

**REVENUE TRANSFER, ABSORPTION RATE AND
PERFORMANCE OF DEVOLVED UNITS IN KENYA**

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DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

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This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

This project is dedicated to my dear husband Dr. Duncan Mugambi and my Lovely sons: Leonne Njeru and Myles Muthomi for their patience, support, moral encouragement and understanding during the entire duration of my Masters study.

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LIST OF ABBREVIATIONS

AGBIRR	Annual Government Budget Implementation Review Reports
ANOVA	Analysis of Variance
CLRM	Classical Linear Regression Model
COB	Controller of Budget
CoK	Constitution of Kenya
ECOWAS	Economic Community of West Africa States
GCP	Gross County Product
GDP	Gross Domestic Product
KNBS	Kenya National Bureau of Statistics
OLS	Ordinary Least Square
PFM	Public Finance Management
SPSS	Statistical Package for Social Sciences
VAR	Vector Auto Regression
VIF	Variance Inflation Factors

ABSTRACT

From the year 2013, the National Government began transferring a minimum 15% of nationally collected revenue which has been most recently audited by the auditor general to the 47 Counties for use in their various programmes and projects. The funds are distributed among all counties based on a set of criteria that includes population size, land area, and poverty levels. Conversely, county governments raise funds from local sources to augment transfers from the federal government. This is done through local tax collection in the form of property rates, charges and various fees. This research sought to bring out the effect of revenue transfer and absorption rate on the performance of devolved units in Kenya. Local revenue collection and recurrent spending were used as the control variables in the model. Descriptive research design was used. The target population was the 47 devolved units in Kenya. Research variables data were derived from office of the auditor general, officer of the controller of budgets, KNBS and AGBIRR from 2016 to 2020 for all the 47 devolved units. Regression and correlation analysis were used to test the study hypotheses by establishing the relationship between revenue transfer and performance. The study found that revenue transfer ($\beta=0.111$, $p=0.000$) and local revenue collection ($\beta=0.033$, $p=0.007$) had a positive and significant effect on the performance among devolved units in Kenya. The study also found that absorption rate ($\beta=0.003$, $p=0.463$) and recurrent spending ($\beta=0.000$, $p=0.905$) had no significant effect on the performance among devolved units in Kenya. The results also indicated R^2 of 0.247 which implied that the selected independent variables contributed 24.7% to variations in performance. The study recommends that policy makers such as members of parliament should come up with policies that increase revenue transfer to the counties as this will lead to an increase in performance of devolved units. County heads should also advocate for an increase in revenues allocated to the counties. The study further recommends that heads of devolved units should develop strategies aimed at increasing local revenue collection without hurting the businesses as an increase in local revenue leads to a rise in performance. Members of the county assembly should also develop policies aimed at increasing the local revenue tax base.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The debate on performance of counties is fundamental given its potential in influencing rapid economic growth and social development of the entire economy. Despite the significant efforts made to promote the devolved system of governance by empowering counties in developing countries, the expected impact on performance has not been realized (Mutungi, 2017). A study by Ocharo (2019) focusing on budgeting and performance of counties concluded that the main impediments to performance of counties is inadequate revenue transfer and low absorption rate.

This study was anchored on various theories including Oates (1972) decentralization theorem which specifies that some goods as well as services are distinctively suited for some precise areas and not others. This is because of diversity in tastes, preferences as well as natural endowments leading to efficiency in allocation of resources (Hallwood & MacDonald, 2010). Musgrave (1959) decentralization theorem contested that sub-national government use fiscal decentralization to entice individuals into their locality by “choosing with their feet”. The theory argues that interjurisdictional competitions disciplines governments and pressurizes them to provide local public goods more efficiently. By allowing local public choice of goods and services, flexibility is encouraged which improves performance as sub-national government are then able to respond to variations in tastes and preferences. The Robert Solow growth model developed in the 1950’s also seeks to explain how financing of capital projects and higher performance are interrelated. It argues that future rates of growth of outputs depend on current investments in capital goods.

In the year 2010, Kenya promulgated a new constitution that introduced far-reaching reforms and a new system of governance commonly referred to as devolution. This is a highly advanced form of governance where political, fiscal, administrative and regulatory authority and responsibility are transferred from the national to sub national levels through statutory or constitutional reforms (Oates, 1972). The dearth of recent empirical studies in Kenya, linking the identified key variable jointly and their implications or effects to one another provide the motivation for this study. It is a generally accepted expectation that the level and pace of service delivery and wellbeing of citizens will be impacted in a positive way by the constitutional reforms (Ndi, 2010).

1.1.1 Revenue Transfer

In general, revenue transfer refers to passing of financial resources from the central (state) level to the government lower levels (Finzgar & Oplotnik, 2013). When sub-national governments get revenue from the national government and have the authority to raise revenue and spend it, this is referred to as revenue transfer (Kim, 2008). Conversely, according to Akorsu (2015), revenue transfer means a set of measures aimed at increasing subnational governments' income or fiscal autonomy.

Grounds in support of revenue transfer were summarized by Rodriguez-Pose and Krijer (2009). They argue that it fosters more efficiency, improved public service, enhanced transparency, and, ultimately, economic prosperity. Decentralization is sometimes believed to boost economic efficiency since local governments are best positioned to supply public services than the national government because of their proximity as well as informational benefit. The proximity is especially significant in low-income nations

or emerging markets, where disadvantaged populations depend largely on government action for survival due to a lack of market opportunities.

According to Halaskova and Halaskova (2014), revenue transfer includes lower-level government spending as a proportion of overall expenditures or Gross Domestic Product (GDP). Second, it includes lower-tier government revenues as a percentage of overall revenues or GDP, as well as the distribution of tax income between central and local governments. Finally, the amount and scope of tax authority, as well as the share of lower-level government expenditures in certain public-sector areas like education, health, and social security, as a total expenditure percentage. The current study measured revenue transfer as the ratio of the total amount of revenue received by a county government in a given year to county budget.

1.1.2 Absorption Rate

Absorption rates are the rates at which counties utilize the allocated and own generated funds (Barro, 1974). The counties need to appropriately utilize these funds in spearheading county developments through improved absorption capacity of county funds. The company's ability to in an effective as well as efficient manner spend its finances expressed as its allocation percentage is referred to as the absorption rate. The rate at which budgeted monies are used has an impact on development and public service delivery (Chang, 2009). Devolved units are always struggling to make use of their financial allocations, making it critical to examine and direct future budgeting procedures by evaluating factors affecting money absorption (Mutungi, 2017).

As per the World Bank (2018), inefficient public spending, especially procurement issues, has led to developing nations' poor absorption of development budgets. This is supported by the Controller of Budget's report, which indicates that while overall

performance in (national) budget implementation has improved, absorption rates for development expenditures have remained low. A huge absorption rate is preferable since it indicates that county governments are on track to meet their goals, whereas a low absorption rate indicates that county governments are underperforming in terms of utilizing intended expenditure (World Bank, 2018).

The most common metric for absorption rate is the ratio of total government spending to total revenue collected (Barasa, 2014). Another widely used measure of absorption rate among county governments is the ratio of final actual spending to final approved budget (Ocharo, 2019). The current study utilized the ratio of total county government spending as a ratio of total revenue, that is revenue received from national government and the revenue collected by the County.

1.1.3 Performance of Counties

According to Ocharo (2019), performance is the attainment of set objectives and moderated against the current degree of comprehensiveness, momentum, cost and accuracy. County governments' performance denotes the magnitude to which the devolved units in Kenya discharges and implements their mandates and functions as spelt in the Constitution (2010) for the benefits of the electorates. According to Dick – Sogoe (2012), performance and development is largely a function of the objective at hand or the background of the researcher. Dick-Sogoe (2012) states that the questions to be addressed about the country's concept of development regards what has been happening to poverty, welfare, unemployment and inequality as well as progress within the population.

Subnational governments' performance implies improvement in the social-economic welfare of residents, access and availability of basic facilities such as education, healthcare, water, and transport among others (CoK, 2010).

Devolved governments yield economic resource management improved performance as the local government systems tend to be more transparent in definition and allocation of the role of various local level actors and place more emphasis on the measurement of accountability for performance results (Huther & Shah, 1998). In this sense, development is viewed as the increase in the quality of life of citizens-socially, materially, psychologically, politically and even spiritually.

According to Akorsu (2015), there are different approaches to assessing economic performance, but the widely accepted definition is the long run productive capacity of a country, which is normally measured in terms of GDP. Policy makers in counties normally focus on expenditure per capita, level of employment, and proximity to basic infrastructure in order to influence the living standards of citizens (World Bank, 2000). The performance of the Kenyan Counties was measured by Gross County Product (GCP) by Ocharo (2019). Mbau, Iraya, Mwangi and Njihia (2019) operationalized county performance in accordance with County Budget Implementation Reports (CoB, 2014-2018) which assessed the capacity and effectiveness of County governments to execute and utilize budgeted resources; and the Spatial Dimensions of Wellbeing Reports (KNBS, 2006, 2016) which indicates changes in the wellbeing of residents as reflected by the wellbeing ranking. This study adopted gross county product growth rate as used before by Ocharo (2019).

