RELATIONSHIP BETWEEN REVENUE MOBILIZATION AND PERFORMANCE OF LOCAL AUTHORITIES IN KENYA

BY

TOROME P.K.

D61/78970/2009

A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION UNIVERSITY OF NAIROBI

OCTOBER, 2013

DECLARATION

This research project is my original work and has not been submitted for award of any degree in any University.

Signature ____________________ Date: _________________

Torome P.K.

D61/78970/2009

This project has been submitted for examination with my approval as University of Nairobi supervisor.

Signature ____________________ Date: _________________

Supervisor

C. Iraya
Department of Accounting and Finance
School of Business
University of Nairobi

ACKNOWLEDGEMENT

The completion of this project was not easy. It was not created by the author alone, but relied on the cooperative assistance of many unseen hands. First and foremost I owe special thanks to God Almighty for seeing me through. I sincerely acknowledge my supervisor C. Iraya, Lecturer University of Nairobi, School of Business for his enabling support and guidance, his never ending patience, good eye and sharp mind.I would also like to acknowledge the encouragement from all my colleagues and my MBA classmates, friends and relatives whose remarkable devotion and dedication throughout the project work was incredible. May God bless the work of their hands!

DEDICATION

This research study is dedicated to my wife Ruth daughter Catherine and sons,Roman and Kelvin for their overwhelming support and understanding during this period of study. Special mention needs to go to my late father Kapaya and mother Grace for instilling in me the passion and zest for an education, my brothers and sisters for their moral support throughout the entire Education.

ABSTRACT

Local revenues are defined as subtotal of all categories collected from a number of sources like market dues, fines and penalties and parking fees.Revenue receipts are divided into tax revenue and non-tax revenue which include among others taxes on properties. Business revenue is income from activities that are ordinary for a particular corporation, company, partnership, or sole-proprietorship.The public sector entities, including the counties Government appraise their legal status as the providers of the public services and account for the public funds entrusted to them, but also to raise sizeable amount from their own sources to support in the delivery of the public services. The research objective of the study was to determine the relationship between revenuemobilization and service delivery in local authorities in Kenya.

This research adopted a descriptive research design.The target population of this study was175 local authorities.The sample size of the study was 35local authorities selected using purposive sampling.The study was based on secondary data on revenue collection and service delivery of the local authorities. The study considered performance ranking for 10 years since the inception of performance contracting ranking in Kenya.The inferential statistic multiple regression and correlation was carried out to determine the relationship between revenue mobilization and performance.The study established that there had been increase in revenue mobilization in the local authorities.

The higher the level of mobilized Revenue the better the performance of local authorities, It was also established that the Local authorities with low levels of mobilized Revenue performed dismally/poorly.The study concludes that local authorities budgeting greatly influence revenue mobilization.The use of the budget to control local authorities' funds and guard against over or under expenditure would be a critical element in management.The study concluded that increased in central government transfer fund such as LATF from the central government led to increase in efficiency service delivery.In light of the findings and the need for local revenue mobilization to provide services in local authorities since transfers from the central government were only to support the budget of the local government to enable efficiency delivery of public services. Therefore a lot of effort should be put in to ensure that local revenue collection and administration is improved in local government to fully provide quality service efficiently to the people.The study recommend that revenue collection in local government should be privatized by giving out tenders to individuals or companies to collect revenues on behalf of local government to reduce the increasing rate of tax defaulters and constituting enforcement teams to check businesses that have failed to pay taxes and penalize them accordingly to increased revenue mobilization.

TABLE OF CONTENT

LIST OF TABLES

ABBREVIATIONS

CILOR	- Contribution in lieu of Rates
GDP	- Gross Domestic Product
LAIFOMS	-Local Authority integrated financial Operations Management System
LATF	-Local Authority Transfer Fund
LASDAP	-Local Authority Service Delivery Action Plan
MOLG	-Ministry of Local Government
RMLF	-Road Maintenance Levy Fund

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

There is a global financial crisis and dwindling levels of aid(Norton, 2003). This underpins the importance of why the local authorities need to put in place mechanisms to ensure that they are competitive enough to attract the little donor funds. Holloway (2003) states that local authorities have limited number range of resources. The greatest dependence is very likely to be on foreign grants, and it is likely that these funds which make up these grants come from central government. Finally, building a constituency and creating viable and sustainable organizations is important for local authorities, since resource mobilization is not simply generating resources for survival from one year to the next.

Building a constituency of supporters who can be persuaded to give again and more generously therefore builds a viable, independent and sustainable organization (Norton, 2003).In fact, the U.S. municipal finance system recognizes this difference with two different types of long term bonds: General Obligation Bonds that pledge all revenue sources of the local government to repayment and Revenue Bonds that pledge the revenues derived from a specific source (such as the water tariff) to repay the bond. In Latin America, there are strong political ties between central and local governments. Due to such extreme politicization of local authorities, they are accountable more to the ruling party than to the local masses affecting effective local government resources mobilization (Horngen, Foster, and Datar, 2007).

For Local Authorities in Africa to provide the services required adequately and efficiently, they will need to find new methods and ways of mobilizing more revenues (Tibaijuka, 2005). Studies from South Africa have shown that Kenyan Local Authorities have not been vigorous in generating and collecting their own revenues (Tibaijuka, 2005). Some of the reasons given for not realizing adequate revenue include lack of adequate human resources, non-compliance by the residents to pay council dues and lack of goodwill by the government to support. Local Authorities in realizing the uncollected revenues. Weak by-laws and lack of appropriate financial strategies have also been cited as contributing to the low revenue generation and collection (Republic of Kenya, 2008)

In previous year when Local authorities existed in Kenya have been operating without pressure of improving service delivery to their customers which has led to Kenyan public to have poor perception of the authorities. This situation necessitated reforms in county government. Government of Kenya through Sessional paper No.2of 2005 on Development of micro and small Enterprises for Wealth Creation for poverty reduction addresses licensing and regulation and states that favorable and regulatory environment will be achieved through consolidation of trade licensing requirements. This reduces cost of acquiring licence and time entrepreneurs take to have licence. Licensing structure will speed up licensing and cut down on unnecessary red tape. Single Business Permit is also operationalized in local authorities (GOK, 2010). It is on this background that KLGRP have initiated the use of Local Authority integrated financial Operations Management System (LAIFOMS) which require technical knowledge to enable the council achieve maximum benefit from its implementation because the system is capable of controlling all revenue in the Local authority. Lack of knowledge in operations of LAIFOMS is impeding factors in revenue collection in most local authorities in Kenya.

1.1.1 Revenue Mobilization

Local revenues is defined as subtotal of all categories collected from a number of sources like market dues, fines and penalties and parking fees (Republic of Kenya, 2008)

Strengthening revenue mobilization in developing countries has long been a central concern of the Fund, and its advice has been highly influential. In its program, surveillance and technical assistance (TA) work, the Fund has for many years supported developing countries' efforts to build more effective and fairer tax systems (Houghton, 2005). Though far from the only provider, the Fund has come to occupy a leading role in advising on tax matters in these countries. Its advice has been keenly felt by Fund members, closely watched by academics and CSOs, and sometimes controversial (Sprinkel, 2005).

Interest in enhancing revenue mobilization in developing countries is increasing. Most developing countries are emerging from the crisis with their fiscal prospects broadly intact (IMF, 2010), but with many still facing a fundamental need to raise more revenue from their own tax bases (Westman, 2004). Achieving the Millennium Development Goals, for instance, has been suggested to require increasing domestic revenues in low-income countries (LICs) by around 4 percent of GDP (United Nations, 2005). Infrastructure needs are also extensive (IMF, 2010a), and there are climate challenges to address. Advanced economies are increasingly focused on improving their support of these revenue mobilization efforts. In this context the G-20 leaders called in November 2010 for the Fund, with others, to report on key issues in strengthening revenue mobilization (Westein, 2003)

1.1.2 The Concept of Performance

Service delivery is defined as the process of extending basic services like education, healthcare, water, transport and communication where the end users are the public or local people within the country (Ray, 2007). Tax administration refers to the process of administering taxes like identifying the tax payers, assessing them and levying reasonable taxes they are capable of paying.Service delivery is tied with performance at the organizational level. It means fulfilling organizational goals and objectives, especially in satisfying customer needs, employee needs and the investor needs. This is only possible if there is clear mutual (management and employee) understanding of the purpose: At the heart of this concern was whether they are intended primarily to benefit the organization or the individual (Heskett, 2006).Government ministries services delivery standards and performance which are central to their mission have long been the concern of customers and this has affected quality of service delivery. Consequently delivery performance standards for Mail, Courier, Financial and Agency services must be specific, measureable, achievable,realistic and time bound of paramount importance is that the meet the expectations of the customer on service delivery (Westman, 2004).

Service Delivery is a set of components that provide service delivery architecture (such as service creation, session control and protocols) for a type of service. Service delivery often requires integration of telecom and IT capabilities and the provision of services that are unmatched in the industry. Ross and Segal (2003) Service delivery available today in the healthcare sector tend to be optimized for the delivery of a service in modern technological innovations and expertise. Service delivery programs are applicable to both the consumer and business applications.

The business objective of implementing the service delivery programs is to enable rapid development and deployment of new converged services, from basic services to complex services (Coyne, 2004).

Amir, Carolyn and Aman (1993) listed five determinants of service quality by order of importance. They include reliability, responsiveness (willingness to help customers and prompt service assurance), and the ability to convey trust, empathy and individualized attention to customers. Other service quality measurement tools studies have found that well managed service companies have the following practices: strategic concept and top management support, high standards of service delivery, service monitoring systems, satisfying customer complaints and emphasis on employee satisfaction (Anthonyand Young, 2004).

According to SERVEQUAL model based on gap theory, there are two alternative ways of measuring service quality: internal and external measures (Fjeldstad, Katera, Msami, and Ngalewa, 2010). Internal measures of service quality are designed to provide objective measures of the firm’s performance where external is concerned with measuring attitudes and opinions of customers. Provision of quality should exceed customer’s expectation. Customers compare perceived service. If the perceived service is below expectation they loose interest with the provider while the opposite creates loyalty (Blazek, 2005).

1.1.3 Relationship between Revenue Mobilization and Service delivery

The spirit of decentralization is that local government should generally be in a better position than the central government to identify local needs, and to deliver public services accordingly (Brewer, Chandler and Ferrell, 2006). Given this background, the county government is enjoined to identify and raise revenue from local sources in form of rates, tolls, property tax, fees and fines among others to boost their financial base for development of the locality. In addition to the Internally Generated Funds (IGFs), the county governments are expected to fashion outprojects andprogrammes that allure to poverty reduction in their local areas (Bray, 2008).

