 2003). The instrument of data collection for this research was questionnaire principally structured in language that was understood by majority of the respondents of each.

3.7 Data Collection Procedures

Data collection refers to the process of gathering raw and unprocessed information that can be processed into meaningful information, following the scientific process of data analysis (Gall, Gall & Borg, 2007). The questionnaires were sent out sent to the respondents attached with the forwarding letter accompanied by an introductory form the University. The service of a research assistant trained in handling data collection was tasked with the delivery and collection of questionnaires.

3.8 Pilot Test

According to Project Star (2008), pilot testing is a trial run of procedures and instruments that one plans to use in carrying out a research. The main purpose of pilot testing is to catch potential problems before they become costly mistakes, provide an indication of time required for actual fieldwork and possible modifications of the instrument and modality of data collection. The advantages of conducting the pilot test include enhancing the training of field staff, review of the instrument and prevention of wasteful expenditure. The advantages outweigh the disadvantages of costs and the attendant possibility of redesign of both the survey and instrument (Creswell, 2003).

Pilot Testing ensures field staffs have a common understanding of the instrument and guidelines provided alongside the questionnaire (Creswell, 2003). Cooper and Schilder (2011) indicated that a pilot test is conducted to detect weaknesses in design and instrumentation and to provide proxy data for selection of a probability sample. According to Babbie (2004), a pilot study is conducted when a questionnaire is given to just a few people with an intention of pre-testing the questions.

Pilot test is an activity that assists the research in determining if there are flaws, limitations, or other weaknesses within the interview design and allows him or her to make necessary revisions prior to the implementation of the study (Kvale, 2007). The subjects participating in the pilot study shall not be included in the final study to avoid survey fatigue. The rule of the thumb is that 1% of the sample should constitute the pilot test. A pilot study was carried out in one of the Counties taking into consideration the counties with higher populations and a higher performance ranking.

3.8.1 Reliability of Research Instruments

Reliability is the consistency of a set of measurement items while validity indicates that the instrument is testing what it should (Cronbach, 1951). Reliability is the consistency of your measurement, or the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects. In short, it is the repeatability of your measurement. A measure is considered reliable if a person’s score on the same score on the same test given twice is similar. It is important to remember that reliability is not measured but estimated.

Reliability does not however imply validity because while a scale may be measuring something consistently, it may not necessarily be what it is supposed to be measuring. This study utilized the most common internal consistency measures such as Cronbach's Alpha, which tested reliability of data to be collected.

3.8.2 Validity of Research Instruments

According to Mugenda and Mugenda (2003), Validity is the accuracy and meaningfulness of inferences, which are based on the research results. In other words validity is the degree to which results obtained from the analysis of the data actually represent the phenomenon under study. Validity exists if the data measure what they are supposed to measure. In other words, the reason all people do not have the same test score is that they differ in terms of the attribute the test measures (Baumgartner et al, 2002). For this study, questionnaires were pre- tested to ensure that they are not faulty and that the participants fully understand it requirements and in the process enhance its validity.

3.9 Data Analysis and Data Presentation

3.9.1 Data Analysis

Data analysis is a practice in which raw data is ordered and organized so that useful information can be extracted from it (Gall, Gall & Borg, 2007). Descriptive statistics such as mode, median, mean, standard deviation were used to perform data analysis. These measures were calculated using Statistical Package for the Social Sciences (SPSS 17.0) software. This is because it is user friendly and gives all the possible analysis. A qualified statistician helped to run the statistical tests (Castillo, 2009).

For the purpose of this study Descriptive statistics was used to determine the relationship between the dependent and the independent variables These statistics includes mean, median, mode, skewedness, range, standard deviation, kurtosis and percentages. Factor analysis has been used because of the concern of decomposing the information content in a set of variables into information about an inherent set of latent components/factors. This assisted in reducing a number of variables into fewer factors, which are of similar characteristics. The analysis was carried out and the results have been presented in terms of: Descriptive Statistics, KMO and Bartlett's Test, Scree Plot, Total Variance Explained /Eigen values, Initial Component Matrix and Rotated Component Matrix (Varimax)

Regression Analysis was used to investigate on the relationship between the variables and productivity. The coefficient of determination (R-Square) resulting from the linear regression was used to determine the goodness of fit. R-square greater than 0.7 will indicate a very good fit. P-values for the t-test statistics will be used to determine the significance of the independent variables in the regression model. Those variables with a p-value less than 0.05 are significant in the equation. A simple regression model will be used in determining the level of influence the independent variables have on dependent variable as shown below:

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e$

Where;

Y = Performance in County Governments (Dependent Variable)

β_0 = Constant Term

$\beta_1, \beta_2, \beta_3, \beta_4$ = Beta coefficients

X_1 = Funds from National Government

X_2 = Revenue generated by County Government

X_3 = Borrowings, loans and grants

X_4 = Budget control and management

e = Error Term

The relationships in the research questions was determined using the following Ordinary Least Squares (OLS) regression model as prescribed by various Scholars (Faraway, 2002; Cohen, West & Aiken, 2003; Kline, 1998).

3.9.2 Data Presentation

Data presentation is the method by which people summarize, organize and communicate information using variety of tools such as diagrams, distribution charts, histograms and graphs (Gall, Gall & Borg, 2007).

For the purpose of this study, summary data was equally presented in tables, charts, and other graphs highlighting each of the variables, findings and relationships from data analysis.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the research findings and discussion of the findings. The results of data analysis on the relationship between fiscal governance and performance in County governments in Kenya is divided into major sections. Section one presents descriptive statistics of confirmatory factor analysis; and the description of the variables. The percentages, means, frequencies, standard deviations, Crobach's Alpha coefficients or reliability and correlations are also computed and presented.

The other sections present the results of the test of hypotheses and discussion of research findings. Parametric statistical techniques namely; simple linear regression and multiple regression techniques were used to test the relationships. The choice and use of these parametric statistical methods was informed by the measurement scales used and the purpose of the study. The descriptive data presented in section one forms the basis for hypotheses testing and further inferences. Attempts are made to explain why the findings are the way they are and to what extent they are consistent with or contrary to past empirical findings and theoretical arguments. The discussion of the findings is guided by objectives of the study.

4.2 Response Rate

Table 4.1: Response Rate

	No. Respondents	Frequency	Response rate
Governors	5	3	60.0
Deputy Governors	5	4	80.0
County Executive Committees	45	35	77.8
County Assembly Members	223	152	68.2
Speakers	5	4	80.0
County Assembly Clerks	5	4	80.0
Total	288	202	70.1

A total of 288 questionnaires were issued out to respondents in the five counties. As shown in table 4.1 completed questionnaires that were received were 202 which represented 70.1% response rate. The response rate is considered adequate given the recommendations by Fincham (2008), a response rate of 60% is considered appropriate in research, Saunders, Lewis and Thornhill (2007) suggest a 30-40% response, Sekaran (2003) document 30%, Mugenda and Mugenda (2003) advise on response rates exceeding 50% and Hager, Wilson, Pollack and Rooney (2003) recommend 50%. Based on these assertions, this implies that the response rate for this study was adequate.

4.3 Reliability Test Results

Table 4.2: Reliability Statistics

	Cronbach's Alpha	N of Items
Revenues Received fromNational Government	.725	5
Revenue Generated byCounty Governments	.921	8
Grants and Loans Borrowed	.795	8
Budget Management Control	.914	5

The key indicators of the quality of a data collection instrument are the validity and reliability of the measures. Instrument validation was achieved in several ways. A pre-test was done by administering the instrument to twenty conveniently selected county representatives to fill. The twenty county representatives were requested to evaluate the statement items for relevance, meaning and clarity. On the basis of their response, the instrument was adjusted appropriately. Validity indicates whether the instrument is testing what it should. Content validity involved the examination of content to determine whether it covered a representative sample of the measurement items. Validity can be assessed using expert opinion and informed judgment (Kerlinger, 2002).

The Cronbach Alpha was calculated to test for reliability. The Cronbach's Alpha coefficient was used to measure the internal consistency of measurement scales. This is a scale measurement tool, which is commonly used in social sciences to establish the internal consistency of items or factors within and among variables of study. Nunnally (1967) argues that an alpha coefficient of .700 or above is an acceptable measure. The Cronbach Alpha for the main variables in the conceptual framework were reliable registering a score of 0.725 to 0.921 as shown in Table 4.2. This indicates that the data collected using the above mentioned instruments was reliable for analysis. The tests were conducted using SPSS.