1.1.4 Revenue Transfer, Absorption Rate and Performance

The central government's influence over public spending is weakened by devolving financial authority to lower government levels. It entails delegating authority to local governments so that they can make their own judgments about revenue collection tactics and expenditures. Local accountability, such as cost recovery via user charges as well as property taxes, comes with such authority (Stanton, 2009). Locally elected officials may get the ability to collect and spend their own revenue as a result of fiscal decentralization. Local governments are given considerable taxing rights and the autonomy of public service delivery selection in the most extreme form of fiscal decentralization (Grindle, 2007). Minorities are accorded a stake in the system by spreading authority and responsibility for budgetary management as well as public service delivery, which aids in conflict resolution (Ndung'u, 2014).

Revenue transfer is intensely entrenched in the political economy argument that revenue transfer results in improved service delivery and performance (Aslam & Yilmaz, 2011). Nevertheless, notwithstanding the theoretical underpinnings backing decentralization governance, conclusions on the impact of revenue transfer on performance is mixed as well as unconvincing. Revenue transfer improves performance, according to one branch of the literature (Balunywa et al., 2014; Freinkman & Plekhanov, 2009). Other research, on the other hand, revealed that revenue transfer had a negative impact on performance (Elhiraika, 2007; Olatona & Olomola, 2015).

1.1.5 Devolved Units in Kenya

County Governments are devolved units which are geographical and envisioned by the constitution of Kenya, 2010. These units were established from the 1992 district of Kenya and thus creating the forty-seven-county government. The provision and powers

of county governments is provided under Articles 191 and 192 of the Fourth Schedule of the Constitution of Kenya (CoK) and the County Governments Act of 2012. Devolution created the county government which led to sharing of the national cake by the counties this, therefore, means that the resources that were only controlled by the centralized national government executive and legislature is distributed to the forty-seven county executives and assemblies (CoK, 2010).

Corruption, waste, and unequal distribution of resources were the key drivers of demand for devolution in Kenya, which was a prescription for political instability (Ndii, 2010). Revenue transfer is supposed to achieve resource sharing equity and is known to have a positive impact on governance and government quality (Huther & Shah, 1998). Muoria (2011) noted that revenue transfer is a necessary ingredient in the retention of order and equity in any society. County governments are required to operate transparently and conduct public engagements in their decision-making. Ndegwa (2002) rated Kenya's decentralization status as third (from a sample of 30 countries in Africa).

From the year 2013, the National Government began transferring a minimum 15% of nationally collected revenue which has been most recently audited by the auditor general to the 47 Counties for use in their various programmes and projects. The funds are distributed among all counties based on a set of criteria that includes population size, land area, and poverty levels. Conversely, county governments raise funds from local sources to augment transfers from the federal government. This is done through local tax collection in the form of property rates, charges and various fees. Intergovernmental transfers of grants as well as other conditional money to carry out

nationally defined programs and projects within the counties were also sustained by the national government (Ocharo, 2019).

1.2 Research Problem

Studies about possible link or interactions between revenue transfer, absorption rate and economic performance have turned inconclusive results on the actual interplay of the variables. While in the recent past there has been heightened activity in the adoption of fiscal devolution among governments across the world (World Bank, 2019), the architecture and degree of the devolution compares differently across countries. The various elements that indicate the structure and extent of decentralization include fiscal, political, administrative and regulatory decentralization. Underperformance in achieving national objectives via centralized systems of governance, coupled with rapid political, economic and technological changes have induced and fuelled poor nations to shift from the conventional arrangement of (top-down) development planning to empower local governments and communities in planning (Kamau, 2014).

Among the county governments in Kenya, every annual Auditor General's and Controller of Budget's Report dating to the government devolved systems commencement in 2013 has indicated that some devolved units spend more than funds allocated by the national government and County Revenue collection in complete disregard of the PFM Act of 2012, resulting in counties incurring pending bills. Further, data from World Bank (2020) shows poor performance in county governments that adversely affects the economic growth of Kenya economy. Cash transfer from the national government through treasury to the counties has been faced by great problems such as misuse and wastage of limited resources. In many circumstances, supplementary budget money has been siphoned fraudulently. The misappropriation of public funds

has been enabled by a lack of effective accounting systems and poor controls at the county level, which has slowed service delivery and overall performance of the devolved entities.

Globally, Arif and Halim (2015) in their research on the factors influencing low absorption specifically on the regional revenue and expenditure concluded that slow budget approval has negative impact on the absorption. The study presents a conceptual gap as it did not relate revenue transfer with county performance. In Zaundi (2015), the research analyzed the absorption and spending of aid on the fifteen West African Countries. It focused on the Economic Community of West Africa States (ECOWAS). The research on the absorption and the spending of aid on non-aid current account and subsequently non-government budget concluded that countries depend less on aids have better spending than the one that rely on aids. However, the research did not focus on the budget absorption in the relation with the performance. Although these studies are related to the current study, they are conducted in a diverse context and thus their conclusions cannot be generalized in the current context.

Locally, Simiyu et al. (2014) investigated the effects of devolved funding on socioeconomic welfare services in Kimilili through a case study. The studies discovered that the constituency development fund plays an essential influence in the people' social and economic lives. The study did not incorporate absorption rate. In addition, it was a case study focusing on only one constituency. Rotich and Ngahu (2015) researched on the factors influencing and determining budget utilization in Kericho County. The study revealed that the skyscraping refund of allocated cash back to treasury under control of national government, implies poor implementation and utilization of budget. The study presents a methodological gap as it was a case study. Ocharo (2019) focused on budget

allocation and performance of county governments and concluded that budget execution has positive significant correlation with performance of the Kenyan counties.

Although prior research in this area has been done, there exist conceptual, contextual as well as methodological gaps. The conceptual gaps mostly relate to the operationalization of the study variables. Contextually, the available local studies have not focused on the 47 county governments in Kenya. Methodologically, most of the previous studies have been case studies whose findings cannot be generalized to other counties. This study sought to contribute to fill these research gaps by responding to the research question: What is the influence of revenue transfer and absorption rate on performance of devolved units in Kenya?

1.3 Research Objective

The study's objective was to assess the effect of revenue transfer and absorption rate on performance of devolved units in Kenya.

1.4 Value of the Study

The review will be of significance to the practice as it will help county government in prudential absorption of limited resources. Furthermore, it will help national government in timely transfer of funds to the county government. The outcome will play a crucial role in monitoring county development and recurrent expenditure. This will enhance implementation of the priorities in the budget based on urgency and importance.

The conclusions of this research may be used to influence policy in the area of revenue transfer and absorption rate especially in relations to performance in county governments. The study may also help address the causes of the levels absorption rates being encountered in the devolved units in Kenya. In addition the findings may

influence policy in the improvement of capacity and performance in the County Governments.

Finally, the review will add on to the available theoretical discussion on the theories relating revenue transfer and absorption rate to performance. The research will also add on to the empirical literature on revenue transfer, absorption rate and performance of county governments. Additionally, studies may also be carried out based on the recommendations and suggestion for future surveys.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter's main aim is to go through theories that are basis of the study. More so, the chapter discusses the prior empirical studies done pertaining to the research topic and areas related to it. Additionally, the chapter contains other sections which elaborates on the determinants of performance, shows the conceptual framework which illuminate on the study variable relationships, study gap and finally a summary of literature.

2.2 Theoretical Framework

This segment summarizes key theories clarifying the link among revenue transfer, absorption rate and performance. Traditional theory of fiscal decentralization, modern theory of fiscal decentralization and the Solow growth model are among the theoretical review addressed.

2.2.1 Traditional Theory of Fiscal Decentralization

The proponent of this theory is Musgrave (1959) in what famously came to be known as the “Musgravian branches” of governmental economic role of allocation, distribution as well as stabilization. The traditional view of decentralization argues that the national government should control macroeconomic management responsibilities as well as redistribution of income for the benefit of the poor. Proponents of this view and development economists discouraged decentralization by advising central control over the economy. They employed development strategies mainly anchored on command planning, grandiose technological transfer, industrialization and regional centralization to take advantage of scale-economies and subsequent growth. Smoke (2001) viewed centralization as a tendency that existed where the centrifugal forces are permanent and secular, encompassing all ages towards aggregation of the public sector.

Faguet (2004) and Smith (1985) contends that the authority to make fiscal decisions is best left to the central government since sub national governments lack resources whether human, technical, or financial such that they cannot appropriately offer the requisite services to the citizenry. One of the main deterrents pointed out is the attendant high administrative costs due to lack of economies of scale at the sub national level.

In addition, a centralized system is regarded as superior as far as productive efficiency goes. Bahl and Linn (1992) wrote that centralization is good for productive efficiency where economies of scale are needed. Prud'homme (1995) favours a centralized system by arguing that national governments are able to invest in production capacity to a greater extent hence enhancing efficiency.

