

COUNTY FINANCIAL MANAGEMENT PRACTICES AND LOCALLY GENERATED REVENUE IN THE COUNTY GOVERNMENT OF MARSABIT

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ABSTRACT

County governments in Kenya occupy a central position in promoting fiscal decentralization, delivering services, and stimulating local economic growth. They are tasked with raising locally generated revenue (LGR) to support devolved functions, complement national transfers, and strengthen fiscal independence. The viability of devolution therefore rests on the soundness of county financial management systems, which shape their ability to fund operations, provide essential services, and ensure accountability. Despite these responsibilities, counties such as Marsabit continue to experience revenue shortfalls that compromise service delivery and expose fiscal vulnerabilities. This study investigated the effect of financial management practices on LGR in Marsabit County, focusing on revenue diversification and budgetary control. Covering the period 2019 to 2024, the study was guided by Portfolio Theory and Budgetary Control Theory. A descriptive research design was employed, targeting 73 respondents consisting of 13 finance officers, 53 revenue collection officials, and 7 policymakers. A census approach was adopted to avoid sampling error and capture the perspectives of all relevant officers. Both primary and secondary data were used. structured questionnaires formed the basis of primary data, while audited financial statements and budget implementation reports provided secondary

evidence. Diagnostic tests including tests for normality, multicollinearity, heteroscedasticity, autocorrelation, and linearity were performed to validate the strength of the regression model. Data analysis was carried out using SPSS, applying descriptive statistics such as means, medians, modes, and measures of dispersion, as well as inferential analysis through correlation and multiple regression. The correlation results revealed positive and significant associations between revenue diversification, budgetary control and locally generated revenue. Regression analysis showed that revenue diversification practices and budgetary control practices had positive and statistically significant effects on LGR. The study recommends that counties adopt innovative and technology-driven diversification strategies, strengthen participatory and transparent budgetary processes National oversight bodies such as the Commission on Revenue Allocation and the Office of the Controller of Budget should enhance monitoring and provide technical support to counties to institutionalize accountable and innovative financial practices.

Key words: Budgetary Control Practices, County Financial Management Practices, Locally Generated Revenue, Revenue Diversification Practices.

INTRODUCTION

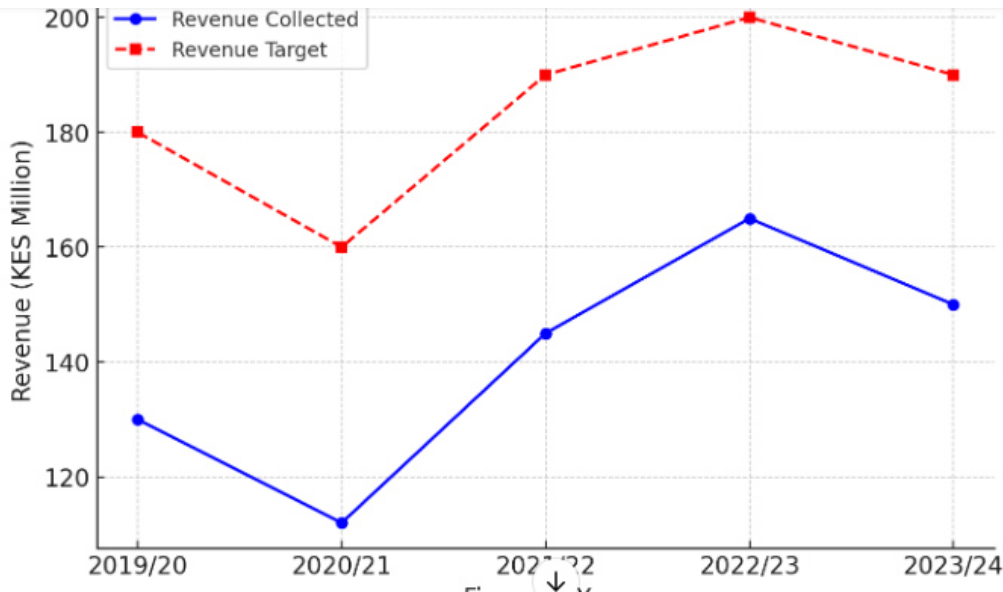
Across Kenya, county governments face hurdles in achieving targeted locally generated revenue levels. Factors such as inadequate revenue diversification, suboptimal budgetary controls, and inefficiencies in expenditure management contribute to these shortfalls (Controller of Budget, 2023). Addressing these issues requires a concerted effort to implement best practices observed globally, tailored to the Kenyan context (IMF, 2022). Enhancing financial literacy among county officials, fostering community engagement in budgeting processes, and adopting technology-driven revenue collection methods are pivotal steps toward improving financial outcomes at the county level (Mugambi & Kiragu, 2023; Wairimu, 2024). County financial management practices comprise key constructs that ensure fiscal sustainability and efficient resource utilization. Revenue diversification enhances counties' ability to generate income from multiple sources, reducing overreliance on national transfers (OECD, 2021). Budgetary control ensures that expenditure aligns with planned allocations, preventing deficits and promoting financial discipline (IMF, 2022).