Revenue generated by county governments and budget management control showed the highest levels of reliability at 0.921 and 0.914 respectively. Grants and loans borrowed showed a reliability of 0.795 while revenues received from national government showed the lowest level of 0.725 which was above the 0.700 measure that is recommended as evidence that the measurement items have a high measure of internal consistency for underlying constructs (Nunnally, 1967).

4.4 Multicollinearity Test

Table 4.3: Multicollinearity test

Coefficients[a]

Model	Collinearity Statistics	
	Tolerance	VIF
Revenues Received from National Government	.432	2.314
Revenue Generated by County	.424	2.361
1 Governments	.669	1.494
Grants and Loans Borrowed Budget Management Control	.829	1.207

a. Dependent Variable: Performance

Multicollinearity is a statistical phenomenon in which two or more independent variables in a multiple regression model are highly correlated Kothari (2004), meaning that one can be linearly predicted from the others with a non-trivial degree of accuracy. Multicollinearity test in this study is done by examining tolerance and the Variance Inflation Factor (VIF) are two collinearity diagnostic factors that can help you identify multicollinearity. Tolerance is a measure of collinearity; the variable's tolerance is 1-R2. A small tolerance value indicates that the variable under consideration is almost a perfect linear combination of the independent variables already in the equation and that it should not be added to the regression equation. All variables involved in the linear relationship will have a small tolerance. Some suggest that a tolerance value less than 0.1 should be investigated further. If a low tolerance value is accompanied by large standard errors and no significance, multicollinearity may be an issue.

The Variance Inflation Factor (VIF) measures the impact of collinearity among the variables in a regression model. The Variance Inflation Factor (VIF) is 1/Tolerance, it is always greater than or equal to 1. There is no formal VIF value for determining presence of multicollinearity. Values of VIF that exceed 10 are often regarded as indicating multicollinearity, but in weaker models values above 2.5 may be a cause for concern. In many statistics programs, the results are shown both as an individual R2 value (distinct from the overall R2 of the model) and a Variance Inflation Factor (VIF). When those R2 and VIF values are high for any of the variables in your model, multicollinearity is probably an issue. When VIF is high there is high multicollinearity and instability of the b and beta coefficients. It is often difficult to sort this out.

Table 4.4: Collinearity Diagnostics

Model	Dimesion	Eigen value	Condition Index	Variance Proportions (Constant)	Revenue's Received from National Government	Revenue Generated by County Governments	Grants and Loans Borrowed	Budget Management Control
1	1	4.728	1.000	.00	.00	.00	.00	.00
	2	.183	5.089	.00	.00	.00	.19	.27
	3	.055	9.235	.00	.13	.08	.72	.18
	4	.020	15.509	.89	.21	.00	.09	.51
	5	.014	18.397	.11	.66	.92	.00	.03

a. Dependent Variable: Performance

4.5 Performance

Table 4.5: Division of revenues among county governments

Division of revenues among county governments					
County	Total Revenue collection		2014	2015' 000	2016 ' 000
Bomet		Revenue	1,230	1,250	1,376
		Poverty	666	854	1,023
		Land area	259	259	259
		Basic equal share	1,010	1,010	1,010
		Fiscal responsibility	80	80	80
	Total		3,247	3,453	3,748
Elgeiyo Marakwet,		Revenue	818	1,234	965
		Poverty	344	386	304
		Land area	136	136	136
		Basic equal share	1,010	1,010	1,010
		Fiscal responsibility	80	80	80
	Total		2,391	2,846	2495
West Pokot		Revenue	1,135	2,087	2,465
		Poverty	712	687	743
		Land area	215	215	215
		Basic equal share	1,010	1,010	1,010
		Fiscal responsibility	80	80	80
	Total		3,155	4,079	4,513
Nandi		Revenue	1,667	1,985	2,007
		Poverty	582	614	756
		Land area	136	136	136
		Basic equal share	1,010	1,010	1,010
		Fiscal responsibility	80	80	80
	Total		3,477	3,825	3,989
Uasin Gishu.		Revenue	1,980	801	719
		Poverty	588	603	867
		Land area	136	136	136
		Basic equal share	1,010	1,010	1,010
		Fiscal responsibility	80	80	80
	Total		3,796	2630	2812

In table 4.5 shows that the counties performed differently and in variability for the years in review. West pokot county registered the highest performance followed by Nandi county had the and Bomet county. The least performing county was Elgeiyo

Marakwet, and the poor performing county was Uasin Gishu as the performance went down each year.

This findings can be supported by literature by Rahaman (2010) which states that fiscal measures embodied in financial planning enable government by means of its aggregate expenditures and taxation to influence and shape incomes, production and employment in desired directions (Rahaman, 2010). The financial plan can indeed have far reaching economic and development implications and so has come to be used as a tool for economic planning, regulating aggregate expenditure and taxation levels, volume of production, income levels, and consequently savings and investment levels and employment. Governments can, and often do use a well-coordinated revenue, expenditure and debt programs to influence not only the national economy but also to stimulate development (Rubin, 2000).

According to Kirira (2002) the government budgetary process is a deliberate and systematic attempt to allocate public resources to various ministries and departments in order to finance activities and programs within their specific mandates. According to Surajkumar (2011) a budget is based on estimates, it may or may not be true. It is not substitute of management because, the efficiency and utility of the budgetary system depends on the skill and experience of the management. It cannot be executed automatically because continuous efforts are necessary for the execution of the budget. This makes organisational managers to focus more on management issues than on budgetary control.

Studies found that different counties perform differently. These findings are supported by Locke (1981) who argues that an individual's goal can be viewed as the performance level that an individual seeks to attain. If an individual becomes committed to a given goal, it will influence the individual's subsequent actions, and consequently the individual's performance level. Goal-setting can be very instrumental for performance and productivity. In order to create an organizational culture that focuses on high performance as well as ethical standards as one that promotes better planning and controlling mechanisms, then there must be a conscious effort to make the objectives and goals clear to everyone. Creating and maintaining an efficient organizational culture requires hard work, continuous learning, and proper communication mechanisms (Williams & Mujtaba, 2010). Bose (2012) explains that financial planning helps to determine the objectives, policies, procedures and programs to deal with the financial activities of an organization. As a result of the planning the organization is able to ensure availability of adequate capital, liquidity of the firm throughout the year minimization of cost and proper financial control. This would only be achieved if the organization would establish its objectives, estimate the capital required, determine the capital structure and formulate policies such as credit and debt policies.

Table 4.6: Division of revenues among county governments Fiscal Performance Bomet County

Revenue	2014-2015	2015-2016	2016-2017
Property Rates	9,275,843	17,989,835	19,788,818
Business Permits	27,350,252	48,090,000	52,899,000
Cess Collections	4,243,031	1,650,000	1,815,000
Markets & Slaughter Fees	11,668,305	16,229,580	17,852,538
Rental Income	3,675,959	4,138,690	4,552,559
Parking Charges	12,301,750	16,983,337	18,681,670
Others	18,398,232	10,222,219	11,244,441
Hosp/Disp/Health	39,723,940	31,680,000	34,848,000
Centres(HSSF)			
Water Revenue	0	0	0
Multi Nationals	40,349,975	60,725,907	66,798,498
Agriculture and Food Authority	0	67,015,009	0
TOTALS	166,987,287	274,724,576	228,480,524

The tax base for the county is narrow as it is mainly a rural county with underdeveloped resource base. National revenue allocations therefore form a large share of total revenues. This share has increased by 8.5% from Kshs. 5.0 billion in the year 2014/2016 to 5.4 billion in the fiscal year 2016/2017 respectively the main sources of revenue are rates and single business permits. Revenues from other sources are largely fees and incomes and need to be separated to clarify revenue from charges for services, licenses and investment incomes. Revenues from water are utilized for operations and maintenance by the water company. Fiscal reforms carried out in 2016/2017 including automation of revenue system and enactment of Finance Act 2016 will help increase revenue and reduce leakages.