According to Bhatia (2006) revenue receipts are divided into tax revenue and non-tax revenue which include among others taxes on properties. Business revenue is income from activities that are ordinary for a particular corporation, company, partnership, or sole-proprietorship. Revenue is important part of financial analysis as it contributes as part of measure to which assets inflow (income) compares with asset outflows. In Government revenue refers to receivables by the government for the purpose of financing its services, and the implementation of development programmes and they are collectable under the items of estimates specified by treasury as revenue items including all amount of money received from sources outside the government entity (Brooksons, 2002).

A strong local revenues base is essential for the sustainability of decentralization programmes. Local revenue forms a core means of building an independent and accountable local governance system (Republic of Uganda, 2010). County Governments with strong local revenue collection have greater scope for autonomy, and are more responsive to the needs and priorities of their citizens. The Constitution provides for various sources of local revenue to local governments which vary from area to area-based on economic practices, natural endowments, among other things (Waema, 2005).

1.1.4 Local Authorities in Kenya

Local authorities have two main sources of revenues namely, central government transfers and local sources or 'own revenues'. Central government grants include, Local AuthorityTransfer Fund (LATF), Road Maintenance Levy Fund (RMLF) and Contribution in lieu of Rates (CILOR). Local Authorities derive local revenues from property rates, plot rent, single business permit, quarry, market, Bus Park and change of user fees. The Kenyan local governance system is composed of four tiers of Local Authorities (LAs), namely: Cities, Municipalities, Towns and County Councils. These councils are corporate entities that are established under the Local Government Act Chapter 265, which is currently under review. In addition to the Act, the LAs draw their legal powers from the Constitution of Kenya, other Acts of Parliament, Ministerial Orders and By-Laws. Currently there are 175 LAs in Kenya (appendix 1), which include City Councils, Municipal Councils, Town Councils and County Councils with Ministry of Local Government as the overall overseer of their operations (Waema, 2005).

Kenya has no decentralization policy that rationalizes power sharing, responsibilities, and resources between the central government ministries, district development committees, LAs and the private sector. This has been a problem at the operational level, with most of the institutions and organizations lacking synergy. Although the position of LAs remains uncertain with the counties being formed after the adoption of the New Constitution, LAs have an advantage since they already have a participatory framework and are in touch with the locals in their jurisdiction (Waema, 2005).

Kenya local government reform programme began with financial reforms aimed at enhancing inter-governmental fiscal transfers, improving financial management, debt resolution, streamlining budgeting system and service provision capacity building for LAs. A key instrument in this process was the enactment of the Local Authority Transfer Fund (LATF) Act in 1998. The act provides five percent of national income tax to LAs in line with population, resource base and financial performance. In order for a council to access LATF, LAs are administratively required to develop a Local Authority Service Delivery Action Plan (LASDAP) using a participatory approach in identifying of projects by council managements and the local and incorporating the projects in the budgets (Odhiambo, 2005). All local authority budgets usually went through a formal approval process through the full council's adoption. Furthermore, budget in local authorities is public document and is read to the public in a budget day each year set by the minister of local government.

Other sources include sand, cattle and agricultural produce CESS among others. Local government capacity in resource mobilization can be strengthened throughthe establishment yet effective administrative procedures, training technical assistance and dissemination Programs with central government support. An appropriate information and communication technology system is an essential precondition for the success of any revenue mobilization strategy. A complicated and nontransparent local government revenue system is costly to administer and facilitates corruption and mismanagement (Odhiambo,2005). Among the technologies that have proven to be effective are various computerized system, satellite photography and Geographical Position System (GPS) mapping systems for property registration, valuation and electronic banking system for payment and accounting.

In accordance with the constitution of Kenya 2010, the country was sub divided into 47 counties replacing the 8 provinces and the 175 local authorities. The constitution requires that the former provincial administration be structured through an act of parliament. The structure for the county government is divided into two arms, that of the executive headed by the Governor, Deputy Governor and 10 executive members. The other arm is headed by the county Assembly Speaker, clerk members of the county representatives (MCA) elected and nominated member. The function of the executive is to provide services to constituents of county. The county assembly provide supervisory function for effective and efficiency provision of services. (Republic of Kenya, 2010).

County Governments are responsible for various fuctions as outlined in the constitution, one article 185, legislation of county laws, article 183 fouth schedule transfer function from national government. Other functions can be agreed upon by the counties and national government under article 189 (2) of the Constitution of Kenya. The establishment and staffing of a public service under article 235 of the Constitution of Kenya(Republic of Kenya, 2010) .

The sources of revenue for the county governments is divided into two .One , the transfer from the National government as stipulated in the constitution that not less than 15% of total revenue of the National government must be transferred to the county governments**.** The other way is the locally generated revenue as previously done by local authorities. To understand the likely challenges that the county government may undergo it is important to understand challenges that affected the former Local authorities in revenue mobilization hence service delivery. The county government has adapted structures and financial systems that were previously used by local authorities.(Republic of Kenya, 2010). Revenue allocation commission was established by the constitution to advice on revenue sharing formula between the National Government and also among the 47 counties

1.2 Research Problem

There are several important policy implications for donor and governments. First, the prospects of taxing the informal sector require a change in approach in how the informal sector and small firms are viewed (Westein, 2005). Instead of viewing the sector as a 'social safety net', it is important to identify how the productive capacity of some sectors can be enhanced. Second, the prospect of expanding the tax base to the informal sector requires an explicit production strategy so that firm owners have an incentive to register formally with the tax authorities. Such incentives might include infrastructure investment, marketing and distribution support and quality control regulations. Third, micro credit schemes need to be part of a wider sectoral strategy that involves technological upgrading. Micro credit for its own sake generally creates low productivity firms (Rick, 2002).

Nowadays, majority ofthe public sector organizations have been highly involved in the mobilization of their own revenue. This trend has been largely attributed to the emergence of the various management reforms introduced into the public sector organizations New Public Management (NPM) and New Public Financial Management (NPFM) practices (Hood and Lodge, 2004). The reforms, which in most cases advocate the application of the business management practices into the public sector organizations, have substantially changed the domain of the public sector entities and put more emphasis on the delivery of public services. As a result, the delivery of public services has been consistently regarded by the policy makers to be important function of the public sector entities in the context of the overall economic and social development (Brooksons,2002).The public sector entities, including the counties Government appraise their legal status as the providers of the public services and account for the public funds entrusted to them, but also to raise sizeable amount from their own sources to support in the delivery of the public services.

Previous study focused on challenges facing revenue mobilization in the public sector. For instance, Wanjohi, (2003)undertook a study onModern Local Government in Kenya. Odhiambo, (2005) undertook a study on management of Resources by Local Authorities. Past studies have not determined relationship between revenue mobilizations and service delivery in local authorities in Kenya. This study seeks to fill the existing knowledge gap by establishing the relationship between revenue mobilizations and service delivery in local authorities in Kenya. The research seeks to answer the question, what is the relationship between revenue mobilization and performance inlocal authorities in Kenya?

1.3 Research Objective

The research objective of the study is todetermine the relationship between revenuemobilization and service delivery in local authorities in Kenya.

1.4 Value of the Study

The study is important to the Kenyan government and county governments in formulating sound financial management strategies in revenue mobilization. It may also be important to the government in order to adopt policies to enforce financial discipline among county governments. Therefore, this study is important to the devolved units of governance for the following reasons. First, as a caution to the newlyconstituted county units that they should never over rely on unreliable sources of revenue from either donors or national government. Second, to bring to the attention of the county governments, the need to invest on their core competencies which varies across the land of Kenya. Third, to improve the level of accountability and democratic governance. It is expected that through the spirit of corporate responsibility, the revenue earned is ploughed back to the community to assist in service delivery such as the provision of infrastructure, award of bursaries to the needy and meeting the cost of capital projects.

Fourth, the study enlightencountygovernment todevelop techniques to ensure a pool of resources is available to provide their services more effectively and efficiently. It is also be significant to researchers and other scholars as a background for reference in future studies and contribute to the existing knowledge of literature.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses issues that address each subsection derived directly from research questions of the study. Recent research studies and findings relating to the issues this study addresses will also be highlighted.

2.2 Theoretical Review

2.2.1 Efficiency and long-run growth

The effects which theory suggests the level and composition of taxes can have on efficiency and long-run growth—via investment, human capital acquisition, and innovation have proved hard to identify robustly. For OECD countries, Arnold (2008) concludes that property taxes are least damaging for growth, followed by consumption taxes, the personal income tax (PIT), and the corporate income tax (CIT): this is as theory suggests, with taxation of capital income having a potentially strong impact on investment. But there has been much less work for developing countries, and what there is tends to find no significant effect from either the overall level of taxation or the direct-indirect tax mix (Adams and Bevan, 2005).

Evidence that trade liberalization fosters growth suggests a potential impact from reduced reliance on trade tax revenue (Juul, 2006). Other effects likely operate through the considerable volatility of tax revenue in many developing countries (there being some evidence that this depresses public investment. Ebeke and Ehrhart,(2010), stressing the value of diversifying revenue sources. Distributional effectsare important in themselves (poverty relief is a major motivation for raising revenue in the first place) and for their impact on compliance .Two points are critical in assessing these effects. First, what ultimately matters is not the impact of any tax instrument in isolation, but the combined impact of all such measures and of the spending they finance (Chelogoy,Anyangoand Odembo, 2004). A regressive tax may be the only way to finance strongly progressive public expenditure; conversely, where the ability to target spending is relatively weak, progressivity on the tax side is a greater concern. Second, those who bear the real burden of any tax may not be those responsible for remitting it to the government. To the extent that capital is internationally mobile, for instance, a small country cannot affect the after-tax return required by foreign investors: trying to do so will simply reduce the income of immobile factors (Heady, 2002)

The study examined the applicability of several theories among them, the overlapping Authority model propounded by Anthony, and Young, (2004) on intergovernmental relationship. This theory states that public revenues decentralization occurs when lower tiers of government have statutory power to raise taxes and carry out spending activities within specified legal criteria.

2.2.2 Optimal theory of taxation

The theory of optimal taxation can be seen as a recipe for minimizing the costs of taxation. The costs on which this literature focuses are, as already noted, the efficiency costs of a distorted tax system. But the more direct costs of administration and compliance play little or no role in the analyses, and the theories of tax evasion that will be discussed below alert us to some of the important aspects of these costs (Fowler James, 2002). So far, the potential gains from using the insights of the tax evasion literature in the study of optimal taxation have not been fully exploited, although for some aspects of taxation the evasion perspective is obviously highly relevant. This is true, at least to some extent, with respect to the degree of progressivity of the personal income tax, and even more so with respect to the interface between personal and company taxation and the degree of differentiation of the indirect tax system. The literature on tax evasion should be seen as a way to bring issues of tax administration into the focus of the theoretical literature on tax design (Ghura, 2006).