The theory can serve as a point of reference or comparison of the impact of centralized economies and decentralized governments on the performance of County governments in Kenya. The theory helps the author to delineate, examine and assess the dynamics and role of fiscal decentralization and also enables to design appropriate indicators that best reflect the fiscal and institutional systems, as well as political processes that assign authority to the various organs of raising taxes and undertaking public expenditures. This theory hypothesizes that revenue transfer and absorption rate would have a positive effect on performance of devolved units in Kenya.

2.2.2 Modern Theory of Fiscal Decentralization

Oates (1972) decentralization theorem underpins the cardinal role and significance of the independent variable in this study, fiscal decentralization. The theory holds that there are some goods and services that are uniquely suited for specific regions and hence they could be best provided if revenue raising power and authority to plan and incur expenditure were transferred to regional levels.

The theory argues that both policies and strategies that are designed to provide for public goods as well as human capital needs to be sensitive to regional and local conditions in order to be more effective in achieving desired objectives than those determined and implemented from the centre and tends to ignore geographical, cultural and religious differences.

Proponents of this theory make the assumption that subnational governments have the requisite capacity to achieve high levels of productive efficiencies to avoid wastage and create innovations relevant to the regions. A key criticism by Faguet and Smith (1985) however, states that decentralization can be costly due to diseconomies of scale. Smith (1985) further argues that subnational governments tend to lack adequate resources; whether human, technical or financial such that they are unable to appropriately offer the requisite goods and services to the citizenry.

This theory applies and relates well to this research which seeks to establish whether decentralized funds achieve significant impact in County governments' performance in public goods provision. The theory lays emphasis on citizens' engagement in preference setting as locals have superior knowledge of their needs and can be expected to be more accountable. The study reveals the advantages of devolving mandates to local levels and the clear relationships between County governments and the residents/beneficiaries. The expectation is that revenue transfer and absorption rate is positively associated with County Governments' performance.

2.2.3 Economic Growth Model

The Solow Growth Model (1956) forms the basis for modern theory of economic growth. The model holds that every government's intention is to grow their economy and improve the welfare of its people as much as possible. It refers to the enhancement

of its potential to produce goods and services over time and its measure is the wellbeing of citizens or the poverty index. Lower performance of key financial indicators causes a slowdown in the rate of improvement of living standards of citizens. The Solow Growth Model of the early 1950s focused almost exclusively on the effect of growth on labour force and capital as factors of production (Mankiw, Romer & Weil, 1992). This model sought to examine the relationship between a nation's long-term living standards, investments, population and economic growth. It has three basic sources for GDP: land, capital and knowledge, and postulates a continuous production methods that link outputs to the various inputs of capital, labour and technological progress.

Critiques, however, point out that the model is unable to explain why differences in incomes between international regions exist, which failure has stimulated work on what has been called endogenous growth theories. Scholars of these recent growth theories argue that long-term growth does not depend on exogenous factors alone. They hold that to obtain endogenous growth, the economy must have increasing returns to scale or constant returns to factors that can be accumulated, emphasizing the fact that long term growth depends on more factors – both exogenous and endogenous.

These endogenous-growth models are presented by their proponents as viable options to the Solow model due to its apparent inability to explain inter-jurisdictional differences in incomes (Barrow, 1989). The importance of this theory is that as citizens and governments generate more and acquire more capital stock, it enhances the quality of labour and innovation and this will have a direct and positive impact on the dependent variable of our study. This is reflected in the improvement of residents' welfare and a decrease in poverty levels. It is therefore a challenge to measure the real changes in the socio-economic wellbeing of citizens accruing from the County governments'

expenditures because much more spending in Kenya is done by the National government as well as the private sector. Hence this study seeks to examine and delineate the specific indicators associated with County governments' performance in Kenya.

2.3 Determinants of County Performance

Determinants of county performance include; revenue transfer, absorption rate by counties, local revenue collection and recurrent spending.

2.3.1 Revenue Transfer

The national government funds the county government through the appropriation which is drawn from the consolidated funds and outsourced revenue from the local activities within the county. These activities that the county relies on have not been sufficient for the counties to meet the huge responsibilities. Office of the Controller of budget confirmed that revenue allocation is one of the factors affecting the performance by the counties (CoB, 2015).

The disbursement of resource allocated on time ensures timely achievement and performance of the county government. The constitution of Kenya guides the counties in proper management of the resources. Furthermore, prudence in financial management as directed by the PFM Act 2012. The accomplishment of the predetermined performance relies on the funds allocated. Utilization of the allocated funds and execution of the projects depends on prudential management of the counties (AGBIRR, 2016). The expected relationship is that an increase in revenue transfer will enhance county performance.

2.3.2 Absorption Rate

The performance of counties can be affected by the absorption rate of the annual budget.

The absorption rate is the ratio of the actual expenditure out of the allocated funds. This ratio will determine the efficiency as well as performance generally of the counties regarding intended resources utilization. The higher the absorption rate the higher the performance and vice versa. This is manifested in the perennial delay in the release of funds (Mutungi, 2017).

Undue delays in financial disbursements slow down the execution of projects, programs, and policies, lack of exchequer release which is experience whenever there is liquidity in the country such as long elections, long holidays, debt repayment and also when the demand is high towards the end of the financial year. Budget is normally made available in quarterly amounts at the beginning of each quarterly and this means that even if one wants to fast track purchase of goods and services the process is dependent on the availability of the budget (Ocharo, 2019). A positive relationship is hypothesized in that an increase in absorption rate will enhance county performance.

2.3.3 Local Revenue Collection

The county government revenue collection has a key role in contributing to the county government excellent performance. Inadequate allocation of funds from the national government necessitate for revenue collections. Revenue collections in the county government enhance county performance through availing more resources (KNBS, 2016).

The county revenue collection supports key services such as health, water, sewerage, and roads. County revenue collection improve efficiency. It concentrates on property and rates, entertainment taxes, charge for services provided and licensing. Therefore,

county government needs legal framework which is a paramount tool and foundation aspect of county revenue collection system. Furthermore, county government lack adequate legislative framework to effect imposition of tax and fee to support county performance and service delivery (Mutungi, 2017). An increase in local revenue collection would theoretically lead to an increase in county performance.

2.3.4 Recurrent Spending

Counties started in 2013 with the priority of creating structures, including the county public service, to implement devolved functions such as agricultural services, healthcare, and pre-primary education, making a steep growth in wage bills almost inevitable. However, over time the high cost of paying county government officials' salaries and allowances is negating the gains of devolution. An in-depth data analysis of the county spending data on the latest report by the Controller of Budget (COB) shows some counties have shot through the salaries spending ceilings (CoB, 2018).

In compliance with the Public Finance Management Regulations (2015), county governments should ensure that expenditure on personnel emolument is contained at a sustainable level. A lower wage bill-to-GCP ratio does not automatically indicate efficiency of the county public service; instead, it could indicate that county public workers in critical professions are underpaid and unable to demand improved work environment. What the county governments need to guard against more are loss of funds through a bloated workforce and dubious payments. A negative relationship is hypothesized in that a rise in recurrent spending will yield a decline in county performance holding other factors constant.

2.4 Empirical Review

Global as well as local researches have been performed supporting link among revenue transfer, absorption rate and performance.

2.4.1 Global Studies

Adam et al. (2012) conducted an empirical study in Europe and North America to investigate the association between fiscal decentralization and public sector efficiency. The research used comparative in nature while pooled OLS was utilized for data analysis. The study discovered an inverted U-shaped association between government efficiency in provision of this service and fiscal decentralization, regardless of whether it involves education or health care. The research was carried out in developed economies and therefore a contextual gap.

Wei-qing and Shi (2014) did an empirical research in China on decentralization and performance. The study was longitudinal in nature relying on time series secondary data and utilizing a vector error correction model. According to the research, fiscal decentralization on expenditure inclined to motivate governments to invest fiscal expenditure on infrastructure in order to attract outside capital to grow local economies, but it also resulted in a reduction in the supply of public services like education. Fiscal decentralization had the largest detrimental impact on public education provision in Central and West China, and the least in Northeast China, according to the study. The study reveals a conceptual gap as it did not relate absorption rate with performance of county governments.

In a related Europe research, Sow and Razafimahefa (2015) observed that fiscal decentralization enhanced public service delivery efficiency, though only under certain conditions, such as acceptable political and institutional settings and a significant level

of decentralized spending and revenues. Fiscal decentralization can degrade the effectiveness of public service delivery if those prerequisites are not met, according to the experts. The research focused on efficiency, which is not the same as performance.

Freinkman and Plekhanov (2019) investigated the link between budgetary decentralization and public services quality in Russia's areas. The study population was the 17 regions in Russia while a generalized method of moments was utilized. The findings revealed that fiscal decentralization has no significant impact on key secondary education inputs like schools, computers, or the accessibility of pre-schooling, though possess a substantial positive impact on average examination outcomes after controlling for key observable inputs and regional government education spending. Decentralization possess a positive impact on municipal utility provision quality, according to the research. The study did not establish how absorption rate influences performance of the regions.