Table 4.7: Fiscal performance Elgeiyo Marakwet

Revenue Sources	2014-2015	2015-2016
Animal stock sale fees	2,446,006	2,557,895
Produce & Other cess	31,563,556	33,007,390
Single Business Permit	13,807,204	14,438,797
Plot rent/Rates	4,516,280	4,722,871
Bus park/motor bikes fees	3,500,000	3,660,103
Trade applications fees	1,500,000	1,568,616
Slaughter fees	1,254,892	1,254,892
House rent/Stall/Ground.	510,000	533,329
Conservancy fees	400,000	418,297
Plan approval fees	167,700	175,371
Clearance fees	74,210	77,605
Hide & skins	100,005	104,580
Promotion/advert	822,900	860,542
Tender Document	60,000	62,745
Hire of Grater & other machinery	2,005,380	2,097,114
Fines	300,000	313,723
Fif funds	49,672,495	51,944,699
Vsd funds	5,000,000	5,228,719
Liquor license application	1,000,000	1,045,744
OTHERS	1,854,264	1,939,085
Water Department	2,000,000	2,091,487
Health services -		12,340,233
Youth affairs and sports	500,00	52,287
Wight's and measures	500,000	522,872
Tourism	5,000,000	5,228,719
Market fees & others	3,500,000	3,660,103
GRAND TOTAL (REVENUE)	132,000,000	150,000,000

In Elgeiyo Marakwet budget has been financed through CRA share, Local Revenues raised by the County and Conditional grants from the National Government and development partners as shown in Table below;

Table 4.8: Elgeiyo Marakwet Revenue Source of 2015-17

Revenue Source	2015/2016	2016/17	2017/18 Estimates
CRA Share	3,270,440,729	3,592,578,928	3,879,985,242
Local Revenue	149,980,000	202,530,690	218,733,145
Conditional Grants	230,303,750	269,352,606	290,900,814
Grand Total	3,650,724,479	4,064,462,224	4,389,619,202

Revenue collection lagged behind significantly in the first half by 41%. By the end of December 2015, total cumulative local revenue collected amounted to Ksh 44.17 million against a target of Ksh 75 million implying a shortfall of Ksh 30.8 million. The underperformance was mainly on account of significant shortfalls recorded in collection of licenses/permits fees, which are normally payable and/or renewable in the third quarter of the Financial Year.

Fiscal performance of West Pokot County

The total revenue forecast for FY 2014/15 was Kshs 4,240,200,777.47 for which KSh 410,270,625.60 was the balance rolled over of recurrent, development and revenue surplus from FY 2013/14.

Table 4.9: Fiscal performance of West Pokot County

Revenue Stream	Revenue Estimates FY2014/15	2015/2016
Kiosk Rent	1,252,800	1,463,610
Single Business permit	10,915,800	1,698,090
Market Fee	4,007,950	1,977,081
Building Approval	304,000	105,000
CESS	5,842,980	3,135,008
Royalties	10,148,100	11,144,650
Stock/Slaughter fees	6,383,500	6,223,381
Advertising	29,150	288,040
House Rent	3,095,200	138,700
Parking Fees	500,000	1,251,635
Renewals/Applications	500,000	715,790
Other Fee and Charges	3,718,000	5,939,447
Liquor Licensing	500,000	
Health(Cost Sharing)	35,000,000	10,814,064
Trade	5,000,000	422,427
Lands	5,000,000	2,351,065
Livestock/Permits	4,000,000	507,510
TOTAL	96,197,480	48,175,497

Revenue collection performance for the first half period for FY 2014/15 is at 50.08 percent. Revenue from advertising surpassed the targets set by 988%, parking fees by 150%, Kiosk renewals by 43% and rent by 16%.There was no revenue collected on liqour licensing for the period under review.

Table 4.10: Fiscal performance of Nandi County

Revenue Stream	2015-2016	2014-2015
Receipts from Kiborgok Tea Farm	17,540,000	9,648,172
Business Permits	30,589,401	27,028,164
Cesses	5,810,815	12,648,843
Land Rates	26,163,805	12,429,790
House and stall rent	3,906,900	3,940,370
Plot Rents	1,191,086	999,333
Market/Trade Centre Fee	8,843,155	10,764,267
Vehicle Parking Fees	35,222,291	26,430,879
Transfers for free Maternity -		3,050,000
Miscellaneous	21,677,606	10,452,403
Public Health Services FIF Maternity in patient -		16,270,455
Slaughter Houses Administration	1,010,880	900,790
Sewerage Administration	487,814	412,344
Other Health & Sanitation Revenues	28,093,981	46,521,862
Agriculture	9,201,200	3,595,027
Trade fair	1,015,590	2,722,430
Cattle Dips Vaccination	3,707,783	7,986,558
Total	194,462,308	195,801,687

The County revenue for the this period was mainly from the National Government allocation as provided in the County Allocation of Revenue Act, 2015 and the County own revenue which consists of property rates, entertainment taxes and fees and charges as provided in the County Finance Act, 2015.

Table 4.11: Fiscal performance of Uasin Gishu County

The table below shows the county government's fiscal actuals for 2015 and 2016

Budget (million)	2015	2016
Revenue (NT)	4,419,574,966	4,885,941,152
Revenue (local)	1,210,000,000	1,331,000,000
Grants	96,432,418	932,541,172
Total Revenue	5,726,007,384	7,149,482,324
Developments exp.	2,363,543,429	2,502,318,813
Recurrent Exp.	4,389,437,796	4,647,163,510
Total exp.	6,752,981,225	7,149,482,323

The County revenue for the this period was mainly from the National Government allocation as provided in the County Allocation of Revenue Act, 2015 and the County own revenue.

Absorption of funds by county governments has improved steadily over the last three years. Though on aggregate counties have a high absorption rate, a number of counties have low uptake of funds for both recurrent and development. This has been attributed to delayed transfers from the national governments, poor budgeting by counties and low capacities of some counties to utilize development funds. With the support from the national government and development partners, counties have been assisted to develop capacities to effectively undertake functions assigned to them.

The finding on county performance cane be explained by Bird (2014) who indicates that the ability to generate adequate own-source revenues by sub-national governments is a precondition for successful fiscal decentralization. Sub-national governments in Kenya are however characterized by low own-source revenues as they heavily rely on transfers from the national government. Indeed, 60 percent of sub-national governments in Kenya have their expenditure financed by transfers from national government in excess of 50 percent (Commission on Revenue

Allocation, 2013). Property tax is favorite own-source revenue for sub-national governments, largely due to immobility of tax base and predictability of revenues (McCluskey et al., 2013).

The findings can be supported by Loehr and Manasan (1999) who indicated that the devolution of expenditure responsibilities to LGUs is generally consistent with the decentralization theorem. The devolved activities are those “that can be provided at lower levels of government and few of them have benefits that spill over outside the territorial jurisdiction of the LGUs with exception of those related to environmental management” (Manasan, 2005). During the period after the enactment of the Local Government Code, there seems to be a marked increase in LGU spending as more resources had been made available to LGUs. Examining the trend and composition of LGU expenditures over the period 1992-2003, Manasan (2005) find that total LGU spending increased from an average of 1.6 percent of Gross National Product in 1985-1991 to 3.3 percent of GNP in 1992-2003. The share of LGUs in total general government expenditure net of debt service rose from an average of 11 percent in the pre-Local Government Code period to an average of 21.2 percent in the post-Code period. The transfer to LGUs of functions previously discharged by the central government caused a major shift in the size and composition of LGU budgets.

4.6 Revenues Received from National Government on Performance

The independent variable Revenues Received from National Government comprised of four (4) items. In measuring the variable, a five point continuum Likert scale was used, where 1 represented ‘strongly disagree’ and 5 represented ‘strongly agree’. The main objective was to assess whether funding from National Governments influence the performance in County Governments in Kenya.