The standard theory of optimal taxation posits that a tax system should be chosen to maximize a social welfare function subject to a set of constraints. The social welfare function is based on the utilities of individuals in the societies REF, in its most general analyses; this literature uses a social welfare function that is a nonlinear function of individual utilities. Nonlinearity allows for a social planner who prefers, for example, more equal distributions of utility (Graham, 2000). To reduce the problem facing the revenue collection, it is often assumed that everyone in society has the same preferences over, say, consumption and leisure. Sometimes this homogeneity assumption is taken one step further by assuming the economy is populated by completely identical individuals. It is important to choose the tax system that maximizes the representative consumer's welfare, knowing that the consumer will respond to whatever incentives the tax system provides (Hazel 2005).

2.2.4 The agency theory

In the Agency Theory a contractual relationship is entered by two persons that is the principal and the agent so as to perform some service. This involves delegating some decision making authority to the agent by the principal (Jensen and Meckling, 1976). At the same time an agent is a person employed for the purpose of bringing his principal into a contractual relationship with a third party. He does not make a contract on his own behalf. The legal doctrine which applies is 'qui facit per aliumfacit per se (he who does something through another does it himself) (Kanbur, 2009).

Agency Theory is directed at the person presenting the agency relationship. This is where one party delegates work to another party who performs the duty on behalf of the principal: (Eisenhardt, 1989). This person is authorized to perform legal acts within his competence and not on his own behalf but for the principal. A growing view in the modern literature recognized however that the two are strange bed fellows. An Insurance Brokers is agent employed to buy and sell on behalf of another. However, in performing his role, he owes a duty to his principal. The level of care expected will vary; a higher level of care will be expected from a professional broker than from a part-time insurance agent (Wright and Oakes, 2002).

According to the English and American law the liability of a principle for his agent torts in the ordinary course of his employment depends upon the existence of a master servant relationship. The master is vicariously liable for his servant tortuous conduct committed within the course of employment. (Yin, 1989). There are cases where an agency relationship arises when an individual group called principal hires someone called an agent to perform some service, where the principal delegates decision- making power to the agent. This kind of relation includes those between stock holders and managers and between stockholders and debt holder. According to Amir,(1993) Agency Theory is a theory concerning the relationship between a principal (shareholder) and an agent of the principal (company's managers). It further says that Agency Theory is a very academic term which essentially involves the costs of resolving conflicts between the principals and agents and aligning interests of the two groups. The agency theory also adds up to the list of theories examined. Jensen and Mechling,(2006) define the agency relationship as a contractual relationship between `one or more persons called the principal engaging another known as the agent to perform some service on their behalf, which involve delegating decision making authority on the agent. Citizens vote in councilors in local authorities so that they further their agenda of policy making during their term of office, after which they are retained or voted out.Other agency relationship that exists include employee-employer where the latter delegate responsibilities to the former for a certain fee (Venables, 2010).

2.3 Revenue Mobilization Practices

2.3.1 Transfer from Central Government

Local governments in developing countries derive their revenues from two principal sources funds transferred to them from a higher level of government, and funds collected and retained in the locality itself. Funds coming from higher levels of government (national, regional, and/or state/provincial) are referred to as transfer payments (Jeremy and

Fraser, 2003). 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).

Funds collected and retained in the locality itself are the local government's own source revenues. In developing countries, it is typical to find that own source revenues are a small (or very small) portion of a local government's total revenue. This can be due to a variety of factors including: restrictions imposed from higher levels of government on the types of revenue sources available to the local government and the rates that can be charged; a history or culture of dependency in the relationship of local government to higher levels; local politics that oppose local revenue collection; poor revenue collection technology or effort at the local level; and corruption. Whatever the combination of causes, the result is that local government is usually over dependent on transfer payments and less able to exercise decentralized leadership for development (Venables, 2010)

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 governmentswould 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 (Khadingalaand 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).

Historically the Latin American region has suffered some of the worst incidences of fiscally irresponsible sub-national borrowing in the world. The negative experiences of Brazil and Argentina, with uncontrolled sub-national borrowing and hyperinflation during the 1980s and 1990s, are still used as examples of what can go wrong in this area of sub-national finance. One consequence of those experiences is that the policy of some countries in the region towards local government borrowing has become excessively conservative and restrictive. For example, in Chile, local governments are in principle not allowed to borrow or take out loans of any kind. But outright prohibitions are not necessary or effective either. In the same country, indirect borrowing through leasing contracts or by delaying the payment of current expenditure makes that norm difficult to enforce. In Uruguay, any domestic or foreign debt issue by local government needs to be approved by the national congress. Peru also provides an example of legislative conservatism in the matter of local borrowing: The central government has established indebtedness rules to maintain fiscal prudence by two laws (the Law on Fiscal Prudence and Transparency - LPTF- and the Law on Fiscal Responsibility and Transparency – LRTF-) Besides limits on debt service ratios and total debt the laws also limit the rate of growth of municipal expenditures to a maximum of 3 percent per year. However, this framework has not been fully enforced because of insufficient monitoring and the lack of effective sanctions andmany local governments in Peru carry large budgetary arrears.

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).

Taxes are a broad source of revenue that is not linked to any particular service provided by local government. Local taxes vary from country to country but typically include a Property Tax and sometimes one or more Business Taxes and Consumption Taxes (Fowler, 2000). These taxes may or may not vary with the value of the property, business or economic activity. Fees are a revenue source directly associated with a particular local government service such as registrations, permits, or approvals. They are usually imposed on a per transaction basis, e.g. a fee of a fixed amount to register a property/marriage/birth. They can also be things like school fees or clinic fees, (if these services are run by local government) where the fee is based on a transaction such as provision of a semester of schooling, or a visit to a clinic (Graham, 2000). User charges are another revenue source linked to specific services, but unlike most fees, user charges typically vary with the amount of service consumed, e.g. a consumer's water bill will vary with the volume of water used. In some cases, user charges will vary according to the type of consumer, e.g. charges for garbage collection may be different for residential, commercial, and industrial establishments (Heady, 2002).

A survey by Thuronyi (2000),reveals that uneven tax administration in Africa is a major contribution to revenue shortfalls that augment inflationary pressure while depriving governments' resources with which to provide public goods. Uneven tax administration also stimulates resort to more easily collected taxes on foreign trade with associated efficiency loss.Wadhawan and Gray, (2001) noted that theoretical and empirical research on why persons subject to tax comply or fail to comply with their legal liabilities has been pursued by social scientists from various disciplines. The direct benefit of successful tax evasion is obvious, it is the value of the payments evaded, comprising their resources thereby saved. Drowning from reference group theory (Greene, 2008) attribute tax evasion to a norm neutralization process that is tax evaders justifying their cheating by the belief that everyone else does the same thing and or the benefit they receive from government fall below their share of the tax burden (Holloway, 2003).

The first step toward increasing revenue from any source is to analyze current collections and identify the reasons why the local government may be receiving less revenue than they should from the source (Norton, 2003). Improving property registration and updating tax rolls (cadasters) is a time consuming, but high revenue impact activity. To increase revenues from local fees/user charges, there are several possibilities increase the billable use of the service, assure that users are billed fully, and all billings are collected and Increase the level of fees or user charges for the service (Harrison, 2008).

2.3.2Local authority revenue collection

If increasing own source revenues does not seem to be a particularly easy thing to do, reducing expenditures is also difficult. Local government budgets are always tight. Local leaders have more ideas about things they would like to do than resources to do them. At the same time, it may be easier to undertake politically difficult measures to increase own source revenues if local leaders can simultaneously demonstrate that they are bringing their expenditures under control by seriously seeking ways to economize (Abonyo, 2003). Certainly, investors that are considering lending money to a local government will want to see evidence of fiscal responsibility, and successfully reducing expenditures is the gold standard for fiscal responsibility (Abonyo, 2003).

Local government spending can be classified into two basic types of expenditures. Discretionary and Non-discretionary. As the names imply, discretionary expenditures are those that are not absolutely required to be made during a budget year, while non-discretionary expenditures are those that must be made. Starting with the latter, non-discretionary expenditures normally involve some kind of legally binding commitment upon the local government. Such commitments include loan or bond repayment schedules. Employment contracts with existing local government staff, either through individual contracts or general rules of employment and compensation (Hazel, 2005)

User charges for utilities such as power, water, and telecommunications (normally based on the same utilization rate as in the previous year).Rental or lease agreements for facilities or equipment if it is not possible to terminate the agreements within the budget year; and contracts with outside service providers such as consultants and construction contractors if it is not possible to terminate them within the budget year. There could be others depending on the specific situation of the local government, but these are the major non-discretionary expenditure headings (Wallace, 1994).

Discretionary expenditures can be much more diverse. In essence, they are expenditures for anything that is not absolutely essential to the operations of the local government. Obviously, the line between discretionary and non-discretionary is blurry since it can change as local policy changes (Klein, 2004). For simplicity, discretionary expenditures are essentially any expenditure not covered by the five bullets in the paragraph above. Of course changing circumstances may make it essential to hire additional staff, or use more electricity, or rent another dump truck, but the best estimate of discretionary expenditures in any given year is to subtract the non-discretionary items listed above from total expenditures (Khadingalaand Mitulla, 2004).

Controlling discretionary spending is the obvious first target for reducing overall expenditures. In any given year, it is likely that a local government is doing some amount of discretionary spending, i.e. more than is required by binding legal commitments. Nevertheless, it is not easy to cut back on expenditures that have a history and a constituency that presumes continuation. In cases where there has been an increase in revenues (either own source or transfers), it is somewhat easier to avoid increasing discretionary expenditures, or at least increasing them less than the increase in revenue. Whether restraining increases or actually reducing expenditures, it is essential that local political leaders consult widely with key stakeholders and constituents to explain the reasons for their fiscal restraint, understand concerns, and reach broad consensus on these measures (Gordon, 2010). This is much easier to do if the budget preparation and approval process is participatory by design. Through technical assistance USAID can play a role by helping local governments develop and apply participatory budgeting processes which are common in U.S. local governments (Odhiambo, 2005).

Participatory budgeting is also important in order to create support for reductions in non-discretionary expenditures over time. While these expenditures are based on legally binding commitments, there are areas where economies may be achieved. Among the easiest are savings on utilities. It may be possible to reduce the local government’s electricity bill by installing more energy efficient street lighting and water pumps. It may be possible to reduce water bills through water use awareness campaigns and repair of municipal taps, toilets, and standpipes to reduce wastage. Debt service expenditures should also be scrutinized. It may be possible to reduce debt service costs if they can be refinanced at lower interest rates. In the longer term, it may be possible to restrain the growth of local government staff levels (or even reduce them through attrition) and avoid growing lease expenses by using equipment more efficiently (Njambi, 2003). By creating incentives for cost conscious management of personnel and equipment, local government leaders can, over time, reduce the level of nondiscretionary expenditure below the level that would have otherwise prevailed. However, it is often necessary to make investments debt refinancing charges, energy efficient measures, or water awareness campaigns) in order to achieve savings. USAID can help local governments with analytic support to examine the tradeoffs between businesses as usual and making strategic, cost saving investments (Kiddand William, 2006).