2.4.2 Local Studies

Nzau (2014) analyzed the effects of devolution by analysing the effect of decentralized funds on the growth of the Kenyan economy based on a time series annual data covering the period 1993 – 2012. Ordinary Least Squares Method was applied to estimate the components of the regression model. Regression results indicated that both decentralized capital finance and decentralized recurrent finance contributes negatively to growth. It was concluded that contribution of devolved funds to economic growth was insignificant during the period under review. This study presents a conceptual gap as the effect of absorption rate on performance was not considered.

Ndung'u (2014) analyzed the impact of devolution in Kenya if a decentralized government was adopted. The research was a case study of Brazil aimed at informing

Kenya's decision to adopt devolution as a developing country. The research was based on an extensive literature review of the Brazilian case. The study employed library-based methodology. Qualitative methods were utilized in analyzing the data. The research concluded that for successful devolution, the key focus must be in minimization of costs and wastage. Governance structures must be reviewed or some done away with. The research addressed only two variables of devolution and governance. The context of study is, however, that of a more developed and huge economy and the lessons learnt may not be easy to apply or replicate in the current case.

Mbau, Iraya, Mwangi, and Njihia (2019) examined the impact of fiscal decentralization on the performance of Kenyan county governments. The research defined and used three fiscal decentralization indicators. These are the proportions of government money received by county governments to local revenue collections. The other is transfer grants, which are described as cash received from both the national government and development partners that are both conditional and unconditional. The model's parameters were estimated via multiple regression analysis as well as correlation analysis. The research was descriptive in nature and relied on panel data. The county government was used as the unit of analysis, and the population of the study was made up of all 47 counties. The findings show that the factors in the model accounting for 27.43% of variability in county government performance, with equitable share having the most significant impact. The absorption rate was not taken into account in this study.

Ocharo (2019) sought to identify the extent to which budget execution affects the performance of county governments in Kenya. The research identified four variable that is gross county product, local revenue, absorption rate and personal emolument and how they affect the gross county product for each county. The research

used secondary data and analysis involved correlation and regression analysis. The findings imply that the independent variable affects the dependent variable and therefore if they are increases then the gross county product for each county will improve for all the years under research. This shows that there is a need of improving the revenue collected by the county government. The effect of revenue transfer on performance was however not taken into account.

Kipkirui (2020) pursued to find effect of budget absorption on the performance of county government. Budget absorption was supported by planning, organizing and a quality expenditure control tool. The research focused on the forty-seven counties. The secondary data was obtained from KNBS and CoB. The results revealed that budget ensures efficiency and effectiveness to the limited allocated resources. The study did not incorporate revenue transfer as a variable that influences performance.

2.5 Conceptual Framework

The model depicts the projected relationship between the research variables. The independent variables for the study was revenue transfer measured as the amount received from the national government to total approved budget and absorption rate given by expenditure to total revenue. The control variables were local revenue collection measured as a ratio of approved budget and operating expenses given as a ratio of total expenditure. The dependent variable was performance of county government as measured by gross county product as used before by Ocharo (2019).

Independent variables

dependent variable

<p>Revenue transfer</p> <ul style="list-style-type: none"> • Allocated amount to approved budget
--

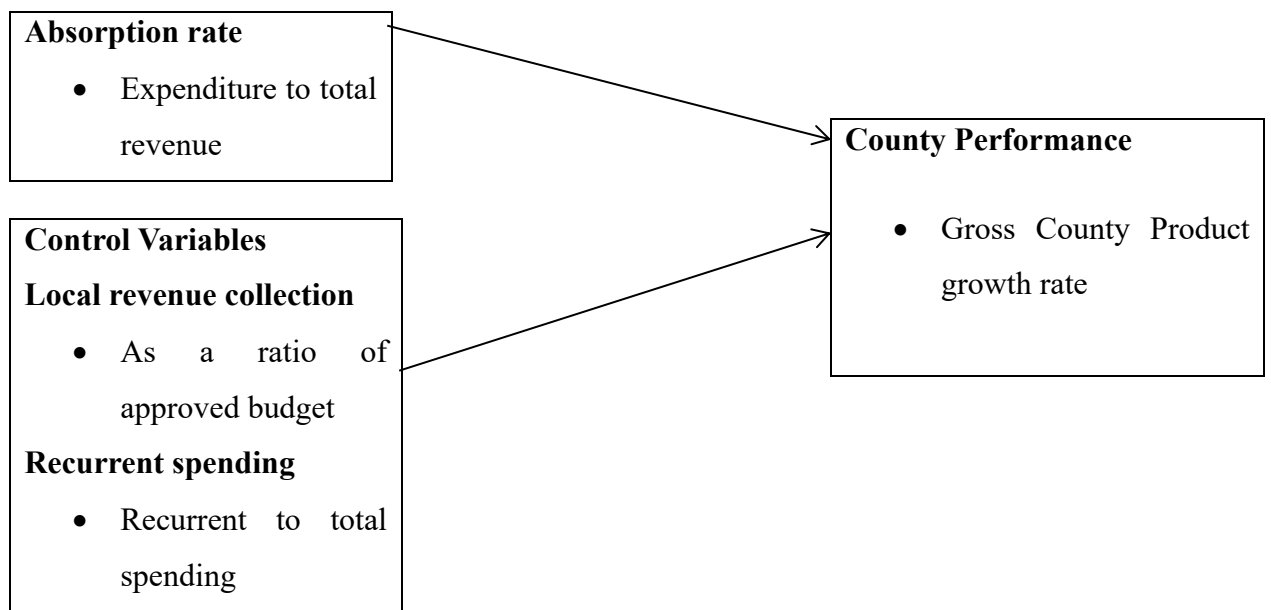


Figure 2.1: The Conceptual Model

Source: Researcher (2021)

2.6 Summary of the Literature Review and Research Gaps

There are a few theoretical frameworks which have expounded on the theoretically anticipated relationship amongst revenue transfer, absorption rate and performance. Theories covered in this review were; traditional fiscal decentralization theory, modern fiscal decentralization theory, and the Solow growth model. The Key county performance determinants have also been looked into in this chapter. More so, a few empirical studies done not only locally but also globally on the study variables have been examined. The findings of these investigations were debated.

Methodological, contextual and conceptual gaps are apparent from the evaluation of empirical research. Conceptually, the findings from extant empirical studies are inconsistent and this might be explained by the different operationalization of variables. Methodologically, previous studies have used different methodologies ranging from time series studies to panel analysis and this can explain the differences in findings.

Contextually, various prior research have focused on developed economies whose social and economic settings are different from those of Kenya that is the focus of the current research.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter designates the approaches utilized in accomplishing the research objective which was to determine how revenue transfer and absorption rate affect performance of county governments. Precisely, the research highlighted; data analyses, diagnostic test, research design and data collection.

3.2 Research Design

A research design denotes the master plan for collecting, measuring and analyzing data (Sekeran & Bougie, 2015). Descriptive design was adopted in this study. This design was appropriate since the nature of the phenomena is of key interest to the researcher (Khan, 2008). It was also sufficient in defining the interrelationships of the phenomena. According to Cooper and Schindler (2013), design also validly and accurately represented the variables thereby giving sufficient answers to the study questions.

3.3 Population

Population refers to an aggregate of subjects sharing common or similar characteristics (Kothari, 2017). In respect of this research, population was the 47 counties in Kenya, owing to the relative small size of the population, a census of all the counties was done.

3.4 Data Collection

Secondary data was utilized in this research. The data was obtained from the office of the Auditor General, office of the Controller of the Budget, Kenya National Bureau of Statistics (KNBS, 2020) as well as reports from Annual Government Budget Implementation Review Reports (AGBIRR). The data was collected for 5 years (2016 to 2020) on an annual basis.

3.5 Diagnostic Tests

Diagnostic tests were run to confirm that there are no violations of the classical linear regression model principles before moving on to equation estimation. When the assumptions of a classical regression model are violated, parameter estimations are skewed as well as inefficient.

3.5.1 Multicollinearity Test

Establishment of multicollinearity in this research will be using a correlation matrix, with an ideal 0.8 multicollinearity threshold (Cooper & Schindler, 2013). When multicollinearity is not taken into consideration, infinite standard errors as well as indeterminate regression coefficients occur, resulting in enormous standard errors. This affects the accuracy with which the null hypotheses are rejected or fail rejection. Tolerance levels as well as variance inflation factors (VIF) were also employed. Any multicollinear variables were transformed to reduce the extent of multicollinearity.

3.5.2 Autocorrelation

Wooldridge test for serial correlation was utilized in the research to find out the autocorrelation existence. Khan (2008) posits that overlooking serial correlation outcomes to inefficient parameter estimates as well as biased standard errors. The null hypothesis for this test was that there was no serial autocorrelation. Data that was discovered to have cross-sectional dependency was arrested by lagging the dependent variable.