Table 4.12: Revenues Received from National Government on Performance

	Mean	N	Std. Deviation	Median	Std. Error of Mean	Variance	Kurtosis	Skewness
I am aware that the County Government receives funding from National Government	4.5149	202	1.07077	5	0.07534	1.147	5.924	-2.618
I am aware of the amount of funds received by the County Government	.6485	202	1.1548	4	0.08125	1.334	- 0.837	-0.495
The County Government receives all the allocated funds from the National Government for budget support.	3.5446	202	1.13317	4	0.07973	1.284	- 1.388	-0.07
The funds received from National Government are utilized to fund service delivery in the county	3.203	202	1.46379	3	0.10299	2.143	- 1.351	-0.232

The results from Table 4.12 shows that the highest rated item was that I am aware that the County Government receives funding from National Government as indicated with a mean of 4.5149, a Kurtosis of 5.924 and Skewness of -2.618. The respondents agreed that I am aware of the amount of funds received by the County Government with a mean of 3.6485, Kurtosis of -0.837and Skewness of -0.495. It was agreed that The County Government receives all the allocated funds from the National Government for budget support with a mean of 3.5446 Kurtosis of -1.388 and Skewness of -0.07. The lowest rated item was the funds received from National

Government are utilized to fund service delivery in the county as it was moderately rated with a mean of 3.203, Kurtosis of -1.351 and Skewness of -0.232.

These studies can be supported by Froeschle (2005) who indicates that revenue structure has an active influence on revenue volatility as well. Theoretically, to minimize revenue volatility, a government could purposefully define a set of economic activities as tax base and create a tax portfolio with multiple revenue sources and low elasticity. Since the nature of economic bases is different across jurisdictions, a tax portfolio that serves the goal of stability should be specifically tailored to the characteristics of each economic base and should vary across jurisdictions. Put another way, if we designate an equally well-diversified tax portfolio to a region ignoring the nature of its economic base, the effect of revenue diversification on revenue volatility can vary. Since the changes in economic bases are realized through a gradual process with uncertainty, from a short-run perspective it is meaningful to take the nature of an economic base as given and examine how the effects of revenue diversification on revenue stability change according to the unique nature of an economic base, particularly its instability.

Table 4.13: T-statistics of Revenues Received from National Government

One-Sample Test

	Test Value = 0					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Revenues Received from National Government	55.151	201	.000	3.26865	3.1518	3.3855

Since $p < 0.000$, we reject the null hypothesis that the sample mean is equal to the hypothesized population mean and conclude that the mean Revenues Received from National Government of the sample is significantly different than the average Revenues Received from National Government of the overall population.

Based on the results, we can state the following: There is a significant difference in mean Revenues Received from National Government between the sample and the overall population ($p < .000$). The average Revenues Received from National Government of the sample is about 3.2 higher than the overall population average.

Table 4.14: Correlations- Revenues Received from National Government

Correlations

		Performance	Revenues Received from National Government
Performance	Pearson Correlation	1	.734**
	Sig. (2-tailed)		.000
	N	202	202
Revenues Received from National Government	Pearson Correlation	.734**	1
	Sig. (2-tailed)	.000	
	N	202	202

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

The Pearson (r) correlation coefficient showed a positive and significant relationship between Revenues Received from National Government and Performance because it had a Pearson correlation coefficient (r) of 0.734 and a p- value of 0.000. This means that as Revenues Received from National Government increases there is an increase in Performance of County Governments.

Regression

Table 4.15: Model Summary- Revenues Received from National Government

Model Summary[b]

Mod el	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin- Watson
1	.734[a]	.539	.537	.48688	1.589

a. Predictors: (Constant), Revenues Received from National Government

b. Dependent Variable: Performance

Table 4.13 shows the effectiveness of the model in measuring the relationship between revenues received from national government and performance of County Governments in Kenya. The overall correlation coefficient (R) between revenues received from national government and performance is a strong positive correlation of 0.734. The coefficient of determination (R Square) indicates that the revenues received from national government in the regression model can explain 53.9% of the variations in performance of county governments holding other factors constant.

Table 4.16: ANOVA- Revenues Received from National Government

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	55.394	1	55.394	233.683	.000[b]
	Residual	47.410	200	.237		
	Total	102.804	201			

a. Dependent Variable: Performance

b. Predictors: (Constant), Revenues Received from National Government

Table 4.16 presents the analysis of variance of the performance in Counties that are included to explain the Revenues Received from National Government. The overall significance of the model is 0.000 which is at level of significance of 0.05 and fail to accept the null hypothesis and conclude that Revenues Received from National Government have a positive influence on performance in county government. This shows that the Revenues Received from National Government included in the model have an overall high significance in explaining the performance in county governments in Kenya.

Table 4.17: Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardi zed Coefficien ts	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.521	.138		11.052	.000
	Revenues Received from National Government	.623	.041	.734	15.287	.000

a. Dependent Variable: Performance

The beta was equally significant (β =.734, t = 15.28, at $p < 0.05$). The beta value implies that for one unit increase in Revenues Received from National Government, performance increase by 0.734 or 73.4%. From the regression results it is evident that the null hypothesis is not supported and therefore is rejected and the alternative hypothesis is accepted.

4.7 Revenue Generated by County Governments

The independent variable Revenue Generated by County Governments comprised of seven (7) items. In measuring the variable, a five point continuum Likert scale was used, where 1 represented ‘strongly disagree’ and 5 represented ‘strongly agree’. The main objective was to establish locally generated revenue has an influence on performance in County Governments in Kenya. County revenue planning ought to involve effective revenue collection system, calculation of monthly revenue, preparation of monthly accounts to receive all monies due to the municipality. The revenue plan must be based on management, accounting and information system, internal control-debtors and revenue, charges.

Table 4.18: Revenue Generated by County Governments

	Mea n	N	Std. Deviation	Median	Std.Error of Mean	Variance	Kurtosis	Skewnes
County Government generates revenue for delivery of services within the county	3.2426	202	.90635	3.0000	.06377	.821	-.134	-.176
The County Government engages the public in approving the rates and taxes at the county level	3.6980	202	.70032	4.0000	.04927	.490	4.634	-1.611
Residents participate in approving the public financial management.	3.0941	202	1.51479	3.0000	.10658	2.295	-1.536	.108
The residents are explained the services to be provided from the revenues generated by the County Government	2.5594	202	1.28479	3.0000	.09040	1.651	-1.287	.158
The County Government utilizes the revenue collected for the ntended service delivery	2.4703	202	1.25845	3.0000	.08854	1.584	-1.152	.113
The County Government collects all the revenues fairly and without discrimination	2.9455	202	1.45308	3.0000	.10224	2.111	-1.386	.135
The County Government utilizes technology in collecting the revenue and there is no misappropriation of the revenue collected	2.8267	202	1.37666	2.0000	.09686	1.895	-1.195	.385
There has been improvement in service delivery with the Introduction of County Governments	3.2129	202	1.56110	3.0000	.10984	2.437	-1.535	-.082

Table 4.17 shows that the highest rated item was The County Government engages the public in approving the rates and taxes at the county level as shown with a mean of 3.6980, Kurtosis 4.634 and Skewness -1.611. Other statements were rated moderately and include County Government generates revenue for delivery of services within the county with a mean of 3.2426, Kurtosis -.134 and Skewness -

.176; There has been improvement in service delivery with the introduction of County Governments was rated with a mean of 3.2129 Kurtosis -1.535 and Skewness -.082. Residents participate in approving the public financial management was rated with a mean of 3.0941 Kurtosis -1.536 and Skewness .108 and The County Government collects all the revenues fairly and without discrimination was rated with a mean of 2.9455, Kurtosis -1.386 and Skewness .135. The lowest rated item were The County Government utilizes technology in collecting the revenue and there is no misappropriation of the revenue collected as rated with a mean of 2.8267, Kurtosis -1.195 and Skewness .385; The residents are explained the services to be provided from the revenues generated by the County Government as rated with a mean of 2.5594, Kurtosis -1.287 and Skewness .158 and The County Government utilizes the revenue collected for the Intended service delivery as rated with a mean of 2.4703, Kurtosis -1.1527 and Skewness .113.

These findings can be supported by studies by White (2013), revenue diversification in government finance relates to the correlation between two or more taxes. In order to reduce revenue fluctuation, a desirable tax structure should include taxes that are not perfectly correlated. In other words, the different tax revenues will not move in exactly the same direction and magnitude at the same time. In this way, when one tax shrinks for some reasons such as an economic downturn, the total loss of government revenue is minimized because other revenue sources have not experienced the same changes.