2.3.3 BudgetingControls

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 organizational strategy (Brookson, 2002). It is a tactic that is used in the implementation of the activities and programs for which management has planned for. Organizations 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 organization 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). Budget process is the tactical implementation of the operation plan. It is incorporated in the operational planning and the control process. The organizations 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 organizational strategy is the roadmap of where the organization wants to be within a certain period normally three to five years. The organization strategy normally identifies courses of action (Robbins, 2005). This normally involves amongst others an assessment of the environment in which the organization operates in and the resources it provides. An organization has the responsibility to review its mission statement, its specific goals and activities for achieving the mission.

Antony *et al* (2004), states that given this specific plan of action, the organization must then evaluate the market for the coming year. Staff and board members must participate in each phase of the budgeting process that affects the line items for which they will later be responsible. For too many Local authority's, planning and financial management are activities that divide rather than unite the organization (Bowman, 2003).

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

2.4 Empirical Review

Alam, Noore, Nastiti, and Nur(2012), carried out a study on relationship betweenRegional Autonomy and Local Resource Mobilization in Eastern Indonesia. This paper addresses this question by focusing on Indonesia's most recent decentralization policy and assessing and analysing the role of local government's resource mobilization on service delivery. Fiscal decentralization empowers sub-national governments to raise sufficient revenue from local sources thereby reducing their dependence on the national government? Based on data collected from two different locations in Eastern Indonesia the study shows that the dependency of local authorities on central government is excessive and that the share of local revenue in regional budget has remained rather small. It also shows that while the fiscal power granted to local governments is limited, a combination of politico-economic and contextual factors has further undermined the prospect of revenue mobilisation at the local level.

Previous studies carried out, for instance by Juul, (2006)on decentralization, local taxation and citizenship in Senegal, focused on the politics of revenue collection in a framework of decentralization, democratization and multiparty politics as experienced in the small village of Barkedji in the pastoral region of Senegal. In Senegal, revenue collection has recently been transferred from state administrators to locally elected councilors. Contrary to the assumption of the good governance doctrine, this transfer of responsibility has not resulted in a strengthening of democratic structures where taxpayers demand (and gain) public services and more political representation in exchange for increasing taxes. In Barkedji, as elsewhere in Senegal, tax-compliance hit rock-bottom after tax collection became the responsibility of local councilors. Meanwhile other types of local institutions, with less clear state relations, are able to mobilize large amounts of revenue outside the normal tax channels for the delivery service.

A Study carried out by Brooksons, (2002)on the impact of Local Government Finances and Financial Management in Tanzania. Thisstudy examined the capacity of local government authorities in Tanzania with respect to financial management and revenue enhancement, and analyses trends in financial accountability and efficiency for the period 2000-2006/7. The study covered six councils in Tanzania: Bagamoyo District Council, Illala Municipal Council, Iringa DC, Kilosa DC, Moshi DC, and Mwanza City Council. Data was collected using a combination of quantitative and qualitative methods, including two rounds of a survey of citizens' perceptions in the case councils in 2003 and 2006. Theysought to determine the degree of fiscal autonomy; methods of revenue collection, financial management, including budgeting, accounting and auditing, transparency in fiscal and financial affairsand tax compliance and fiscal corruption. Based on evidence collected, the study concludes that the process of decentralization by devolution under the Local Government Reform Programme has contributed to improving local government capacity for financial management. The study found that the reforms had reduced the fiscal autonomy of local government authorities. The central governments currently contribute the bulk of local government revenues through transfers and still largely determine local budget priorities and enhance provision of service in local areas (Blazek, 2005)

Official registration is simply beyond the reach of poor entrepreneurs. This research summarizes the various approaches used in developing countries in their public sector reform proposals and will explore to what extent similar institutional controls and incentives could be established in emerging economy. It focuses on restructuring tax policies and resources mobilization frameworks and decision-making which takes place within these frameworks. The Government of developing countries should take significant steps to strengthen the framework for sound fiscal policies particularly, on tax reforms which constitute the major policy instrument needed to accelerate growth and eliminate poverty and promoting a better tax system to mobilize more revenue(Davis, Rolando and Annalisa, 2003).

It is possible to achieve considerable improvement in tax administration, policies have to go beyond the purely economic to focus on the needs of the poor-to ensure minimum social standards and universal access to basic social services with less complicity but effective. Reducing the number of income tax deductions, for instance, permitted in some of these countries to eliminate filing requirements for most wage earners, thus greatly reducing the administrative burden, since withholding alone then will be sufficient to enable most income taxpayers to fulfill their obligations(Juul, 2006). There is no single set of direction that, once introduced, will ensure improved tax administration in any country. Developing countries exhibit a wide variety of tax compliance levels, reflecting not only the effectiveness of their tax administrations but also taxpayer attitudes toward taxation and government in general and the value attached to government activities. Government policies affecting any of these factors may thus influence taxpayer attitudes and hence the observed level of taxpayer compliance (Kloeden, 2000).

The key to successful public finance management is a matter of governance to balance the economic, managerial and political roles of public finances. When fiscal governance is poor has a little chance of succeeding the fiscal policy objectives. The Government will also pursue comprehensive civil service reforms aimed at improving the efficiency of delivery and quality of public services, improving taxation through payroll management and enhancing a regular auditing to create a further fiscal space. It is viewed that in most emerging economies fiscal governance is reflected only in how deep a country can cut into its fiscal deficit, rather promoting a better tax system to mobilize more revenue to prevent it (IMF, 2008).

The first level concern is to design the general legal framework - not only how the tax laws to be administered but also a wide range of important procedural features. Once this general structural tax reform is designed, the administrators take over and set up the specific organizational structure and operating rules for the tax administration.

Finally, once the critical institutional infrastructure has been upgraded, the tax managers actually can do their jobs efficiently and let alone suggest how to improve it within which it has been equipped. The only way to secure that taxpayers receive real value for their money is when the government established a long term goal through investment and tax reform. Strong and dependable public services are vital to extend the economic growth, tackle social exclusion and improve people's quality of life (Alam,Noore, Dian and Nur, 2012). Investment and tax reforms will encourage the foundations for a stronger and more productive economy. As emphasized above, an important element in any successful administrative reform is simplicity and enforceable laws to administer. In addition, it is equally important to simplify procedures for taxpayers, for example, by eliminating demands for unnecessary information in tax returns and payment invoices. Once procedures are simplified, the tax administration can then concentrate on its main tasks: facilitating compliance, monitoring compliance and dealing with non-compliance. The job is particularly difficult in developing countries with large informal sector, low levels (Davis, Rolando and Annalisa, 2003).

2.5Summary of the Literature

The allocation issue relates to whether a grant system alters the level and uses of local government fiscal resources relating to what they - would have been in the absence of the grant. Three specific questions generally arise does the grant make local government less accountable thereby encouraging less efficient operation, are local budgetary choices altered due to the grant; and does the grant discourage localities from mobilizing resources of their own (Sprinkel, 2005). When local governments are not penalized for inefficient operations nor rewarded for improvements, there is no incentive for efficient local administration (Harrison, 2008). Full cost reimbursement grants for example, are especially likely to thwart efficient operation since all local spending will be borne **by** the central government Treasury. Local governments are not responsible to either the central government or to their own tax payers (Rick, 2002).

Therefore there is need to carry out the study with an attention of tracing the loopholes in revenue collections in relation to service delivery in the counties. So the local people should be satisfied on the importance of paying taxes so that it becomes easy to collect the revenues from them without resistance. It has also helped the researcher to define terms like local revenue, service delivery, revenue collection which all surface in literature review.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presented the research design and methodology that was used to carry out the research. It presented the research design, the population, sampling, data collection and data analysis

3.2Reserach Design

This research adopted a descriptive research design. The design is deemed appropriate because the main interest is to explore the viable relationship and describe how the factors support matters under investigation. Descriptive design method provided quantitative data from cross section of the chosen population. According to Mugenda and Mugenda (2003) the descriptive research collects data in order to answer questions concerning the current status of the subject under study.

Descriptive Research is the investigation in which quantity data was collected and analyzed in order to describe the specific phenomenon in its current trends, current events and linkages between different factors at the current time. Causal research design was chosen because it enabled the researcher to generalize the findings to a larger population.

3.3 Target Population

According to Ngechu, (2004) a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. This definition ensures that population of interest is homogeneous. The term population, the researcher means complete census of the sampling frames. Population studies also called census are more representative because everyone has equal chance to be included in the final sample that is drawn according to Mugenda and Mugenda (1999).The target population of this studywas175 local authorities (Appendix 1) in Kenya.

3.4 Sampling Methods

The sample size of the study was 35local authorities. The sampling method chosen for this study waspurposive sampling which is a form of non-probability sampling to select 35 local authorities in Rift Valley. Purposive sampling involves a deliberate selection of particular units of population to constitute a sample representing the population (Kothari, 2004). In terms of this study, purposive sampling waschosen for convenience purposes.

3.5 Data collection

The study used secondary data on revenue collection and service delivery of the local authorities. The study considered performance ranking for 10 years since the inception of performance contracting ranking in Kenya. Secondary data refers to the information obtained from articles, books, newspapers, internet and magazines. Secondarydatawas collected from the county financial reporting books.

3.6 Data processing and analysis

This included analysis of data to summarize the essential features and relationships of the data in order to generalize from the analysis to determine patterns of behaviour and particular outcomes. Data wasgrouped into frequency distribution to indicate variable values and number of occurrences in terms of ranking in performance.

The inferential statistic multiple regression and correlation was carried out to determine the relationship between revenue mobilization and performance. Correlation analysis was used to establish the strength of the relationship between variable. The regression modeltreats revenue mobilization as independent variables while service delivery in the county as dependent variable.

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_{4} + ẹ$$

Where

Y=Local authority Performance (Measured in terms of efficiency service delivery)

α = Constant Term

β_1= Beta coefficients

X_1= Budget Controls

X_2=Borrowing Funds

$X_{3=}$Local authority revenue collection

X4= Transfer from central government

ẹ = Error Term

The performance in service delivery was measured interms of efficiency which is a ratio of revenue collected versus the ranking performance.Taxation was measured by use of estimates elasticity(tax-to-base and base-to-income) for each tax and forthe overall tax system. Budgeting was measured by use of budget estimates of the discretionary change (s) in the t year. The local government borrowing was measured by ration of local government debt and total capital expenditure.

CHAPTER FOUR:

4.0 DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introductions

This chapter presents the data analysis, presentation and interpretation of the study, the study analyzed the relationship between revenue mobilization and performance in local authorities.