3.5.3 Heteroskedasticity

If heteroskedasticity exist, it ought to be checked and adequately accounted for in the CLRM. The error term has a constant variance, according to the CLRM. If you run a regression analysis before checking for heteroskedasticity, the parameter estimates will

be unbiased and the standard errors will be invalid. In this research, the panel heteroskedasticity level was measured using the Likelihood Ratio test, which was developed by Cooper and Schindler (2013). The research utilize robust standard errors in the model if the data failed the test.

3.5.4 Normality Test

Normality tests for the presumption that the response variables' residual are normally distributed around the mean. Kolmogorov-Smirnov or Shapiro-wilk tests were used in determining it. In case the data failed the test, the researcher utilized natural logarithms on the collected data.

3.5.5 Stationarity Test

Stationarity means that the characteristics (variance, means) of the data will remain constant overtime. Non-stationary in time series data leads to spurious regression. The study tested for panel unit root using the Levin-Liu-Chu test. Robust standard errors were used where the data failed the test.

3.6 Data Analysis

In analysis of data, version 24 of SPSS software was used. Tables presented the findings in a quantitative manner. For every variable, descriptive statistic were employed in the calculation of central trend measures as well as dispersion such as mean as well as standard deviation. Inferential statistics relied on correlation as well as regression. The strength of the association among variables in the study were determined via correlation and a regression determined cause-effect characteristics among variables. Multiple regression linearly determined relation among study variables.

3.6.1 Analytical Model

The regression model below was used:

$$Y_t = \alpha + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \beta_4 X_{4t} + \varepsilon.$$

Where: Y_t = Performance of a county as measured by gross county product growth rate per annum.

α = Constant value in absence of predictor variables

$\beta_1 \dots \beta_4$ = are the regression coefficients

X_{1t} = Revenue transfer given by the ratio of amount allocated by national government to approved county budget on an annual basis

X_{2t} = Absorption rate given by the ratio of total county expenditure to total revenue per annum

X_{3t} = Local revenue collection given by the ratio of revenue collected to county target per year

X_{4t} = Recurrent spending as measured by the ratio of recurrent expenditure to total expenditure per year

ε = error term

3.6.2 Operationalization of the Study Variables

Variables	Measurement	Supporting Literature
County performance	Gross County Product growth rate per annum	Mbau et al. (2019)
Revenue Transfer	Ratio of amount located by national government to approved county budget on an annual basis	Halaskova and Halaskova (2014)
Absorption rate	Ratio of total county expenditure to total revenue per annum	Ocharo (2019)
Local revenue collection	Ratio of revenue collected to targeted per year	Mutungi (2017)
Recurrent spending	Ratio of recurrent expenditure to total expenditure per year	Kipkirui (2020)

3.6.3 Tests of Significance

Parametric tests determined the general model and individual variable's significance.

The F-test established the overall model's significance and this was achieved by means of ANOVA whereas a t-test established coefficient significance.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter set out to examine the data gathered in so as determine the effect of revenue transfer and absorption rate on the performance of devolved units in Kenya. The discoveries were represented in tables using regression analysis, correlation and descriptive statistics, as demonstrated in the following sections.

4.2 Descriptive Analysis

The standard deviation, average and maximum of the variables, as well as minimum are provided in this study. The outcome for the chosen research variables are demonstrated in Table 4.1. For all of the devolved units in Kenya whose data was available for the research, SPSS was used to examine the variables across a five-year period (2016 to 2020). The performances of the variables of the study are given in the following table.

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Performance (%)	235	.160	19.770	1.78923	1.712609
Revenue transfer (%)	235	60.880	127.610	84.55609	6.737274
Absorption rate (%)	235	2.400	178.500	64.74685	23.932005
Local revenue collection (%)	235	6.630	204.770	64.40102	26.482706
Recurrent spending (%)	235	34.800	78.000	60.28681	8.238333
Valid N (listwise)	235				

Source: Research Findings (2021)

4.3 Diagnostic Tests

Diagnostic tests were run before performing the regression model. This research centers on the diagnostic tests used in connection to the present investigation, including the

Stationarity testing, autocorrelation test, multivariate collinearity, normality test as well as heteroskedasticity test.

4.3.1 Multicollinearity Test

In statistics, Multicollinearity is the situation in which several predictor variables are strongly linked. Strong correlations between independent variables exaggerate the impact on the dependent variable. Perfect Multicollinearity occurs whenever the variables have more than one linear correlation.

Table 4.2: Multicollinearity Test for Tolerance and VIF

Variable	Collinearity Statistics	
	Tolerance	VIF
Revenue transfer	0.503	1.988
Financial recurrent spending	0.310	3.226
Local revenue collection	0.380	2.632
Absorption rate	0.706	1.416

Source: Research Findings (2021)

The data was subjected to a Multicollinearity test. The VIF values were combined with the variable's Tolerance. Multicollinearity is present when the tolerance value is 0.2 or more, and the VIF value is less than 10. There was no Multicollinearity, as indicated by a tolerance value of above 0.2 while a VIF value is below 10.

4.3.2 Normality Test

Tests of Kolmogorov-Smirnov and Shapiro-Wilk were utilized to determine normalcy.

The alternative hypotheses and null hypotheses are listed below.

H₀: the secondary data was not normally distributed.

H₁ the secondary data was normally distributed

A p-value of 0.05 or above would indicate that the null hypothesis should be rejected, whereas a p-value of less than 0.05 means the null hypothesis should be accepted.

Below, is the conclusions summary, displayed in table 4.3.

Table 4.3: Normality Test

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
Performance	.161	235	.300	.869	235	.853
Revenue transfer	.173	235	.300	.918	235	.822
Absorption rate	.178	235	.300	.881	235	.723
Local revenue collection	.175	235	.300	.874	235	.812
Recurrent spending	.176	235	.300	.892	235	.784

a. Lilliefors Significance Correction

Source: Research Findings (2021)

When analyzing the data, a p-value larger than 0.05 was observed, meaning that the null hypothesis was not supported, hence the data was normally distributed since the alternative hypothesis was supported. Use of this information may now be applied for parametric tests like ANOVA, Pearson's correlation and regression analysis.

4.3.3 Heteroscedasticity Test

Cross-sectional units tend to exhibit homoscedastic error processes; however, unit-specific variances are more common and are referred to as group-wise heteroscedasticity. The command with the heftiest weight is used in computing the Breuch Pagan group wise Heteroscedasticity when residuals are utilized. The null hypothesis states that $\sigma^2_i = \sigma^2$ for $i = 1 \dots N_g$, where N_g is the number of cross-sectional units.

Table 4.4: Heteroscedasticity Test

Modified Wald test for group wise heteroskedasticity

$H_0: \sigma(i)^2 = \sigma^2$ for all i
 $\chi^2(235) = 320.28$
 $\text{Prob} > \chi^2 = 0.0844$

Source: Research Findings (2021)

The computed p-value implies that the null hypothesis of Homoscedastic error terms was not rejected as the p value was more than 0.05 at 0.0844.

4.3.4 Autocorrelation Test

The researcher was concerned that the introduction of serial correlation into their model would cause inaccurate results and carried a test to detect this kind of serial correlation, the Breusch-Godfrey autocorrelation test was utilized.

Table 4.5: Test of Autocorrelation

Wooldridge test for autocorrelation in panel data
H0: no first-order autocorrelation

$F(1, 234) = 0.324$
 $\text{Prob} > F = 0.5283$

Source: Research Findings (2021)

According to Table 4.5, because the p-value of 0.5283 is above 0.05, the null hypothesis of no serial connection is not rejected.

4.3.5 Stationarity Test

The test outcomes for the Levin-Lin Chu unit root are shown in Table 4.6. Panels with unit roots were discarded because the p-values for all variables were below 0.05. With this, the panel data for all the variables became stationary.

Table 4.6: Levin-Lin Chu unit-root test

Levin-Lin Chu unit-root test			
Variable	Hypothesis	p value	Verdict
Performance	Ho: Panels contain unit roots	0.0000	Reject Ho
Revenue transfer	Ho: Panels contain unit roots	0.0000	Reject Ho
Absorption rate	Ho: Panels contain unit roots	0.0000	Reject Ho

Local revenue collection	Ho: Panels contain unit roots	0.0000	Reject Ho
Recurrent spending	Ho: Panels contain unit roots	0.0000	Reject Ho

Source: Research Findings (2021)

4.4 Correlation Results

Correlation analysis was carried out to determine the strength as well as direction of association between each predictor variable and the response variable. The results in Table 4.7 show the nature of relationships between the study variables in terms of magnitude and direction.