According to Dye and Merriman (2004), corporate and individual income taxes have been generally classified as having high income elasticity, general sales taxes as medium and property and excise taxes as having low income elasticity. A larger share of total revenue from elastic taxes results in the total revenue being more susceptible to the short-run business cycle, which causes fluctuations in revenue streams. On the other hand, it is an often unstated assumption that an inelastic revenue system typically leads to a cyclically stable revenue system (Dye & Merriman, 2004). Therefore, by changing the tax structure to include taxes with low elasticity, the revenue risk subject to economic cycles can be reduced. The trade-off is that returns or revenue growth will not increase as much during periods of economic growth as it would for a tax structure with more elastic taxes. Revenue diversification can increase the overall elasticity or beta and reduce the revenue stability by having a combination of elastic taxes, though it may lead to revenue growth. Similarly, revenue diversification can also help to create a revenue portfolio with low elasticity with the appropriate tax selection. Therefore, the overall effect of revenue diversification is unclear without specific analysis on the nature and composition of the tax portfolio.

4.7.1 T-Test statistic of Revenue Generated by County Governments

Table 4.19: T test of Revenue Generated by County Governments

One-Sample Test

	Test Value = 0					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Revenue Generated by County Governments	60.4	200	.000	3.19266	3.0884	3.2969

Since p < 0.000, we reject the null hypothesis that the sample mean is equal to the hypothesized population mean and conclude that the mean Revenue Generated by County Governments of the sample is significantly different than the average Revenue Generated by County Governments of the overall population.

Based on the results, we can state the following: There is a significant difference in mean Revenue Generated by County Governments between the sample and the overall population (p < .000). The average Revenue Generated by County Governments of the sample is about 3.1 higher than the overall 3.2 population average.

4.7.2 Correlations of Revenue Generated and Performance

Table 4.20: Correlations of Revenue Generated and Performance

Correlations

		Performanc e	Revenue Generated by County Governments
Performance	Pearson Correlation	1	.688**
	Sig. (2-tailed)		.000
	N	202	201
Revenue Generatedby County Governments	Pearson Correlation	.688**	1
	Sig. (2-tailed)	.000	
	N	201	201

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

The Pearson (r) correlation coefficient showed a positive and significant relationship between Revenue Generated by County Governments and Performance because it had a Pearson correlation coefficient (r) of 0.688 and a p- value of 0.000. This means that as Revenue Generated by County Governments increases there is an increase in Performance of counties.

4.7.3 Regression analysis of Revenue Generated and performance of County Governments

Table 4.21: Model Summary

Model Summary[b]

Mod el	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin- Watson
1	.688[a]	.473	.471	.51692	1.470

a. Predictors: (Constant), Revenue Generated by County Governments

b. Dependent Variable: Performance

Table 4.21 presents the model summary on how effective Revenue Generated by County Governments explain the performance of counties. The performance has an overall correlation with Revenue Generated by County Governments of 0.688 which is strong and positive. Revenue Generated by County Governments that are included in the model explain 47.3% of the changes or variations in performance of counties. This shows that 52.7% of the variations in performance of counties is explained by other factors not captured in the model. This presents an opportunity for future studies to include additional variables that could explain banks’ profitability.

Table 4.22: ANOVA- Revenue Generated and performance County Governments

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	47.778	1	47.778	178.80	$.000^b$
	Residual	53.173	199	.267		
	Total	100.951	200			

a. Dependent Variable: Performance

b. Predictors: (Constant), Revenue Generated by County Governments

Table 4.20 shows the overall significance of the regression estimation model. It indicates that the model is significant in explaining the relationship between Revenue Generated by County Governments and performance of counties at a 5% level of significance. The analysis of variance of the predictors of the model have a significance is 0.000 and fails to accept the null hypothesis and conclude that Revenue Generated by County Governments have a positive influence on explain performance of counties.

Table 4.23: Coefficients- Revenue Generated by County Governments

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.482	.160		9.266	.000
	Revenue Generated by County Governments	.652	.049	.688	13.372	.000

a. Dependent Variable: Performance

The beta was significant (β = .68.8, t = 13.372, at $p < 0.000$). The beta value implies that for one unit increase in Revenue Generated by County Governments, performance of counties increase by .68.8 or 69%. From the regression results, it is noted that the relationship between Revenue Generated by County Governments and performance of counties is positive and statistically significant. The null hypothesis is not supported and therefore is rejected and the alternative hypothesis accepted.

4.8 Grants and Loans Borrowed

The independent variable Grants and Loans Borrowed comprised of eight (8) items. In measuring the variable, a five-point continuum Likert scale was used, where 1 represented ‘strongly disagree’ and 5 represented ‘strongly agree’. The main objective was to determine the effect of borrowings, loans and grants on performance in County Governments in Kenya.

Table 4.24: Grants and Loans Borrowed

	Mea n	N	Std. Deviation	Median	Std.Error of Mean	Variance	Kurtosis	Skewness
The County Government receives grants and borrows loans	3.8861	20-	.82974	4.0000	.05838	.688	-.714	-.206
The loans and Grants received are used to finance service delivery in counties	3.1188	202	1.36617	3.0000	.09612	1.866	-1.134	.079
The residents participate in approving the decision to borrow loans and receive grants.	2.6436	202	1.13807	3.0000	.08007	1.295	-1.428	-.083
The public is explained to the services to be provided with the borrowed funds or grants	2.4406	202	1.05044	2.0000	.07391	1.103	-1.189	.054
The loans borrowed are Competitive and is free from political Interference	2.6287	202	1.27188	3.0000	.08949	1.618	-.720	.419
There has been improvement of service delivery arising from the funds generated by grants and loans	3.0792	202	1.34707	3.0000	.09478	1.815	-1.074	.064
The County Government accounts for the borrowed funds in their budget	4.1980	202	1.12431	5.0000	.07911	1.264	-.285	-1.119
There is accountability in the management of grants and loans borrowed by the County Government	2.8515	202	1.64747	2.0000	.11592	2.714	-1.568	.274

From table 4.24, the highest rated item was The County Government accounts for the borrowed funds in their budget with a mean of 4.1980, Kurtosis -.285 and Skewness -1.119. This was followed by the item The County Government receives grants and borrows loans which was rated with a mean of 3.8861, Kurtosis -.714 and Skewness -.206. items that were moderately agreed include; There has been improvement of service delivery arising from the funds generated by grants and loans, There is accountability in the management of grants and loans borrowed by the County Government, The residents participate in approving the decision to borrow loans and receive grants and The loans borrowed are Competitive and is free from political Interference were rated with mean of 3.0792, 2.8515, 2.6436 and 2.6287 respectively. The lowest rated item was the public is explained to the services to be provided with the borrowed funds or grants as rated with a mean of 2.4406, Kurtosis -1.189 and Skewness .054.

This study are in line with those of Lemire, Pearson and Compbell (2002) who assert that; a successful revolving fund revolving scheme requires a long-term commitment from government authorities, donors and other stakeholders, because time and effort are needed to establish the infrastructure and to build the necessary capacities. It takes even longer to develop the trust, group confidence and financial discipline on the part of borrowers to make such funds sustainable.

Systems for monitoring and evaluating the funds' performance are important, and borrowers must be helped to graduate gradually to other systems of credit. Lemire et el. (2002) found that the credit unions in Cameroon were slow to enlarge, but with the right combination of leadership, technical know-how and innovative capital injections and partnerships, this approach fostered both growth and sustainability to them. Fisher and Siram (2002) stipulated that; by providing loans rather than grants, the revolving fund provided can turn out to be sustainable by recycling resources over and over again. The revolving fund industry has obligated to resolve the tension between a focus on poverty and a commitment to sustainability by integrating the revolving fund institutions and the groups into a matrix defined by two axes of outreach (or access) and financial sustainability

4.8.1 T-Test statistic of Test- Grants and Loans Borrowed by County Governments

Table 4.25: T-Test statistic of Test- Grants and Loans Borrowed by County Governments

One-Sample Test

	Test Value = 0					
	t	Df	Sig. (2-tailed)	Mean Differen ce	95% Confidence Interval of the Difference	
					Lower	Upper
Grants and Loans Borrowed	35.05	201	.000	1.98899	1.8771	2.1009

Since $p < 0.000$, we reject the null hypothesis that the sample mean is equal to the hypothesized population mean and conclude that the mean Grants and Loans Borrowed of the sample is significantly different than the average Grants and Loans Borrowed of the overall population.

Based on the results, we can state the following: There is a significant difference in mean Grants and Loans Borrowed between the sample and the overall population ($p < .000$). The average Grants and Loans Borrowed of the sample is about 1.9 higher than the overall population average.