4.2 Revenue Mobilization

Table 4. : Revenue mobilization Mean differences for 2002 to 2012

Summary statistics	Mean	Std. Dev.	Mean	Difference in mean
Budget Controls	0.022	0.016	0.015	-0.021* (-1.62)
Borrowing Funds	0.016	0.015	0.014	0.003*** (4.15)
Local authority revenue collection	0.032	0.012	0.011	0.001*** (4.02)
Transfer from central government	0.179	0.127	0.101	0.001 (0.99)

Source: Author (2013)

From the finding, table 4.1 above thebudget controls of the local government improve significantly from 0.015(average of the mean between 2002-2012) to 0.022 (average mean between 10years 2002 to 2012) .This implied that local authorities enhanced budget controls for the last 10 years.

The borrowing of funds improves significantly from 0.014 for 2002 to 0.016 for the year 2010 to 2011. This implied that the local authorities had continued borrowing to fund project and provide services.Variable were statistically significant, indicating that borrowed funds influence service delivery in local authorities.

The study found that there was significant improvement on local authority revenue collectionfor the local authorities was at 0.011 for the period of 2002and 2012 to 0.032.The study found that there was significant improvement of local authority revenue collection$0.001<p< 0.005$.This clearly indicated that there had been significant increase in Local authority revenue collection for the period of 2002 to 2012. This implied that the local government had devised strategies to collect revenue such as service charges, business fee, and payment of salaries and effectively fund collection practices. The findings concur with Chikati, (1999) who indicated local revenue collection included, business registration fees, waivers, interest rate, land rates, water services charge and other bills.

The study found that transfer from the central government had improves significantly from 0.0101 for 2002 to 0.179for the year 2012. This implied that the local authorities had continued receiving fund from the central government to enhance service delivery. The findings were statistically significant, indicating that transfers from central government had increased over the years from 2002 to 2012.The findings concurred with Blazek, (2005) who indicated thatlocal governments in developing countries derive their revenues from two principal sources 1) funds transferred to them from a higher level of government referred to as transfer payments 2) funds generated locally such as vehicle parking fees.

4.3 Relationship between Revenue Mobilization and Performance in Local Authorities

The regression modeltreats revenue mobilization independent variables while service delivery in the county as dependent variable.

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_{4} +$ ẹ

Y= Local authority Performance (Measured in terms of efficiency service delivery)

α = Constant Term

β_1= Beta coefficients

X_1= Budget Controls

X_2=Borrowing Funds

$X_{3=}$Local authority revenue collection

X4= Transfer from central government

ẹ = Error Term

The performance in service delivery was measured interms of efficiency which is a ratio of revenue collected versus the ranking performance.

A multivariate regression model was applied to the relationship between revenue mobilization and performance in the local authorities.

Table 4. : Model Summary

Model	R	R 2	Adjusted R^2	Std. Error of the Estimate	Change Statistics				
					R^2 Change	F Change	df1	df2	Sig. F Change
1	.082(a)	.798	.718	0.34	1.741	6	6.207	8.191	.001(a)

Source: Source: Author (2013)

Predictors: (Constant) Budget Controls, Borrowing Funds and capacity, Local authority revenue collection and Transfer from central government

Dependent: Performance

As illustrated on Table 4.2, R is the square root of R-Squared and is the correlation between the observed and predicted values of dependent variable implying that the association of 0.082 between revenue mobilization and performance in the local authorities

Adjusted R^2 is called the coefficient of determination which indicates hl authorities the performance varies with variation in revenue mobilization practices of budget controls, borrowing funds and capacity, local authority revenue collection and transfer from central government. This implied that, there was a variation of 71.8% of revenue mobilization and performance in the local authorities was statistically significant with P-Value of 0.01 which was less than 0.05 at a confidence level of 95%.

Table 4. : ANOVA (b)

Model		Sum of Squares	Df	Mean Square	F	Durbin-Watson statistic =	Sig.
1	**Regression**	3.841	14	.407	5.191	3.4641	0.001(a)
	Residual	7.714	21	. 9			
	Total	11.556	35				

Source: Author (2013)

Predictors: (Constant) Budget Controls, Borrowing Funds and capacity, Local authority revenue collection and Transfer from central government

Dependent: Performance

The Total variance (11.556) was the difference into the variance which can be explained by the independent variables (Model) and the variance which was not explained by the independent variables (Error). The strength of variation of the predictor values affects the performance in local authorities at 0.01 significant levels. In other words these results mean that the combined set of revenue mobilization practices tested in this study explain 0.718 of performance of local authorities. In order to make statistical inference of the regression equation, an analysis of variance was performed and at a confidence level of 95% the sum of squares deviations about the mean explained by the regression (SSR) is 40.7 whereas the sum of square unexplained by the regression represented by the error (SSE) is 9.

This means that the market factors tested have a strong explanatory value for the response variable (equity listings) giving the regression equation a strong explanatory power (p = 0.001; F= 5.191). The Durbin-Watson statistic, 3.4641 provides further information on the presence of first order autocorrelation between the variables being tested.

Table 4. *: Coefficients (a)*

Model		**Unstandardized Coefficients**		**t-Statistics**	**P-Value**	**VIF**
		B	Std. Error			
1	(Constant)	10.132	3.700	3.58	0.002	0.01
	Budget Controls	15.91	11.84	2.78	0.0011	3.7

	Borrowing Funds	13.2195	0.316	67.03	0.213	2.4
	Local authority revenue collection	20.231	2.5092	1.64	0.002	5.7
	Transfer from central government	16.0212	0.7840 -	0.03	0.004	1.8

Source: Author (2013)

Predictors: (Constant) Budget Controls, Borrowing Funds and capacity, Local authority revenue collection and Transfer from central government

Dependent: Performance

The Established Regression Equation

$Y=10.132 + 15.91 X_1+11.2195X_2+20.231 X_3+6.0256 X_4 +e$

where Constant= intercept (defines value of leverage without inclusion of predictor variables)

X1=Budget Controls

X2=Borrowing Funds

X3=Local authority revenue collection

X4=Local authority revenue collection

From the logit regression analysis, a positive relationship was established between budget control market development and efficiency service delivery in the local authorities. This is given by the positive sign of the coefficient *(β*=15.91*)* with P Value > 0.05 at 0.0011which is a strong positive, that is it provides strong evidence (0.0011<p<0.05) that budget controls is an influential factor for efficiency service delivery in the local authorities.

From the regression analysis, a positive relationship was established between borrowed fund andefficiency. However, the coefficient value is (β =13.2195) meaning that a unit change in borrowing would be influenced by a change in efficiency service delivery. The test of significance p-value result, p = 0.213, provides weak evidence (0.013<p>0.05) that borrowed fund by the local government is a factor that has no change in efficiency service delivery. Therefore borrowing of funds by local government does not statistically significantly influence efficiency delivery of services in local authorities

From the regression analysis, a positive relationship was established between Local authority revenue collectionand the performance in term of efficiency in service delivery in the local government by a (β =3.231). The test of significance provides overwhelming evidence ($p < 0.05$) that the local authority revenue collection influences quality and efficiency service delivery at p = 0.002. This is the strongest value obtained from the regression meaning that the local authority revenue collection was the most significant factor influencing delivery of services in local authorities efficiently. The findings concurred with Chikati, (1999) who found that efficient revenue collection improve significantly the serve in terms of roads, schools, and this was so because of the improved revenue collection process that meant more funds improvecouncil's ability to contract out this service to people who were experts in road renovation yielding to efficiency service delivery.

The study also found that a unit increase in transfer from the central governmentled to increase in efficiency service delivery as (β =16.0212). The test of significance provides significant evidence ($p< 0.05$) that the at $p = 0.004$.This implied that transfers from the central government had a great impact on efficiency service delivery in local government.The test of significance p-value result, $p = 0.004$, provides strong evidence ($0.001<p<0.05$) that funds from the central government either in LATTIF influence efficiency in service delivery. According to Blazek, (2005), the central governments contributed the bulk of local government revenues through transfers and still largely determine local budget priorities and enhance provision of service in local areas.

CHAPTER FIVE
CONCLUSIONS, RECOMMENDATIONS AND LIMITATIONS

5.1Introduction

This chapter presents a summary of the study giving the implications of the findings based on the research objectives, conclusions and recommendations. The objective of the study was to establish the relationship between revenue mobilization and performance of local authorities in Kenya.

5.2 Summary of the findings

The study established that there had been increase in revenue mobilization in the local authorities. The local government management was found to control budgets of the local authorities which was found to improve significantly from 2002 to 2012. The study revealed that borrowing of funds improves significantly for the period of the 10 years, clearly indicating thatlocal authorities had continued borrowing to fund project and provide and deliver services.Variable were statistically significant, indicating that borrowed funds influence service delivery in local authorities.

The study established that there was significant improvement on local authority revenue collectiont from 0.0110in 2002 to0.022 in the year 2012which indicated that local government had devised strategies to collect revenue such as service charges, business fee, and effectively fund collection practices. The study further revealed that transfer from the central government had improves significantly from 0.0101 for 2002 to 0.179for the year 2012.

The study established that there existed a positive relationship between revenue mobilization and performance in local government. From the logit regression analysis, a positive relationship was established between budget control market development and efficiency service delivery in the local authorities. The relationship was strong positive, that is it provides strong evidence ($0.0011<p<0.05$) that budget controls was an influential factor for efficiency service delivery in the local authorities. The findings concurred with Bowman(2003) who indicated that budgeting influence effective control of expenditure and enhance financial management and planning through variance analysis. This facilitated coordination and cooperation between the various programs and financial departments, henceincreasing revenue collection which significantly influence performance in local authorities in developing countries.

The study also established borrowing of funds by local government does not statistically significantly influence efficiency delivery of services in local authorities e ($P>0.05$) that borrowed fund by the local government is a factor that has no change in efficiency service delivery.

The study established that there existeda positive relationship between local authority revenue collection and the performance in term of efficiency in service delivery in the local government. The increase in local authority revenue collection led to statistically significant increase in efficient service delivery. The efficient revenue collection improve significantly the services in terms of roads, schools, and hospitals.This wasbecause of the improved revenue collection process that meant more funds improve council's ability to contract out this service to people who were experts in road renovation yielding to efficiency service delivery.

The study revealed increased in central government transfer fund such as LATF from the central government led to increase in efficiency service delivery by factor 16.0212.and that change were statistically significance with $0.004<p< 0.05$) This clearly indicated that transfers from the central government had a great impact on efficiency service delivery in local government.The test of significance p-value result, $p = 0.004$, provides strong evidence ($0.001<p<0.05$) that funds from the central government either in LATF influence efficiency in service delivery. According to Blazek, (2005), the central governments contributed the bulk of local government revenues through transfers and still largely determine local budget priorities and enhance provision of service in local areas.