Table 4.7: Correlation Results

		Performance	Revenue transfer	Absorption rate	Local revenue collection	Recurrent spending
Performance	Pearson Correlation	1				
	Sig. (2-tailed)					
Revenue transfer	Pearson Correlation	.468**	1			
	Sig. (2-tailed)	.000				
Absorption rate	Pearson Correlation	.155*	.187**	1		
	Sig. (2-tailed)	.018	.004			
Local revenue collection	Pearson Correlation	.232**	.038	.198**	1	
	Sig. (2-tailed)	.000	.565	.002		
Recurrent spending	Pearson Correlation	.032	.152*	.175**	.001	1
	Sig. (2-tailed)	.621	.020	.007	.983	

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

*. Correlation is significant at the 0.05 level (2-tailed).

c. Listwise N=235

Source: Research Findings (2021)

The outcomes in Table 4.7 reveal that revenue transfer and performance are positively and significantly correlated ($r=0.468$) at 5% significance level. In addition, the results show that absorption rate and performance are positively and significantly correlated ($r=0.155$) at 5% significance level. Further, results show that local revenue collection and performance are positively and significantly correlated ($r=0.232$) at 5%

significance level. Finally, recurrent spending and performance unveiled a positive association though the link was not statistically significant.

4.5 Regression Results

In order to determine the extent to which performance is explained by the selected variables, a regression analysis was done. The regression results were offered in Table 4.8 to Table 4.10.

Table 4.8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.497 ^a	.247	.234	1.498603

a. Predictors: (Constant), Recurrent spending, Local revenue collection , Revenue transfer, Absorption rate

Source: Research Findings (2021)

From the conclusions as represented by the adjusted R², studied variables the independent variables explained 24.7% of the variations in performance among devolved units in Kenya. This therefore means the four variables contributed 24.7% of the variations in performance among devolved units in Kenya whereas other factors not considered in this research contribute 75.3%.

Table 4.9: ANOVA Analysis

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	169.793	4	42.448	18.901	.000 ^b
	Residual	516.537	230	2.246		
	Total	686.329	234			

a. Dependent Variable: Performance
b. Predictors: (Constant), Recurrent spending, Local revenue collection , Revenue transfer, Absorption rate

Source: Research Findings (2021)

ANOVA statistics in Table 4.9 show that the data had a 0.000 level of significance hence this indicates that the data is ideal for making conclusions on the variables.

Table 4.10: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-9.783	1.362		-7.184	.000
1 Revenue transfer	.111	.015	.435	7.418	.000
Absorption rate	.003	.004	.044	.736	.463
Local revenue collection	.033	.012	.158	2.700	.007
Recurrent spending	.000	.004	.007	.120	.905

a. Dependent Variable: Performance

Source: Research Findings (2021)

The coefficient of regression model was as below;

$$Y = -9.783 + 0.111X_1 + 0.033X_2$$

Where:

Y = Performance; X₁ = Revenue transfer; X₂= Local revenue collection

4.6 Discussion of Research Findings

The objective of this research was to determine the effect of revenue transfer and absorption rate on performance of devolved units in Kenya. The study utilized a descriptive design while population was the 47 devolved units in Kenya. The research relied on secondary data which was gathered from office of the auditor general, controller of budgets, KNBS and AGBIRR reports. The independent variables were revenue transfer and absorption rate while the control variables were local revenue collection and recurrent spending. Through descriptive as well as inferential statistics data analysis was performed. The results are discussed in this section.

The results of correlation analysis revealed that revenue transfer have a significant association with performance among devolved units in Kenya. The results further revealed that absorption rate had a positive and significant association with performance that implies that when the absorption rate is increasing, performance is also increasing. Local revenue collection exhibited a positive and significant association with performance implying that counties that collect more revenue are likely to have a higher performance. The association between recurrent spending and local revenue collection was found to be positive but not statistically significant.

The regression results revealed that the four selected predictor variables explain 24.7% of changes in performance among counties in Kenya. The explanatory power is also significant as the p value was 0.000, which is less than 0.05. This implies that the model was sufficient in describing the cause and effect among the study variables. Individually, revenue transfer does have a significant influence on performance at the same time; local revenue collection also has a significant positive effect. Absorption rate and recurrent spending were found to have a positive influence on the performance but not statistically significant.

These results concur with Mbau et al. (2019) who examined the impact of fiscal decentralization on the performance of Kenyan county governments. The research defined and used three fiscal decentralization indicators. These are the proportions of government money received by county governments to local revenue collections. The other is transfer grants, which are described as cash received from both the national government and development partners that are both conditional and unconditional. The model's parameters were estimated using multiple regression analysis and correlation analysis. The research was descriptive in nature and relied on

panel data. The county government was used as the unit of analysis, and the population of the study was made up of all 47 counties. The findings show that the factors in the model account for 27.43% of variability in county government performance, with equitable share having the most significant impact.

The results also concur with Ocharo (2019) who sought to identify the extent to which budget execution affects the performance of county governments in Kenya. The research identified four variables that are gross county product, local revenue, absorption rate and personal emolument and how they affect the gross county product for each county. The research used secondary data and analysis involved correlation and regression analysis. The findings imply that the independent variable affects the dependent variable and therefore if they are increases then the gross county product for each county will improve for all the years under research. This shows that there is a need of improving the revenue collected by the county government.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings from the preceding chapter, as well as the conclusions and limitations discovered during the research. Additionally, it provides recommendation for policy makers and offers suggestions on areas requiring further research.

5.2 Summary of Findings

The objective of this research was to assess how revenue transfer and absorption rate influences the level of performance of devolved units in Kenya. The selected variables for investigation included revenue transfer, absorption rate, local revenue collection and recurrent spending. A descriptive research design was selected to complete the research. Secondary data was gathered from office of the auditor general, controller of budgets, KNBS and AGBIRR reports and an analysis made using SPSS. Yearly data for 47 counties for five years from 2016 to 2020 was obtained.

The first objective was to establish the effect of revenue transfer on performance among devolved units in Kenya. The correlation results at 5 % significance level show that revenue transfer had a positive correlation with performance. The association was also statistically significant. Regression results ($\beta=0.111$, $p=0.000$) show that there was a positive and significant effect of revenue transfer on the performance among devolved units in Kenya.

The second objective was to assess the effect of absorption rate on performance among devolved units in Kenya. The correlation results at 5 % significance level show that absorption rate had a positive as well as significant correlation with performance.

Regression results ($\beta=0.003$, $p=0.463$) show that there was a positive but not significant effect of absorption rate on performance among devolved units in Kenya.

The third objective was to examine the effect of local revenue collection on performance among devolved units in Kenya. The correlation results at 5 % significance level show that local revenue collection had a positive correlation with performance. Regression results ($\beta=0.033$, $p=0.007$) show that there was a positive and significant effect of local revenue collection on performance among devolved units in Kenya.

The fourth objective was to examine the effect of recurrent spending on performance among devolved units in Kenya. The correlation results at 5 % significance level show that recurrent spending had a positive but not significant association with performance. Regression results ($\beta=0.000$, $p=0.905$) show that there was a positive but not significant effect of recurrent spending on performance among devolved units in Kenya.

5.3 Conclusions

The intention of the research was to find out the association between revenue transfer, absorption rate and performance of devolved units in Kenya. The findings indicated that revenue transfer had a positive as well as significant effect on performance. This implies that devolved units that receive high revenue transfer are likely to post better performance than devolved units that receive less revenue.

The study conclusions too specified that absorption rate had a positive as well as significant correlation with performance, which might mean that devolved units with higher absorption rate are more likely to post better performance. This is explainable by the fact that higher absorption rate implying higher spending which might translate to county performance.

The study results showed that local revenue collection had a positive as well as significant effect on performance. This may mean that the higher proportion of local revenue collection to revenue target is likely to lead to higher levels of performance. This can be explained by the fact that devolved units that collect more revenue are likely to undertake more projects leading to higher performance and development compared to counties with less revenue collection.

Moreover, the conclusions revealed that recurrent spending has no significant effect on performance. This implies that devolved units with higher recurrent spending do not always report higher performance compared to devolved units with low recurrent spending. This can be explained by the fact that recurrent spending does not always translate to increase efficiency in providing goods and services.

This research finding is in agreement with Kipkirui (2020) who pursued to determine effect of budget absorption on the performance of county government. Budget absorption was supported by planning, organizing and a quality expenditure control tool. The research focused on the forty-seven counties. The secondary data was obtained from KNBS and CoB. The results revealed that budget ensures efficiency and effectiveness to the limited allocated resources.

5.4 Recommendations for Policy and Practice

The research finding reveals that revenue transfer contributes to an increase in performance. The study therefore recommends that policy makers such as members of parliament should come up with policies that increase revenue transfer to the counties as this will lead to a rise in performance of devolved units. County heads should also advocate for an increase in revenues allocated to the counties.

Further, absorption rate was discovered to possess a positive correlation with performance. The study therefore recommends that devolved units in Kenya should strive to have a higher absorption rate of the devolved funds as increased utilization of the funds leads to more development activities which in return enhance county performance.

From the study findings, local revenue collection had a significant positive effect on performance. Therefore, the research recommends that heads of devolved units should develop strategies aimed at increasing local revenue collection without hurting the businesses as a rise in local revenue yields a rise in performance. Members of the county assembly should also develop policies aimed at increasing the local revenue tax base.