4.8.2 Correlations of Grants and Loans Borrowed and Performance

Table 4.26: Correlations of Grants and Loans Borrowed and Performance

		Performanc e	Grants and Loans Borrowed
Performance	Pearson Correlation	1	.510**
	Sig. (2-tailed)		.000
	N	202	202
Grants and Loans Borrowed	Pearson Correlation	.510**	1
	Sig. (2-tailed)	.000	
	N	202	202

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

The Pearson (r) correlation coefficient showed a positive and significant relationship between Revenues Received from National Government and Performance because it had a Pearson correlation coefficient (r) of 0.510 and a p- value of 0.000. This means that as Grants and Loans Borrowed increases there is an increase in Performance of counties.

4.8.3 Regression analysis of Grants and Loans Borrowed and performance of County Governments

Table 4.27: Model Summary

Model Summary[b]

Mod el	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin- Watson
1	.510[a]	.260	.257	.61658	1.131

a. Predictors: (Constant), Grants and Loans Borrowed

b. Dependent Variable: Performance

The regression results presented in Table 4.27 show that the relationship between Grants and Loans Borrowed and Performance was positive and significant (R Square = 0.510, F = 70.416, $p < 0.000$). The results show that 26% of the changes in performance are attributed to Grants and Loans Borrowed. The F ratio shows that the regression of performance on Grants and Loans Borrowed is significant at $p < 0.000$, which is evidence of the goodness of fit of the regression model. However, the model did not explain 74 percent of the variations in performance, implying that there are other factors associated with performance, which were not captured in the regression model.

Table 4.28: ANOVA- Grants and Loans Borrowed

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.770	1	26.770	70.416	.000[b]
	Residual	76.034	200	.380		
	Total	102.804	201			

a. Dependent Variable: Performance

b. Predictors: (Constant), Grants and Loans Borrowed

Table 4.28 presents the analysis of variance of the performance in Counties that are included to explain the Grants and Loans Borrowed. The overall significance of the model is 0.000 which is at level of significance of 0.05 and fail to accept the null hypothesis and conclude that Grants and Loans Borrowed have a positive influence on performance in county government. This shows that the Grants and Loans Borrowed included in the model have an overall high significance in explaining the performance in county governments in Kenya.

Table 4.29: Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.658	.116		22.974	.000
	Grants and Loans Borrowed	.452	.054	.510	8.391	.000

a. Dependent Variable: Performance

The beta was significant (β = .510, t = 8.391, at $p < 0.000$). The beta value implies that for one unit increase in Grants and Loans Borrowed, Performance increase by .510 or 51%. From the regression results, it is noted that the relationship between Grants and Loans Borrowed and Performance in counties is positive and statistically significant. The null hypothesis is not supported and therefore is rejected and the alternative hypothesis accepted.

4.9 Budget Management Control

The independent variable Budget Management Control comprised of five (5) items. In measuring the variable, a five point continuum Likert scale was used, where 1 represented ‘strongly disagree’ and 5 represented ‘strongly agree’. The main objective was to evaluate the role of budget control function and management on the performance of County Governments in Kenya. Budgets are considered to be the core element of the control-process and consequently vital part to the umbrella concept of performance measurement.

Table 4.30: Budget Management Control

	Mea n	N	Std. Deviation	Median	Std. Error of Mean	Variance	Kurtosis	Skwness
The county has a budget management control system	2.9901	202	1.42818	3.0000	.10049	2.040	-1.285	-.055
The County Government engages the public in its budget management process	3.1238	202	1.4556	3.0000	.10242	2.119	-1.267	-.012
The budget process details the specific services for each budget item.	2.8069	202	1.33359	3.0000	.09383	1.778	-.990	.130
The public or residents are happy with the budget process.	2.9950	202	1.3475	3.0000	.09481	1.816	-1.056	.255
There has been improvement in service delivery arising from improvement in budget management process.	2.9554	202	1.45342	3.0000	.10226	2.112	-1.290	.147

Table 4.30 shows that the items that were rated moderately with mean of < 2.8 and > 3.2. The highest rated item was The County Government engages the public in its budget management process with a mean of 3.1238, Kurtosis -1.267 and Skewness -.012. This was followed by item the public or residents are happy with the budget process that was rated with a mean of 2.9950, Kurtosis -1.056 and Skewness .255.

There has been improvement in service delivery arising from improvement in budget management process was rated with a mean of 2.9554, Kurtosis -1.290 and Skewness .147. The least rated item was the budget process details the specific services for each budget item with a mean of 2.8069, Kurtosis -.990 and Skewness .130.

This findings can be supported by studies done by MelekEker (2007) which states that without losing its control and accountability mechanisms, modern budgeting can better support performance management by integrating known financial outcomes with frequent re-forecasting of the budget and linked to analysis of performance trends. Premchand (2000), states that a budget is a company policy and determine the manner in which resources are managed. The financial task in budget implementation includes spending the specified money, maximizing savings and avoiding over expenditures at the end of the financial year. Frucot and Shearon (2001) argues that implementation of the budget require an advance program of action evolved within the parameters of the end of the budget and means available. According to Horngren (2003), effective budget implementation is usually assessed by addressing various variances between the actual performance and budgeted performance. Budgets establish organizational performance goals for each organizational unit in terms of costs and revenues. A budget enables an organization to predict the movement of their short term and future performance. According to Premchand (2000), if institutions fail to provide fairly accurate predictions in operations and capital projects, then doubt is cast on the performance of that institution.

4.9.1 T-Test statistic of Test of Budget Management Control

Table 4.31: T-Test statistic of Test of Budget Management Control

One-Sample Test

	Test Value = 0					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Budget Management Control	35.49	200	.000	2.8809	2.7761	2.8902

Since $p < 0.000$, we reject the null hypothesis that the sample mean is equal to the hypothesized population mean and conclude that the mean Budget Management Control of the sample is significantly different than the average Budget Management Control of the overall population.

Based on the results, we can state the following: There is a significant difference in mean Budget Management Control between the sample and the overall population ($p < .000$). The average Budget Management Control of the sample is about 1.9 higher than the overall population average.

4.9.2 Correlations of Budget Management Control and Performance

Table 4. 32: Correlations of Budget Management Control and Performance

		Performance	Budget Management Control
Performance	Pearson Correlation	1	-.234**
	Sig. (2-tailed)		.001
	N	202	202
Budget Management Control	Pearson Correlation	-.234**	1
	Sig. (2-tailed)	.001	
	N	202	202

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

The Pearson (r) correlation coefficient showed a positive and significant relationship between Revenues Received from National Government and Performance because it had a Pearson correlation coefficient (r) of - 0.234 and a p- value of 0.001. This means that as Budget Management Control decreases there is an increase in Performance of counties.

4.9.3 Regression Analysis of Budget Management Control and Performance

Table 4.33: Model Summary- Budget Management Control

Model Summary[b]

Mod el	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin- Watson
1	.234[a]	.055	.050	.69699	.905

a. Predictors: (Constant), Budget Management Control

b. Dependent Variable: Performance

Table 4.34: ANOVA- Budget Management Control

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.644	1	5.644	11.617	.001[b]
	Residual	97.160	200	.486		
	Total	102.804	201			

a. Dependent Variable: Performance

b. Predictors: (Constant), Budget Management Control.

Table 4.32 presents the analysis of variance of the performance in Counties that are included to explain the Budget Management Control. The overall significance of the model is 0.001 which is at level of significance of 0.05 and fail to accept the null hypothesis and conclude that Budget Management Control have a low influence on performance in county government. This shows that the Budget Management Control included in the model have an overall low significance in explaining the performance in county governments in Kenya. These results are in line with Marcormick and Hardcastle (2011) carried out a study on budgetary control and organizational performance in government parastatals in Europe and the study revealed a positive relationship between budgetary control and organizational performance of government parastatals. Also Nickson and Mears (2012) examined the relationship between budgetary control and performance of state ministries in Boston Massachusetts and found positive relationship between budgetary control and performance of state ministries.