5.3 Conclusions

The study concludes that local authorities budgeting greatly influence revenue mobilization. The study from the regression analysis revealed that there was a statistically significant relationship between budgeting and efficiency service delivery. Local governments in Kenya need to institute sound budgeting processes, both at the organizational level and within programs. The use of the budget to control local authorities' funds and guard against over or under expenditure would be a critical element in management. The local authorities should also encouraged to draw up annual budgets and have them approved by the board and ensure that variance analysis is carried out at determined interval and passed on to the management for action. The local authorities should also consider self-generated income as a source of funding their activities in order to supplement the revenue from donors and central government. Hence local authorities in Kenya need to improve their budgeting if they want to improve efficient service delivery.

The study concluded that increased in central government transfer fund such as LATF from the central government led to increase in efficiency service delivery. This was because transfers from the central government had a great impact on efficiency service delivery in local government.The local government management should enhance collection of revenue by effectively collecting user charges for utilities such as power, water, telecommunications, rental or lease agreements for facilities or equipment.

5.4 Limitations of the Study

The study faced several limitations. Obtaining of data from the local government was a great challenge and the management in the local government was uncooperative, however the researcher explained that the data that was to be obtained was for academic purpose only. The study was also limited to the degree of precision of the data obtained from the local government financial records.

The study also faced challenges of time resources limiting the study from collecting information for the study particularly where the local government management delayed giving the local authorities financial reports. To mitigate this, the researcher made often follow up and enhance collection of sufficient data from the local authorities

5.5Recommendation of the Study

In light of the findings and the need for local government to provide quality services ,the local authorities need to put more effort in ensuring that local revenue collection and administration is improved to provide quality service to the people. Transfer from national government is only meant to supplement the budget.

The study recommend that revenue collection in local government should be privatized by giving out tenders to individuals or companies to collect revenues on behalf of local government to reduce the increasing rate of tax defaulters and constituting enforcement teams to check businesses that have failed to pay taxes and penalize them accordingly to increased revenue mobilization.

The local government should increase sensitization, mobilization and publicity to the community about the importance of revenue collection. This can be done through rallies, village meetings, newspapers, radio programmes, commissioning of projects and use of local revenues collected for activities that have immediate and visible impact.

The study finally recommend that local authorities should explore other sources of local revenue collection for example fines and fees imposed by local council courts, annual bicycle license user charges, fees and property rates to improve revenue mobilization to effectively improve efficient service delivery.

5.6Recommendation for Further Study

This study examined therelationship between revenuemobilization and performance in local authorities. A further study should be carried out to examine,Local Government expenditure and efficiency levels of administrators.

The study also recommends that a further study should be carried out to determine the challenges facing revenue mobilization in local government. The study finally recommends that study should be conducted to establish the factors that influence effective resources management in local government to enhance service delivery.

REFERENCES

Abonyo,K.O. (2003). Strategic Business Challenges for Non-governmental Organizations in Managing Profitable Business Enterprise: A Case Study of Undugu Society of Kenya. *Unpublished Master of Business Administration dissertation*, USIU Africa.

Alam, S.,Noore, D., Dian., N., &Nur, A. S. (2012). Regional Autonomy and Local Resource Mobilization in Eastern Indonesia: Problems and Pitfalls of Fisca Decentralization. Asian Affairs: An American Review. 39 (1): 44-68

Amir, J., Carolyn, R. D., &Aman S. (1993) Agency Theory: Implications for Financial Management, Managerial Finance, 14 Issue 4, 1 -5

Anthony, R, & Young, D. (2004).*Management Control in Not for Profit Organizations*, Boston, Richard D Irwin.

Blazek, J. (2005). *Financial Planning for Not for Profit Organizations*, New York: John Wiley & Sons Inc.

Bird, R. (2008). Tax Challenges Facing Developing Countries, New Delhi: National Institute of Public Finance and Policy.

Blazek, J. (2005). *Financial Planning for Not for Profit Organizations*, New York: John Wiley & Sons Inc.

Bray, J. (2008). *Effective Fundraising for Non Profits*, Berkley, Consolidated Printers Inc.

Brewer, L., Chandler, R.C., &Ferrell, O.C. (2006), Managing Risks for Corporate Integrity: How to Survive an Ethical Misconduct Disaster, South-Western, Belmont, CA.

Brooksons, S. (2002).*Managing Budgets*, New York: Darling Kindersley Books

Chelogoy, M, Anyango, H.&Odembo, E. (2004).*An Introduction to Non Profit Sector in Kenya*, London: Allavida

Chikati, J. (1999). *Complete East African Fundraising Hand book*, Nairobi, Institute of Fundraising & Direct Marketing.

Covey, J. (2003).*NGO's. Partners or contractors*, Oxford: INTRAC Development.

Davis, J., Rolando, O. &Annalisa, F. (2003). *Fiscal Policy Formulation and Implementation in Oil-Producing Countries* (Washington: International Monetary Fund).Development).

Dixit, A. (1991). The Optimal Mix of Inflationary Finance and Commodity Taxation with Collection Lags, *IMF Staff Papers*, 38, 643–54.

Djankov, H., D., James, R.& Hines, J. (2009). Which Countries Become Tax Havens?*Journal of Public Economics*, 93, 1058–068.

Ebeke, E. &Ehrhart, H. (2010). Tax Revenue Instability in sub-Saharan Africa: Consequences and Remedie, mimeo, CERDI, Auvergne University.

Fjeldstad, O.H., Katera, L., Msami, J. &Ngalewa, E. (2010).Local Government Finances and Financial Management in Tanzania: *Empirical evidence of trends 2000-2007.*

REPOA Special Paper No. 10-2010. Dar es Salaam: Research on Poverty Alleviation.

Fowler, A., & James, R. (2002). The *role of Oxford Southern NGO's in Development cooperation*, London UK, INTRAC

Gauthier, B. &Mark, G. (1997). Revenue Erosion and Evasion in Cameroon, 1993, *Journal of Public Economics*, 64, 407–24

Ghura, D. (2006). Tax Revenue in sub-Saharan Africa: Effects of Economic Policies and Corruption, IMF Working Paper 98/135 Washington: International Monetary Fund.

Gordon, R. (2010).*Taxation in Developing Countries: Six Case Studies and Policy Implications* (New York: Columbia University Press.

Graham, P. (2000).*International Society for Third Sector Research (ISTR) e-discussion list*.

Greene, W. (2008). The Econometric Approach to Efficiency Analysis in the local *Quarterly Journal of Economics*, 102, 129

Harrison, G. (2008). VAT Refunds, in *VAT in Africa*, ed. by Richard Krever (Pretoria) ,*Journal of Public Economics*, 93, 1058–068.

Hazel, C. (2005). Tax Policy in Developing Countries: What can be Learned from OECD Experience? *Journal of Public Economics*, Vol. 93, pp. 855–66.

Holloway, R. (2003). Towards Financial Self Reliance, London: Earth Scan Publications Ltd. *Journal of Public Economics*, 92, 1892–906.

Horngen, C., Foster, G.&Datar, M, (2007*). Cost Accounting, A Managerial Emphasis*, Upper Saddle River: Prentice Hall

Houghton, C. (2005). *Philanthropy in East Africa*, London, Allavida

IFC, (2007). Designing a Tax System for Micro and Small Businesses: Guide for Practitioners. International Monetary Fund, 2000, Recent Experience with the Value-Added Tax—*An Overview International Monetary Fund*.
International Tax and Public Finance, 17, 340–56.

Jeremy, H & Fraser, R. (2003). *Beyond Budgeting*, Boston, Harvard Business School Publishing Corporation

Juul, R. (2006). "The Digital Provide: Information (Technology), Market Performance and Welfare in the South Indian Fisheries Sector," *Quarterly Journal of Economics*, 122, 879–924.

Kanbur, R. (2009). Conceptualizing Informality: Regulation and Enforcement," Department of Applied Economics and Management, Cornell University, WP 2009–11.

Khadingala, G. &Mitulla, W. (2004). Kenya centralization through the devolution of Power, Washington DC, Woodrow Wilson Centre Press.

Kidd, M., & William, C. (2006). Revenue Authorities: Issues and Problems in Evaluating their Success, *IMF Working Paper 06/240*.Washington: International Monetary Fund.

Klein, K. (2004). *Fundraising in Times of Crisis, New York*, Chardon Press Series

Kloeden,D. (2000). Revenue Administration Reforms in Anglophone Africa Since the Early-1990s, IMF Working Paper (Washington: International Monetary Fund).
Measurement of Productive Efficiency and Productivity Growth, ed. by Harold Fried,

Mugenda A.&Mugenda, O. (2003).*Research methods Quantitative and qualitative approaches* by Mugenda, Nairobi, Kenya

Ngechu, M. (2006).*Understanding the Research Process and Method*, University of Nairobi. Starbright Services Ltd.

Njambi, R. (2003). *Local Resource mobilization by non governmental organizations in East Africa,* Nairobi: Ford foundation

Norton, M. (2003).*The Worldwide Fundraisers Handbook*, London: Directory of Social Change

Odhiambo, M.A. (2005). Management of Resources by Local Authorities: The case of Local Authority Transfer Fund, Nairobi, Claripress.

Republic of Kenya (2010). The 2010 Constitution of Kenya Article Vol.97, (1) (b) Membership of the National Assembly

Rick, R. (2002). *Strengthening the Capacity of Southern NGO's*, Oxford, INTRAC

Robbins, S. (2005). *Organizational Behaviour*, New Jersey: Prentice Hall.

Ross, B.& Segal. C. (2003).*Break Through Thinking for NGO's*, San Francisco: Jossey –Bass Books

Schermerhorn, J., Hunt, G.& Osborn, R. (2003). *Organizational Behaviour*, John Wiley & Sons Inc

Sprinkel, K. (2005). *Beyond Fundraising,* New Jersey, John Wiley & sons Inc

Thuronyi, V. (2001). International Tax Cooperation and a Multilateral Treaty," *BrooklynJournal of International Law*, 26, 1641–681.

Tibaijuka, A. K. (2005).Key Competencies for Improving Local Governance; Local Elected

United Nations (2005).*Investing in Development* (New York: United Nations).