5.5 Limitations of the Study

The focus was on some of the elements that are thought to affect the performance of devolved units in Kenya. The research concentrated on four explanatory variables in particular. Nevertheless, there are other factors that are probable to influence performance of devolved units. Some are controlled by the county such as management quality while others are outside the control of management such as unemployment rate and political instability.

The research used quantitative secondary data. The study also ignored qualitative data that could explain other factors that influence the relationship between revenue transfer, absorption rate and county's performance. Qualitative methods like focus groups, open-ended surveys, and interviews can aid in the development of more definite outcomes.

The research focus was a five-year duration (2016 to 2020). It's unclear whether the results will last for a longer period of time. It is too uncertain if same results will be

achieved after 2020. In order to account for key economic events, the research ought to have been conducted over a longer time frame.

The researcher utilized an OLS regression model to analyze the data. Because of the limitations of employing regression models, such as erroneous and deceptive outcomes that cause the value of the variable to change, it was not possible to generalize the conclusions of the research with accuracy. More so the result could be different if more data was added in the regression. Thus, the model used was another limitation.

5.6 Suggestions for Further Research

The study findings revealed an R square of 24.7%, implying presence of other factors that affect performance among the devolved units in Kenya that were not addressed by the research. Other researches ought thus to focus on other factors for example; management quality, corruption, culture, unemployment, political stability among other factors that affect performance among devolved units.

The study was limited to devolved units in Kenya. Additional research can be carried on a comparative study of devolution in Kenya with other countries. Future research should look into how revenue transfer and absorption rate affects other factors besides the performance, such as growth, efficiency, development, stability among others.

Because of the readily available data, the focus of this research was drawn to the last five years. Future studies may span a longer time period, such as ten or twenty years, and might have a significant impact on this study by either complementing or contradicting its conclusions. A longer study has the advantage of allowing the researcher to catch the effects of business cycles like booms as well as recessions.

Finally, this research relied on a regression model, which has its own set of limitations, such as errors and misleading results when a variable is changed. Future study should concentrate on models such as the Vector Error Correction Model (VECM) in order to investigate the numerous relationships between revenue transfer, absorption rate and the performance.

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APPENDICES

Appendix I: Research Data

County	Year	GCP (%)	Revenue transfer (%)	Absorption rate (%)	Local revenue collection (%)	Recurrent spending (%)
BARINGO	2016	0.460	85.010	30.700	77.510	56.400
	2017	1.020	85.200	59.500	97.620	60.000
	2018	0.680	89.200	53.900	93.110	50.300
	2019	0.890	80.200	56.200	87.430	61.100
	2020	1.010	88.200	93.300	86.120	54.900
BOMET	2016	1.240	76.440	92.400	85.170	52.200
	2017	1.560	80.890	99.600	86.340	53.000
	2018	1.690	78.200	94.600	88.430	70.000
	2019	1.220	80.890	89.600	86.160	70.100
	2020	1.690	92.530	89.200	90.590	63.900
BUNGOMA	2016	1.550	86.000	15.300	6.630	58.400
	2017	2.010	86.150	46.700	46.940	60.800
	2018	1.650	79.200	76.100	78.480	63.200
	2019	1.990	76.000	48.700	90.390	68.300
	2020	2.100	81.500	84.000	75.880	67.600
BUSIA	2016	0.680	76.060	17.600	89.810	49.500
	2017	1.620	79.890	68.700	97.000	50.600
	2018	1.590	78.200	69.000	61.540	58.700
	2019	1.020	68.660	63.900	48.650	67.900
	2020	0.940	82.120	84.700	42.770	58.400
ELGEYO/M ARAKWET	2016	0.960	76.700	49.900	71.770	60.900
	2017	1.430	86.110	75.500	97.640	62.800
	2018	1.230	76.450	45.600	43.360	61.400
	2019	1.310	86.810	63.000	60.820	61.000
	2020	1.510	86.810	84.400	65.810	55.800
EMBU	2016	1.060	80.770	12.200	25.560	56.800
	2017	1.390	82.340	39.500	53.620	59.400
	2018	1.820	81.640	40.100	62.860	62.000
	2019	1.590	80.660	81.400	51.790	70.000
	2020	1.060	88.060	100.300	63.680	69.500
GARISSA	2016	0.350	80.090	31.000	23.840	55.200
	2017	1.480	80.440	72.400	18.670	55.400
	2018	0.690	78.920	78.800	21.190	62.900
	2019	0.730	77.550	87.000	23.420	70.300

County	Year	GCP (%)	Revenue transfer (%)	Absorption rate (%)	Local revenue collection (%)	Recurrent spending (%)
	2020	0.530	87.710	96.300	34.680	60.800
HOMABAY	2016	1.430	79.990	64.400	95.950	61.600
	2017	1.890	90.670	101.200	102.720	63.300
	2018	1.520	80.550	79.100	90.640	65.100
	2019	1.230	89.660	75.900	75.000	66.700
	2020	1.320	88.390	84.900	90.120	63.800
ISIOLO	2016	0.160	83.120	51.000	34.740	59.400
	2017	0.990	86.250	82.200	29.530	61.400
	2018	0.320	82.310	76.800	30.590	51.600
	2019	0.510	85.660	90.400	38.000	64.800
	2020	0.210	90.490	85.100	62.650	66.800
KAJIADO	2016	1.300	79.760	46.000	87.690	58.800
	2017	1.390	80.830	50.200	81.940	60.500
	2018	1.670	75.260	56.800	52.830	62.900
	2019	1.290	78.920	3.810	44.630	61.800
	2020	1.380	82.220	73.400	65.540	60.800
KAKAMEG A	2016	1.680	80.900	27.700	11.560	52.200
	2017	1.270	87.990	60.600	57.210	52.400
	2018	2.010	90.500	72.400	50.420	60.900
	2019	1.990	90.000	82.400	49.570	56.500
	2020	2.210	81.610	97.300	56.880	52.900
KERICHO	2016	1.540	88.810	54.000	109.660	59.500
	2017	1.890	92.110	73.800	107.860	61.500
	2018	3.450	89.010	78.100	98.730	60.900
	2019	1.720	90.010	82.700	81.210	68.700
	2020	1.690	89.270	88.000	74.650	56.700
KIAMBU	2016	2.350	88.600	41.100	40.760	68.100
	2017	2.690	90.270	66.700	64.690	72.300
	2018	2.910	90.050	71.400	74.400	68.800
	2019	2.720	88.990	69.900	66.220	78.000
	2020	5.010	91.650	82.900	52.480	65.000
KILIFI	2016	1.640	88.100	20.700	62.460	46.900
	2017	2.220	90.460	64.900	54.550	48.400
	2018	1.730	81.340	62.600	36.880	48.900
	2019	1.680	89.230	65.500	39.100	64.800
	2020	1.500	86.540	88.000	56.290	60.400
KIRINYAG A	2016	1.470	80.440	34.000	45.750	63.900

County	Year	GCP (%)	Revenue transfer (%)	Absorption rate (%)	Local revenue collection (%)	Recurrent spending (%)
	2017	1.990	88.130	57.600	73.770	68.400
	2018	1.890	67.880	70.500	78.080	63.900
	2019	1.340	86.130	57.600	43.140	70.000
	2020	1.250	84.130	99.500	57.330	69.400
KISII	2016	1.400	83.070	55.000	34.300	57.300
	2017	1.640	81.240	79.900	47.110	60.900
	2018	5.230	90.100	70.600	43.730	61.200
	2019	1.200	93.230	54.300	37.470	69.100
	2020	1.910	91.610	100.600	26.980	66.700
KISUMU	2016	2.120	78.800	4.000	35.750	58.100
	2017	2.310	80.910	47.400	64.730	58.100
	2018	2.560	79.210	45.300	52.390	67.400
	2019	2.500	78.660	62.600	63.350	69.200
	2020	2.650	80.930	65.900	76.170	61.200
KITUI	2016	1.130	78.110	56.500	35.760	45.900
	2017	1.210	89.320	58.300	49.310	46.400
	2018	1.210	80.200	69.600	68.430	52.900
	2019	0.990	89.220	70.700	47.160	59.500
	2020	1.270	84.120	95.100	57.860	60.800
KWALE	2016	1.330	82.600	56.900	32.450	34.800
	2017	1.910	85.240	55.800	50.790	37.400
	2018	2.000	84.560	68.400	82.870	48.600
	2019	2.000	83.200	56.800	84.660	55.800
	2020	1.020	84.140	102.400	100.470	46.900
LAIKIPIA	2016	1.020	85.510	34.000	62.300	56.800
	2017	1.890	92.500	53.900	100.120	58.200
	2018	1.010	88.260	60.700	94.230	59.900
	2019	1.210	89.660	62.700	69.060	66.900
	2020	0.910	90.160	95.400	82.670	60.200
LAMU	2016	0.490	75.120	24.000	41.300	53.700
	2017	1.020	88.230	50.800	93.810	55.300
	2018	0.930	79.340	64.400	53.570	62.100
	2019	0.890	89.220	38.300	76.960	66.500
	2020	0.370	74.300	81.000	61.430	49.300
MACHAKOS	2016	0.770	84.720	64.500	46.240	56.200
	2017	0.890	92.330	27.900	47.600	51.400
	2018	2.690	82.590	44.600	47.300	69.000
	2019	2.500	82.000	99.100	44.010	69.600