Table 4.35: Coefficients- Budget Management Control

Coefficients

Model		Unstandardized Coefficients		Standardi zed Coefficien ts	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.044	.151		26.80	.000
	Budget Management Control	-.255	.075	-.234	-3.408	.001

a. Dependent Variable: Performance

The beta was equally significant (β = -.234, t = -3.408, at $p < 0.01$). The beta value implies that for one unit decrease in Revenues Received from National Government, performance decreases by -0.234 or 23.4%. From the regression results it is evident that the null hypothesis is supported and therefore the null hypothesis is accepted.

4.10 Summary Inferential Statistics

4.10.1 Factor Analysis

To further assess the factorability of items, researchers can examine two indicators; Kaiser Meyer-Olin Measure of Sampling Adequacy-KMO and Barlett‟s Test of Sphericity. The Kaiser Meyer-Olin Measure of Sampling Adequacy-KMO is a test of sample adequacy, Kaiser (1974) recommends a bare minimum of 0.5 with values between 0.7-0.8 being good while those between 0.8 and above 0.9 being great (Hutcheson & Sofronniou, 1999) it is used for samples sizes that are greater than 50. Bartlett's Test of Sphericity is another indication of the strength of the relationship among variables. This tests the null hypothesis that the correlation matrix is an identity matrix. An identity matrix is a matrix in which all of the diagonal elements are 1and all off diagonal elements are 0. It is used to show if the factors are significant where the p values for Bartlett's test of Sphericity (Barlett, 1954) should be below 0.05, it is used for samples sizes that are greater than 50 (Habing, 2003).

Table 4.36: KMO and Bartlett's Test

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.655
Approx. Chi-Square		250.538
Bartlett's Test of Sphericity	df	6
	Sig.	.000

The Kaiser-Meyer-Olkin Measure of Sampling Adequacy is a statistic that indicates the proportion of variance in your variables that might be caused by underlying factors. The results of the show that the value 0.655 is a high value and therefore the factor analysis is useful with the data.

Bartlett's test of sphericity tests the hypothesis that your correlation matrix is an identity matrix, which would indicate that your variables are unrelated and therefore unsuitable for structure detection. The value found in this study is 0.000 of the significance level therefore the factor analysis is useful with the data.

Table 4.37: Communalities

Communalities

	Initial	Extraction
Revenues Received from National Government	1.000	.706
Revenue Generated by County Government	1.000	.723
Grants and Loans Borrowed	1.000	.582
Budget Management Control	1.000	.279

Extraction Method: Principal Component Analysis.

The values for each variable shows that the extraction values are lower than the initial values. The values are high since they are above 0.5, this means that variables fit well with the factor analysis and therefore should be considered for the analysis though the value for Budget Management Control is very low at 0.279 and is less than 0.5 therefore does not fit well with the factor solution, and should possibly be dropped from the analysis.

Table 4.38: Total Variance Explained

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.289	57.232	57.232	2.289	57.232	57.232
2	.944	23.604	80.836			
3	.512	12.795	93.630			
4	.255	6.370	100.000			

Extraction Method: Principal Component Analysis.

All the variables together account for almost 57% of the variability in the original variables. This suggests that four variables are associated with performance, but there remains room for a lot of unexplained variation. The cumulative variability explained by these four factors in the extracted solution is about 57% that mean there is no difference from the initial solution.

Figure 4.1: Cumulative variability

Table 4.39: Component Matrix

Component Matrix[a]

	Component
	1
Revenues Received from National Government	.840
Revenue Generated by County Governments	.850
Grants and Loans Borrowed	.763
Budget Management Control	-.528

Extraction Method: Principal Component Analysis.

1 components extracted.

The results in table 4.37 Shows that Revenues Received from National Government is strongly correlated to performance since it has a high value of .840 same as Revenue Generated by County Governments with a value of .850 and Grants and Loans Borrowed with a value of .763. However the component Budget Management Control had a small value of -.528 which means it is not correlated to performance of counties.

4.10.2 Regression

Table 4.40: Model Summary-Overall

Model Summary[b]

Mod el	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin- Watson
1	.778[a]	.605	.597	.45080	1.640

a. Predictors: (Constant), Budget Management Control, Revenues Received from National Government, Grants and Loans Borrowed, Revenue Generated by County Governments

b. Dependent Variable: Performance

Table 4.40 presents the coefficients of model fitness on how effective fiscal governance explains performance. The performance has an overall correlation with performance of counties of 0.605 which is strong and positive. Fiscal governance factors that are included in the model explain 59.7% of the changes or variations in performance of counties in Kenya. This shows that 40.3% of the variations in performance is explained by other factors not captured in the model. This presents an opportunity for future studies to include additional variables that could performance of counties.

Table 4.41: ANOVA-Overall

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	61.121	4	15.280	75.191	.000[b]
	Residual	39.831	196	.203		
	Total	100.951	200			

a. Dependent Variable: Performance

b. Predictors: (Constant), Budget Management Control, Revenues Received from National Government, Grants and Loans Borrowed, Revenue Generated by County Governments

Table 4.41 shows the overall significance of the regression estimation model. It indicates that the model is significant in explaining the relationship between fiscal governance and performance in County governments in Kenya at a 5% level of significance. The analysis of variance of the predictors of the model have a significance is 0.000 and fails to accept the null hypothesis and conclude that fiscal governance have a positive influence on fiscal governance and performance in County governments in Kenya.

Table 4.42: Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.257	.203		6.195	.000
	Revenues Received from National Government	.378	.058	.446	6.538	.000
	Revenue Generated by County Governments	.256	.065	.270	3.915	.000
	Grants and Loans Borrowed	.153	.048	.173	3.160	.002
	Budget Management Control	-.028	.053	-.026	-.518	.005

a. Dependent Variable: Performance

Table 4.42 shows the regression coefficients of the individual independent variables. The results indicate that all the variable are significant in explaining the performance of counties in Kenya. This leads us to fail to accept the null hypothesis and conclude that all the variables have a positive influence on performance of counties in Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter is a summary of major findings of the study, conclusions and recommendations. The structure of the chapter is guided by the research objectives and hypotheses. Attempt is made to relate the results to the objectives of the study and hypotheses. This is followed by the main limitations of the study and recommendations for further research as well as policy and practice. The main purpose of this study was to establish the relationship between fiscal governance and performance in County governments in Kenya. The data for the study was collected from 202 county officials using a structured self-administered questionnaire with a five-point Likert-type scale questions and a data sheet was used to collect secondary data from five counties.

5.2 Summary of Major Findings

5.2.1 Funding from National Governments influence on performance in County Governments in Kenya.

The objective was to assess whether funding from National Governments influence the performance in County Governments in Kenya. The findings revealed that there is a positive and significant relationship between Revenues Received from National Government and Performance because it had a Positive Pearson correlation coefficient.

The study found that the County Government receives funding from National Government. Majority of respondents were aware that there was amount of funds received by the County Government. The County Government receives all the allocated funds from the National Government for budget support. Most respondents did not fully agree that the funds received from National Government are utilised to fund service delivery in the county.

5.2.2 Locally Generated Revenue influence on Performance in County Governments in Kenya.

The main objective was to establish locally generated revenue has an influence on performance in County Governments in Kenya. The study revealed a positive and significant relationship between Revenue Generated by County Governments and Performance because it had a Positive Pearson correlation coefficient. This means that as Revenue Generated by County Governments increases there is an increase in Performance of counties.

It was found that the County Government engages the public in approving the rates and taxes at the county level. The County Government generates revenue for delivery of services within the county. It was found that there has been improvement in service delivery with the introduction of County Governments. It was moderately agreed that residents participate in approving the public financial management and the County Government collects all the revenues fairly and without discrimination among the statements that were lowly rated was the County Government utilises technology in collecting the revenue and there is no misappropriation of the revenue collected. There was disagreement on statements that residents are explained the services to be provided from the revenues generated by the County Government and the County Government utilises the revenue collected for the Intended services.

5.2.3 Effect of Loans and Grants on Performance in County Governments in Kenya.

The main objective was to determine the effect of loans and grants on performance in County Governments in Kenya. The study revealed a positive and t relationship between Revenues Received from National Government and Performance with a Positive Pearson correlation coefficient.

Findings show that the County Government accounts for the borrowed funds in their budget. The County Government receives grants and borrows loans There has been improvement of service delivery arising from the funds generated by grants and loans, There is accountability in the management of grants and loans borrowed by the County Government, The residents participate in approving the decision to borrow loans and receive grants and The loans borrowed are Competitive and is free from political interference. The respondents disagreed that the public is explained to the services to be provided with the borrowed funds or grants.