Venables, A. J., (2010). Resource Rents; When to Spend and How to Save," inDecentralization, local taxation and citizenship in Senegal. *Development and Change*.Vol.37 (4): pp.821–46

Waema, E. (2003). *Building Credibility: The Foundation for Fundraising*, Ontario , ITDG Publishing

Wallace, E. G. (1994). Federalism and government finance in modern public finance Quigley, *Journal of Enterprise Resources*. Smolenkey, edition, Harvard University Press

Wanjohi, N. G., (2003**).** Modern Local Government in Kenya, (KAS) and (ADEC), Nairobi

Westein, S. (2005). *The Complete Guide to Fundraising Management*, New York: John Wiley & Sons

Westman, E. (2004). *Building Structures and Skills for Fundraising*, Ontario: ITDG Publishing

APPENDICE

Appendix I: Introduction Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 3/10/2013

TO WHOM IT MAY CONCERN

The bearer of this letter PARSALOI KAPAYA TOROME

Registration No. D61/78970/2009

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
03 OCT 2013
MBA OFFICE
P.O. Box 30197 – 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

Appendix II: List of Local; Authorities in Kenya

LOCAL AUTHORITIES AS PER COUNTIES		
1. BARINGO COUNTY		
Number	**Code**	**Name**
1	16	County Council of Baringo
2	91	Town Council of Eldama Ravine
3	156	Municipal Council of Kabarnet
4	316	County Council of Koibatek
2. BOMET COUNTY		
Number	**Code**	**Name**
1	21	County Council of Bomet
2	26	Municipal Council of Bomet
3	51	County Council of Bureti
4	346	Town Council of Litein
5	761	Town Council of Sotik
3. BUNGOMA COUNTY		
Number	**Code**	**Name**
1	41	County Council of Bungoma
2	46	Municipal Council of Bungoma
3	266	Municipal Council of Kimilili
4	391	Town Council of Malakisi
5	521	County Council of Mount Elgon
6	756	Town Council of Sirisia
7	861	Municipal Council of Webuye
4. BUSIA COUNTY		
Number	**Code**	**Name**
1	61	County Council of Busia
2	66	Municipal Council of Busia
3	111	Town Council of Funyula
4	386	Town Council of Malaba
5	581	Town Council of Nambale

6	706	Town Council of Port Victoria
7	796	County Council of Teso
5. ELGEYO MARAKWET		
Number	**Code**	**Name**
1	151	Town Council of Iten-Tambach
2	216	County Council of Keiyo
3	431	County Council of Marakwet
6. EMBU COUNTY		
Number	**Code**	**Name**
1	101	County Council of Embu
2	106	Municipal Council of Embu
3	476	County Council of Mbeere
4	731	Municipal Council of Runyenjes
7. GARISSA COUNTY		
Number	**Code**	**Name**
1	116	County Council of Garissa
2	121	Municipal Council of Garissa
3	143	County Council of Ijara
8. HOMA BAY COUNTY		
Number	**Code**	**Name**
1	136	County Council of Homa Bay
2	141	Municipal Council of Homa Bay
3	221	Town Council of Kendu Bay
4	481	Town Council of Mbita Point
5	696	Town Council of Oyugis
6	711	County Council of Rachuonyo
7	766	County Council of Suba
9. ISIOLO COUNTY		
Number	**Code**	**Name**
1	146	County Council of Isiolo

10. KAJIADO COUNTY		
Number	**Code**	**Name**
1	161	Town Council of Kajiado
2	686	County Council of Olkejuado

11. KAKAMEGA COUNTY		
Number	**Code**	**Name**
1	71	County Council of Butere-Mumias
2	166	County Council of Kakamega
3	171	Municipal Council of Kakamega
4	366	County Council of Lugari
5	396	Town Council of Malava
6	541	Municipal Council of Mumias

12. KERICHO COUNTY		
Number	**Code**	**Name**
1	226	Municipal Council of Kericho
2	271	Town Council of Kipkelion
3	276	County Council of Kipsigis
4	356	Town Council of Londiani

13. KIAMBU COUNTY		
Number	**Code**	**Name**
1	206	Town Council of Karuri
2	241	County Council of Kiambu
3	246	Municipal Council of Kiambu
4	251	Town Council of Kikuyu
5	341	Municipal Council of Limuru
6	721	Municipal Council of Ruiru
7	806	County Council of Thika
8	811	Municipal Council of Thika

14. KILIFI COUNTY		
Number	**Code**	**Name**
1	256	County Council of Kilifi
2	261	Town Council of Kilifi
3	401	County Council of Malindi
4	406	Municipal Council of Malindi
5	441	Town Council of Mariakani

15. KIRINYAGA COUNTY		
Number	**Code**	**Name**
1	236	Municipal Council of KerugoyaKutus
2	281	County Council of Kirinyaga
3	736	Town Council of Sagana

16. KISII COUNTY		
Number	**Code**	**Name**
1	126	County Council of Gucha
2	131	County Council of Gusii
3	231	Town Council of Keroka
4	286	Municipal Council of Kisii
5	456	Town Council of Masimba
6	621	Town Council of Nyamache
7	626	Town Council of Nyamarambe
8	676	Town Council of Ogembo
9	771	Town Council of Suneka
10	776	Town Council of Tabaka

17. KISUMU COUNTY		
Number	**Code**	**Name**
1	6	Town Council of Ahero
2	291	County Council of Kisumu
3	296	Municipal Council of Kisumu
4	536	Town Council of Muhoroni
5	651	County Council of Nyando

18. KITUI COUNTY		
Number	**Code**	**Name**
1	306	County Council of Kitui

2	311	Municipal Council of Kitui
3	556	County Council of Mwingi
4	561	Town Council of Mwingi
19. KWALE COUNTY		
Number	**Code**	**Name**
1	321	County Council of Kwale
2	326	Town Council of Kwale
20. LAIKIPIA COUNTY		
Number	**Code**	**Name**
1	331	County Council of Laikipia
2	596	Municipal Council of Nanyuki
1	616	Municipal Council of Nyahururu
3	726	Town Council of Rumuruti
21. LAMU COUNTY		
Number	**Code**	**Name**
1	336	County Council of Lamu
22. MACHAKOS COUNTY		
Number	**Code**	**Name**
1	186	Town Council of Kangundo
2	371	Municipal Council of Machakos
3	451	County Council of Masaku
4	461	Town Council of Matuu
5	471	Municipal Council of Mavoko
23. MAKUENI COUNTY		
Number	**Code**	**Name**
1	376	County Council of Makueni
2	531	Town Council of MtitoAndei
3	866	Town Council of Wote
24. MANDERA COUNTY		
Number	**Code**	**Name**
1	411	County Council of Mandera
2	416	Town Council of Mandera

25. MARSABIT COUNTY		
Number	**Code**	**Name**
1	446	County Council of Marsabit
2	526	County Council of Moyale
26. MERU COUNTY		
Number	**Code**	**Name**
1	466	Municipal Council of Maua
2	486	County Council of Meru
3	491	Municipal Council of Meru
4	631	County Council of Nyambene
27. MIGORI COUNTY		
Number	**Code**	**Name**
1	11	Town Council of Awendo
2	211	Municipal Council of Kehancha
3	501	County Council of Migori
4	506	Municipal Council of Migori
5	716	Town Council of Rongo
28. MOMBASA COUNTY		
Number	**Code**	**Name**
1	516	Municipal Council of Mombasa
29. MURANG'A COUNTY		
Number	**Code**	**Name**
1	176	Town Council of Kandara
2	181	Town Council of Kangema
3	381	Town Council of Makuyu
4	421	County Council of Maragwa
5	426	Town Council of Maragwa
6	546	County Council of Murang'a
7	551	Municipal Council of Murang'a
30. NAIROBI COUNTY		
Number	**Code**	**Name**
1	1	City Council of Nairobi

31. NAKURU COUNTY		
Number	**Code**	**Name**
1	511	Town Council of Molo
2	566	Municipal Council of Naivasha
3	571	County Council of Nakuru
4	576	Municipal Council of Nakuru
32. NANDI COUNTY		
Number	**Code**	**Name**
1	196	Municipal Council of Kapsabet
2	586	County Council of Nandi
3	591	Town Council of Nandi-Hills
33. NAROK COUNTY		
Number	**Code**	**Name**
1	601	County Council of Narok
2	606	Town Council of Narok
3	816	County Council of Trans Mara
34. NYAMIRA COUNTY		
Number	**Code**	**Name**
1	636	County Council of Nyamira
2	641	Town Council of Nyamira
3	656	Town Council of Nyansiongo
35. NYANDARUA COUNTY		
Number	**Code**	**Name**
2	646	County Council of Nyandarua
3	681	Town Council of Ol'Kalou
36. NYERI COUNTY		
Number	**Code**	**Name**
1	201	Municipal Council of Karatina

2	661	County Council of Nyeri
3	667	Municipal Council of Nyeri
4	691	Town Council of Othaya
37. SAMBURU COUNTY		
Number	**Code**	**Name**
1	436	Town Council of Maralal
2	741	County Council of Samburu
38. SIAYA COUNTY		
Number	**Code**	**Name**
1	31	County Council of Bondo
2	36	Town Council of Bondo
3	746	County Council of Siaya
4	751	Municipal Council of Siaya
5	826	Town Council of Ugunja
6	831	Town Council of Ukwala
7	871	Town Council of Yala
39. TAITA/TAVETA COUNTY		
Number	**Code**	**Name**
1	781	County Council of TaitaTaveta
2	791	Town Council of Taveta
3	846	Municipal Council of Voi
40. TANA RIVER COUNTY		
Number	**Code**	**Name**
1	786	County Council of Tana River
41. THARAKA-NITHI COUNTY		
Number	**Code**	**Name**
1	81	Town Council of Chogoria
2	86	Municipal Council of Chuka
3	496	County Council of Meru South
4	801	County Council of Tharaka

42. TRANS NZOIA COUNTY		
Number	**Code**	**Name**
1	301	Municipal Council of Kitale
2	671	County Council of Nzoia
43. TURKANA COUNTY		
Number	**Code**	**Name**
1	351	Municipal Council of Lodwar
2	821	County Council of Turkana
44. UASIN GISHU COUNTY		
Number	**Code**	**Name**
1	56	Town Council of Burnt Forest
2	96	Municipal Council of Eldoret
3	856	County Council of Wareng
45. VIHIGA COUNTY		
Number	**Code**	**Name**
1	361	Town Council of Luanda
2	836	County Council of Vihiga
3	841	Municipal Council of Vihiga
46. WAJIR COUNTY		
Number	**Code**	**Name**
1	851	County Council of Wajir
47. WEST POKOT COUNTY		
Number	**Code**	**Name**
1	76	Town Council of Chepareria
2	191	Municipal Council of Kapenguria
3	701	County Council of Pokot
	GRAND TOTAL	

Appendix III

PERFORMANCE EVALUATION

1. Basic Framework

The following framework is the core basis for performance evaluation.