County	Year	GCP (%)	Revenue transfer (%)	Absorption rate (%)	Local revenue collection (%)	Recurrent spending (%)
	2020	2.950	88.040	66.100	66.720	64.500
MAKUENI	2016	1.630	82.000	30.700	54.050	48.000
	2017	2.890	89.430	37.300	93.630	49.800
	2018	3.220	90.660	31.700	53.290	48.800
	2019	2.690	90.230	73.400	65.530	63.500
	2020	1.300	80.900	69.700	53.210	58.700
MANDERA	2016	0.780	83.660	23.700	20.590	36.400
	2017	1.890	89.410	88.300	34.910	36.700
	2018	0.780	85.990	74.800	44.290	39.800
	2019	0.550	89.230	80.600	21.020	52.800
	2020	0.460	90.990	106.700	26.760	48.400
MARSABIT	2016	0.190	84.160	34.600	104.620	49.900
	2017	0.550	88.990	63.800	204.770	51.000
	2018	0.890	82.200	72.700	86.110	57.300
	2019	0.620	74.540	86.900	107.280	55.600
	2020	0.430	84.000	95.300	64.150	52.900
MERU	2016	1.730	80.380	19.700	52.250	63.100
	2017	2.100	93.140	67.500	91.700	65.600
	2018	1.930	89.340	58.800	92.110	68.300
	2019	2.010	91.210	69.600	71.470	70.000
	2020	2.680	81.770	50.300	53.750	63.800
MIGORI	2016	1.310	85.100	61.000	30.000	55.200
	2017	1.750	89.000	65.400	71.020	55.700
	2018	0.990	80.210	66.700	84.840	61.600
	2019	2.120	93.910	62.800	69.240	67.000
	2020	1.140	84.170	79.500	111.130	58.500
MOMBASA	2016	3.210	88.060	2.400	33.820	65.900
	2017	3.110	87.250	65.700	48.670	69.900
	2018	2.990	67.990	82.400	72.650	66.300
	2019	3.250	94.230	68.800	59.860	69.900
	2020	4.250	92.350	100.500	87.800	70.000
MURANG'A	2016	2.060	68.310	51.300	52.500	49.400
	2017	3.120	88.790	75.300	70.280	51.400
	2018	1.960	79.210	81.100	72.650	59.900
	2019	2.790	92.310	58.100	51.000	63.800
	2020	2.070	91.470	101.900	53.380	59.600
NAIROBI	2016	3.960	84.200	25.000	64.900	67.100
	2017	4.200	100.000	33.500	86.310	72.900

County	Year	GCP (%)	Revenue transfer (%)	Absorption rate (%)	Local revenue collection (%)	Recurrent spending (%)
	2018	4.990	87.430	52.900	76.590	68.300
	2019	13.820	100.000	33.400	55.860	75.100
	2020	19.770	127.610	178.500	58.680	77.600
NAKURU	2016	4.890	80.060	16.500	59.040	61.100
	2017	4.260	90.010	43.200	79.840	61.500
	2018	2.230	88.810	41.400	99.270	61.300
	2019	4.230	92.330	35.100	59.610	62.000
	2020	5.580	81.760	105.400	91.150	56.000
NANDI	2016	1.880	83.000	44.400	30.900	51.900
	2017	2.890	89.230	99.900	65.350	55.200
	2018	1.430	88.230	77.300	66.190	63.400
	2019	1.550	89.230	71.400	67.550	68.500
	2020	1.450	86.910	72.800	51.340	61.900
NAROK	2016	1.680	90.110	22.000	41.590	61.400
	2017	1.850	90.510	78.500	48.700	67.300
	2018	1.990	90.580	77.600	74.780	59.300
	2019	1.920	90.510	63.300	53.050	66.400
	2020	2.040	90.630	99.900	88.120	69.500
NYAMIRA	2016	1.260	81.710	44.000	94.030	58.100
	2017	1.790	83.450	65.200	47.590	56.500
	2018	1.550	87.230	54.500	44.400	70.100
	2019	1.350	89.230	58.600	47.380	68.800
	2020	1.240	85.380	62.300	38.170	70.000
NYANDARUA	2016	1.990	83.990	55.000	79.560	60.700
	2017	1.320	93.000	70.500	120.310	61.500
	2018	2.400	84.180	77.800	71.230	64.200
	2019	2.390	97.100	84.400	76.090	66.800
	2020	2.380	89.730	86.200	85.870	66.800
NYERI	2016	1.510	90.110	64.000	90.230	67.300
	2017	1.520	90.130	68.200	50.650	70.400
	2018	1.800	85.230	62.500	65.580	65.100
	2019	1.250	89.230	53.000	58.730	68.700
	2020	1.970	88.230	57.500	76.020	68.700
SAMBURU	2016	0.260	84.840	59.500	89.910	59.500
	2017	1.250	89.320	78.200	48.140	60.200
	2018	1.700	83.240	65.100	46.790	64.200

County	Year	GCP (%)	Revenue transfer (%)	Absorption rate (%)	Local revenue collection (%)	Recurrent spending (%)
	2019	0.520	87.100	86.400	54.260	69.900
	2020	0.310	87.730	94.300	85.410	69.900
SIAYA	2016	1.300	79.110	29.000	65.210	51.600
	2017	1.610	89.110	60.000	47.530	53.600
	2018	1.590	89.000	57.000	37.260	54.400
	2019	1.660	70.230	62.900	64.010	63.000
	2020	1.060	75.880	65.000	51.610	63.000
TAITA/TA VETA	2016	0.510	79.370	48.000	51.970	69.300
	2017	0.910	79.290	71.800	41.510	70.400
	2018	0.980	84.550	41.100	48.970	67.800
	2019	0.920	86.220	28.600	48.380	70.500
	2020	0.620	82.890	36.800	48.590	70.500
TANA RIVER	2016	1.110	75.820	3.000	36.150	38.100
	2017	1.720	79.790	38.400	27.530	38.700
	2018	0.890	77.000	80.400	23.670	52.400
	2019	0.750	75.200	75.500	45.700	57.500
	2020	0.450	64.810	100.000	188.750	57.500
THARAKA NITHI	2016	0.710	79.560	54.000	101.630	57.100
	2017	0.700	85.240	45.800	46.290	60.000
	2018	0.890	82.200	51.400	56.090	68.700
	2019	0.880	66.230	42.900	39.270	65.500
	2020	0.760	80.820	116.100	70.370	65.500
TRANS NZOIA	2016	1.320	88.410	74.000	40.210	49.900
	2017	1.670	89.740	53.500	78.250	52.800
	2018	1.890	80.140	61.500	93.820	61.800
	2019	1.590	82.310	64.600	43.580	69.900
	2020	1.510	82.600	89.700	61.520	69.900
TURKANA	2016	0.960	80.050	48.000	53.150	34.800
	2017	1.250	88.890	58.900	115.020	36.700
	2018	1.870	92.000	66.300	67.010	38.200
	2019	1.890	91.200	69.400	103.510	62.000
	2020	1.050	78.100	97.400	71.950	62.000
UASIN GISHU	2016	2.200	80.240	13.000	68.620	63.300
	2017	2.030	86.210	69.300	89.980	60.900
	2018	2.140	82.140	75.200	69.320	65.700

County	Year	GCP (%)	Revenue transfer (%)	Absorption rate (%)	Local revenue collection (%)	Recurrent spending (%)
	2019	2.130	85.210	54.600	55.690	62.300
	2020	2.130	80.360	100.600	96.380	62.300
VIHIGA	2016	1.620	73.990	32.000	60.360	64.000
	2017	2.220	87.340	57.200	30.690	61.000
	2018	0.950	79.630	59.100	39.450	65.700
	2019	0.960	79.590	52.500	43.650	62.300
	2020	0.720	75.150	76.600	65.240	62.300
WAJIR	2016	1.680	78.330	78.200	51.270	59.400
	2017	2.490	79.770	89.300	102.480	61.000
	2018	0.610	75.230	85.100	54.520	69.600
	2019	2.330	60.880	90.100	32.990	69.600
	2020	0.490	90.340	86.200	45.070	69.600
WEST POKOT	2016	2.600	75.890	60.000	154.970	47.700
	2017	4.790	81.330	91.800	108.010	46.000
	2018	0.760	87.670	79.500	55.440	54.400
	2019	0.860	78.860	85.500	68.070	60.800
	2020	0.600	92.580	84.800	79.470	60.800