5.2.4 Budget control function and the performance of County Governments in Kenya

The main objective was to evaluate the role of budget control function and management on the performance of County Governments in Kenya. Budgets are considered to be the core element of the control-process and consequently vital part to the umbrella concept of performance measurement. The findings revealed that there is a positive and significant relationship between Revenue Generated by County Governments and Performance because it had a Positive Pearson correlation coefficient.

Findings indicate that the County Government engages the public in its budget management process. The public or residents are happy with the budget process that was rated with a mean of and there has been improvement in service delivery arising from improvement in budget management process. The least rated item was the budget process details the specific services for each budget item.

5.3 Conclusion

Based on the findings of the study, it can be concluded that there is a relationship between fiscal governance and performance in County governments in Kenya. Fiscal governance is mainly about equipping local government with required fiscal resource to meet their expenditures. It involves the transfer of expenditure responsibilities and revenue sources from central to local government. Based on the Pearson correlation results we can conclude that there is a meaningful relationship between fiscal governance and performance in County governments in Kenya. It means that there is statistically significant relationship between fiscal governance and performance in County governments in Kenya As such, the alternative hypothesis in relation to fiscal governance and performance in County governments in Kenya is accepted. This study, hence, claims that there is statistically significant positive, albeit moderate, relationship between fiscal governance and performance in County governments in Kenya. This also shows that the effect accounts for about 59.7 percent of the total variance.

The finding of this study concludes that that fiscal governance can affect performance of counties. Fiscal governance can improve the fiscal balance as local authorities are under stronger pressures than the central government to provide more public goods with limited resources. This is due to their geographical closeness to the population, which fosters stronger accountability. Such pressures lead to the search for higher productive efficiency in other words, production and provision of public goods at lower costs, which reduces expenditures and improves the fiscal balance. Moreover, local authorities also possess better information about population's needs and preferences, limiting wastes of public goods, and reducing expenditures. However, expenditure devolution can loosen fiscal discipline if it is not accompanied by commensurate decentralisation of revenue collection responsibilities, as local governments may increase expenditure expecting that they will be financed by the central government. Shifting expenditure responsibilities to local authorities seems to help enhance fiscal surpluses or reduce fiscal deficits.

5.4 Recommendations

Whilst conditional grants are important, the study recommends that the allocation should be equitable and their distribution should not compromise the independence of the county governments as regards budgeting, planning and budget execution. This finding has multiple policy implications in erecting the appropriate governmental fiscal architecture in the days ahead. Revenue decentralization with more taxing power to local government is worthwhile in improving the performance. However, revenue decentralization alone could not contribute much to improve the overall performance. Fiscal power alone is not sufficient to improve performance. Balancing the political, administrative, and fiscal measures are critically important for the effectiveness of counties.

The design and pace of fiscal governance need to be tailored to the specific characteristics of each county. Counties that have established a strong system of accountability to the local population can benefit from fiscal governance. Strong budget management capacity at the local level is also required to ensure the ability to provide public goods at lower costs and reduce wastes and misuse of decentralised resources. Absent these prerequisites, fiscal governance has the potential to trigger major fiscal slippages; in particular, in counties with weak institutions, concentrating authority at the central level facilitates the establishment of processes and controls

5.5 Suggestions for Further Research

The study suggests the same study to be done in other counties in Kenya. Another study can be done to capture other areas since the study established that fiscal Decentralisation of resources alone is not sufficient to improve performance, therefore other studies can concentrate on the political and administrative measures that affect performance of counties in Kenya.

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APPENDICES

Appendix 1: Letter of Authorization

Julius Lamaon,

P. O. Box 25636 – 00603,

Nairobi.

E-mail: lamaonjulius@gmail.com

To,

The Governor/ County Secretary,

P.O. Box ………….

TOWN

Dear Sir,

RE: Research

I am a student pursuing a doctor of philosophy (PhD) degree in Governance and Leadership at the Jomo Kenyatta University of Agriculture and Technology. My research topic is Fiscal Governance and Service Delivery Performance Relationship in Kenya. The purpose of this letter is to request you to grant permission to collect relevant data from selected staff in departments in your County. All the data collected will be treated with utmost confidentiality and will be used for the purposes of this research only.

I look forward for a good working relationship during the time of this project. Yours

Sincerely,

Mr. Julius Lamaon HD419/COO3/3289/14

Appendix II: Letter of Introduction

Julius Lamaon,

P. O. Box 25636 – 00603,

Nairobi.

Date

Email: lamaonjulius@gmail.com

Dear Respondent,

RE: Research

I am a student pursuing a doctor of philosophy (PhD) degree in Governance and Leadership at the Jomo Kenyatta University of Agriculture and Technology. My research topic is Fiscal Governance and Service Delivery Performance Relationship in Kenya. I am in the process of gathering relevant data for this study and kindly request for your assistance towards making this study a success. I therefore, kindly request you to take some time to respond to the attached questionnaire. I wish to assure you that your responses will be treated with utmost confidentiality and will be used solely for the purposes of this study.

I thank you in advance for your time and responses. Sincerely,

Mr. Julius Lamaon HD419/COO3/3289/14

Appendix III: Questionnaire

This questionnaire is meant to establish the relationship between Fiscal Governance and performance of County Governments in Kenya. The questionnaire is meant for academic purposes only. Please respond to the questions objectively by ticking ✓ in the box provided.

SECTION A: REVENUES RECEIVED FROM NATIONAL GOVERNMENT

The section has statements regarding the relationship between fiscal governance and performance of County Governments in Kenya.

Statement	Strongly Disagree	Disagree	Neutr al	Agree	Strongly Agree
I am aware that the County Government receives funding from National Government					
I am aware of the amount of funds received by the County Government					
The County Government receives all the allocated funds from the National Government for budget support.					
The funds received from National Government are utilized to fund service delivery in the county					
The County Government makes public the allocation from the National Government and engages the public in the management of the allocated funds to fund specific service delivery					
The County Government has a budget management control system					

SECTION B: REVENUE GENERATED BY COUNTY GOVERNMENTS

This sectionhas statements regarding the revenue generated by County Governments and its relationship with performance of County Governments.

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	1	2	3	4	5
County Government generates revenue for delivery of services within the county					
The County Government engages the public in approving the rates and taxes at the county level					
Residents participate in approving the public financial management.					
The residents are explained the services to be provided from the revenues generated by the County Government					
The County Government utilizes the revenue collected for the Intended service delivery					
The County Government collects all the revenues fairly and without discrimination					
The County Government utilizes technology in collecting the revenue and there is no misappropriation of the revenue collected					
There has been improvement in service delivery with the introduction of County Governments					

SECTION C: GRANTS AND LOANS BORROWED BY COUNTY GOVERNMENT AND ITS RELATIONSHIP WITH PERFORMANCE OF COUNTY GOVERNMENTS

The section has statements regarding the grants and borrowed by County Government and its relationship with performance of County Governments

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	1	2	3	4	5
The County Government receives grants and borrows loans					
The loans and Grants received are used to finance service delivery in counties					
The residents participate in approving the decision to borrow loans and receive grants.					
The public is explained to the services to be provided with the borrowed funds or grants					
The loans borrowed are Competitive and is free from political Interference					
There has been improvement of service delivery arising from the funds generated by grants and loans					
The County Government accounts for the borrowed funds in their budget					
There is accountability in the management of grants and loans borrowed by the County Government					

SECTION D: BUDGET MANAGEMENT CONTROL

The section has statements regarding the Process of budget management control in County Government and its relationship with performance of County Government.

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	1	2	3	4	5
The county hasa budget management control system					
The County Government engages the public in its budget management process					
The budget process details the specific services for each budget item.					
The public or residents are happy with the budget process.					
There has been improvement in service delivery arising from improvement in budget management process.					

SECTION E: PERFOMANCE

The section has statements regarding performance its relationship to Fiscal Governance

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	1	2	3	4	5
The county has performed in the delivery of Services.					
The County Government has improved the quality of life of its citizens					
The local revenue collection of the County government has contributed to improved performance of Services					
The public or residents are happy with the performance of county Government					
There has been improvement in the performance of County Government arising from arising from improved fiscal performance and budget management.					