Criteria Range *Upper Lower*	Range Span	Performance Grade
1.00 – 1.49	0.49	Excellent
1.50 – 2.49	0.99	Very Good
2.50 – 3.49	0.99	Good
3.50 - 3.59	0.09	Fair
3.60 – 5.00	1.40	Poor

Excellent =achievement ≥30 per cent above the agreed performance target

For some of the indicators where achievement is 100 per cent or lower, the raw scores are as indicated below:

	Achievement	**100 per cent**	**<100 per cent**
No.	**Performance Indicator**	**Raw Score**	
1.	Compliance with Strategic Plan	2.49	Compute
2.	Development of Service Charter	2.49	5.00
3.	Corruption Eradication: Establishment of Corruption Eradication Structures	2.49	Compute
5.	Disposal of Idle Assets	2.49	Compute
6.	Customer Satisfaction Survey (baseline)	2.49	5.00
7.	Employee Satisfaction Survey (baseline)	2.49	5.00
8.	Compliance with set Budget Levels	2.49	Compute
9.	HIV/AIDS Behavioural Change	2.49	Compute
10.	Fulfillment of Statutory Obligations	2.49	Compute

11.	Safety Measures	2.49	Compute
12.	Repair	2.49	Compute
13.	Maintenance	2.49	Compute
12.	Utilization of Allocated Funds	2.49	Compute
13.	Project Implementation	2.49	Compute

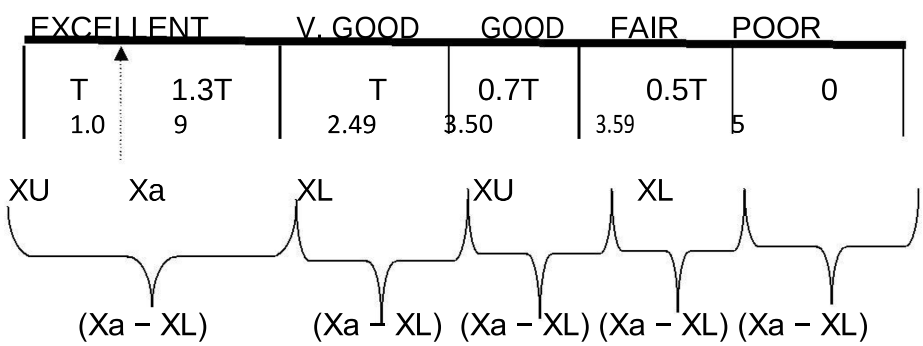
Very Good - Achievement of the set target in the performance contract up to 129.99 per cent of the target.

Good - Achievement between 70 per cent and 99.99 per cent of the set target

Fair - Achievement between 50 per cent and 69.99 per cent of the target

Poor - Achievement between 0 per cent and 49.99 per cent of the target

Formula used in calculating the Raw Score:



Raw Score

= upper criteria value limit + span $\frac{(Xu - Xa)}{(Xu - XL)}$

OR

Raw Score

= lower criteria value limit – span $\frac{(Xa - XL)}{(Xu - X+L)}$

APPENDIX IV

PERFORMANCE EVALUATION RESULTS FOR LOCAL AUTHORITIES

No.	LOCAL AUTHORITY	COMPOSITE SCORE
	EXCELLENT	
	NONE	
	VERY GOOD	
1.	Town Council of Kikuyu	2.2497
2.	Town Council of Othaya	2.2880
3.	Municipal Council of Machakos	2.3257
4.	Municipal Council of Ruiru	2.3852
5.	County Council of Siaya	2.4459
6.	Town Council of Molo	2.4630
7.	County Council of Thika	2.4700
8.	County Council of Mwingi	2.4751
9.	Municipal Council of Murang'a	2.4788
10.	County Council of Nyeri	2.4797
11.	County Council of Kwale	2.4916
	GOOD	
12.	Town Council of Mandera	2.5140
13.	County Council of Kiambu	2.5263
14.	County Council of Masaku	2.5311
15.	Town Council of Rongo	2.5342
16.	Municipal Council of Eldoret	2.5676
17.	Municipal Council of Nyahururu	2.5831
18.	Municipal Council of Nakuru	2.5968
19.	Municipal Council of Nyeri	2.6080
20.	County Council of Makueni	2.6081
21.	Town Council of Wote	2.6096
22.	Town Council of Malaba	2.6142
23.	County Council of Kirinyaga	2.6173
24.	County Council of Murang'a	2.6190
25.	Municipal Council of Kitui	2.6429
26.	County Council of Moyale	2.6440
27.	County Council of Marakwet	2.6457
28.	County Council of Bureti	2.6458
29.	County Council of Vihiga	2.6460

No.	LOCAL AUTHORITY	COMPOSITE SCORE
30.	County Council of Wajir	2.6616
31.	County Council of Keiyo	2.6630
32.	Town Council of Yala	2.6670
33.	Town Council of Nyamache	2.6702
34.	County Council of Ol- Kejuado	2.6951
35.	County Council of Bondo	2.7026
36.	County Council of Bomet	2.7056
37.	County Council of Kilifi	2.7145
38.	County Council of Kitui	2.7187
39.	County Council of Laikipia	2.7288
40.	Town Council of Kangundo	2.7291
41.	County Council of Transmara	2.7300
42.	Town Council of Sagana	2.7316
43.	Town Council of Chepareria	2.7322
44.	Municipal Council of Kiambu	2.7332
45.	County Council of Migori	2.7341
46.	Municipal Council of Meru	2.7354
47.	County Council of Tharaka	2.7403
48.	Town Council of Maragua	2.7430
49.	Municipal Council of Vihiga	2.7596
50.	Municipal Council of Voi	2.7648
51.	County Council of Nyandarua	2.7675
52.	Town Council of Taveta	2.7698
53.	County Council of Gusii	2.7764
54.	Municipal Council of Mavoko	2.7796
55.	Town Council of Mwingi	2.7798
56.	County Council of Isiolo	2.7846
57.	County Council of Nyando	2.7990
58.	County Council of Narok	2.8041
59.	County Council of Embu	2.8063
60.	County Council of Butere -Mumias	2.8219
61.	Town Council of Karuri	2.8265
62.	Municipal Council of Bomet	2.8468
63.	Municipal Council of Embu	2.8488
64.	Town Council of Keroka	2.8511
65.	Town Council of Ukwala	2.8592
66.	Municipal Council of Naivasha	2.8598
67.	Municipal Council of Karatina	2.8609

No.	LOCAL AUTHORITY	COMPOSITE SCORE
68.	Town Council of Kilifi	2.8653
69.	County Council of Wareng	2.8657
70.	County Council of Taita Taveta	2.8687
71.	County Council of Tana River	2.8750
72.	County Council of Bungoma	2.8856
73.	Town Council of Muhoroni	2.8858
74.	Municipal Council of Limuru	2.8916
75.	Municipal Council of Malindi	2.9005
76.	Municipal Council of Kehancha	2.9059
77.	Municipal Council of Chuka	2.9098
78.	Municipal Council of Maua	2.9111
79.	Town Council of Ol-kalou	2.9149
80.	Municipal Council of Bungoma	2.9222
81.	County Council of Rachuonyo	2.9242
82.	Town Council of Kangema	2.9293
83.	County Council of Nyamira	2.9354
84.	Town Council of Chogoria	2.9580
85.	County Council of Samburu	2.9672
86.	County Council of Baringo	2.9678
87.	Town Council of Kandara	2.9855
88.	Municipal Council of Siaya	2.9885
89.	County Council of Mbeere	2.9900
90.	County Council of Meru Central	2.9929
91.	Town Council of Ugunja	2.9941
92.	Town Council of Maralal	3.0055
93.	Town Council of Kendu Bay	3.0076
94.	Municipal Council of Migori	3.0334
95.	Municipal Council of Kapenguria	3.0444
96.	Town Council of Suneka	3.0500
97.	Municipal Council of Kericho	3.0552
98.	County Council of Nzoia	3.0617
99.	County Council of Gucha	3.0831
100.	Municipal Council of Kabarnet	3.0857
101.	County Council of Busia	3.0872
102.	County Council of Koibatek	3.1008
103.	Town Council of Luanda	3.1025
104.	Town Council of Nandi-Hills	3.1052
105.	County Council of Garissa	3.1065

No.	LOCAL AUTHORITY	COMPOSITE SCORE
106.	County Council of Homa Bay	3.1068
107.	County Council of Malindi	3.1109
108.	Town Council of Narok	3.1138
109.	County Council of Kakamega	3.1141
110.	Town Council of Kipkelion	3.1319
111.	Town Council of Awendo	3.1336
112.	County Council of Teso	3.1421
113.	Town Council of Sirisia	3.1631
114.	Town Council of Litein	3.1794
115.	Town Council of Mariakani	3.2067
116.	Municipal Council of Thika	3.2310
117.	Municipal Council of Mumias	3.2311
118.	Municipal Council of Kapsabet	3.2328
119.	Town Council of Sotik	3.2364
120.	Town Council of Iten-Tambach	3.2386
121.	County Council of Turkana	3.2468
122.	Municipal Council of Kitale	3.2544
123.	County Council of Nandi	3.2580
124.	County Council of Nakuru	3.2715
125.	Town Council of Nyamira	3.2718
126.	Town Council of Malava	3.2948
127.	City Council of Nairobi	3.3089
128.	County Council of Mandera	3.3094
129.	County Council of Ijara	3.3225
130.	Municipal Council of Kimilili	3.3434
131.	Town Council of Mbita Point	3.3460
132.	Town Council of Ogembo	3.3546
133.	Municipal Council of Busia	3.3785
134.	Municipal Council of Kakamega	3.4030
135.	Municipal Council of Webuye	3.4112
136.	Town Council of Kajiado	3.4192
137.	County Council of Lugari	3.4287
138.	County Council of Nyambene	3.4290
139.	County Council of Pokot	3.4366
140.	Town Council of Bondo	3.4431
141.	Municipal Council of Kerugoya-Kutus	3.4489
142.	County Council of Meru South	3.4540
143.	Municipal Council of Kisii	3.4807

No.	LOCAL AUTHORITY	COMPOSITE SCORE
	FAIR	
144.	Town Council of Port Victoria	3.5143
145.	Town Council of Burnt Forest	3.5333
146.	Town Council of Eldama Ravine	3.5377
147.	Town Council of Rumuruti	3.5609
	POOR	
148.	Town Council of Malakisi	3.6136
149.	Town Council of Nyansiongo	3.6299
150.	Town Council of Makuyu	3.6692
151.	County Council of Kipsigis	3.6722
152.	Town Council of Londiani	3.6880
153.	Town Council of Oyugis	3.6908
154.	Municipal Council of Garissa	3.7073
155.	Town Council of Masimba	3.7198
156.	Town Council of Ahero	3.7254
157.	Municipal Council of Runyenjes	3.7464
158.	County Council of Maragua	3.7581
159.	Town Council of Kwale	3.7600
160.	Municipal Council of Mombasa	3.7696
161.	Town Council of Matuu	3.7724
162.	Town Council of Funyula	3.7805
163.	County Council of Marsabit	3.7852
164.	Town Council of Nambale	3.8137
165.	County Council of Suba	3.8259
166.	County Council of Lamu	3.8564
167.	Municipal Council of Kisumu	3.8944
168.	County Council of Kisumu	3.9258
169.	County Council of Mt. Elgon	3.9295
170.	Municipal Council of Nanyuki	4.0711
171.	Town Council of Mtito Andei	4.1767
172.	Municipal Council of Lodwar	4.2284
173.	Town Council of Nyamarambe	4.8472
174.	Municipal Council of Homa Bay	5.0000
175.	Town Council of Tabaka	5.0000