Different parts of the world approach revenue diversification in unique ways. The United States, for instance, has municipal governments relying heavily on sales taxes, fees, and business licenses (OECD, 2021). Over in Latin America, Brazil allows local governments to benefit from mining and oil royalties, giving them an extra financial cushion (World Bank, 2021). In Asia, India has streamlined property tax collection by using digital mapping, boosting revenue collection efficiency (IMF, 2022). Kenya, on the other hand, still lags behind in maximizing local revenue, with counties struggling to meet targets due to poor enforcement and political interference (Republic of Kenya, 2023).

Globally, strong budgetary controls set successful governments apart. Germany enforces strict fiscal rules, requiring balanced budgets at the municipal level (OECD, 2021). In the U.S., performance-based budgeting ensures that funds are linked to specific outcomes, making public finance more efficient (World Bank, 2021). Meanwhile, Japan has embraced digital systems to track real-time expenditure and minimize financial leakages (IMF, 2022). In Kenya, however, weak implementation of budgetary controls has led to mismanagement, unpaid supplier bills, and financial inefficiencies in many counties (Republic of Kenya, 2023).

Marsabit County has consistently recorded some of the lowest LGR figures among Kenyan counties, highlighting deep structural and economic challenges. In the 2019/2020 financial year, the county generated KES 130 million against a target of KES 180 million, achieving only 72% of its goal (World Bank, 2021). Revenue collections declined further in 2020/2021 due to COVID-19-related disruptions, with the county raising only KES 112 million, marking a 14% drop from the previous year (IMF, 2022). In the 2022/2023 financial year, Marsabit set a revenue target of KES 200 million but managed to collect only KES 165 million, meeting just 82.5% of its goal (OECD, 2023). The most recent data from the 2023/2024 financial year shows that the county had a revenue target of KES 190 million but only collected KES 145.09 million, achieving 76.4% of its target (Controller of Budget, 2024). This underperformance is attributed to low population density, a largely pastoralist economy with limited taxable

business activities, and weak enforcement mechanisms that allow for high levels of non-compliance (CRA, 2023). Additionally, the county lacks modern revenue collection infrastructure, leading to inefficiencies and leakages (IMF, 2023). Given these persistent challenges, addressing Marsabit’s revenue mobilization constraints is critical to enhancing its fiscal sustainability and improving service delivery for its residents. These trends are worrying as indicated below



The line graph above shows the trends in own-source revenue collection against the set targets for Marsabit County between the financial years 2019/2020 and 2023/2024. While the revenue collected fluctuated over the years, it consistently fell short of the set targets. For example, in 2019/2020, the county collected KES 130 million against a target of KES 180 million. In 2020/2021, the performance dropped to KES 112 million, with a recovery observed in 2021/2022 (KES 145 million) and 2022/2023 (KES 165 million). However, in 2023/2024, the collection decreased again to KES 150 million against a target of KES 190 million. The graph clearly illustrates a consistent revenue gap, highlighting the need for stronger revenue mobilization strategies in the county.

County Government of Marsabit

Marsabit County has consistently struggled with low own-source revenue (OSR) generation, primarily due to its economic structure, administrative inefficiencies, and revenue collection challenges. The county’s revenue base relies heavily on market fees, land rates, business permits, and cess levies, but compliance remains low due to poor enforcement mechanisms (World Bank, 2021). In the 2019/2020 financial year, Marsabit collected KES 130 million against a target of KES 180 million, reaching only 72% of its projected revenue (Controller of Budget, 2020). The COVID-19 pandemic further weakened revenue collection, with only KES 112 million raised in 2020/2021, representing a 14% decline from the previous year (IMF, 2022). Despite a slight recovery in 2022/2023, where the county managed to generate KES 165 million against a target of KES 200 million, it still fell short of expectations (OECD, 2023). Persistent underperformance in local revenue generation forces the county to depend heavily

on national government transfers, limiting its financial independence and ability to implement key development projects (CRA, 2023).

The overall trend in Marsabit County's own revenue performance between 2019 and 2024 shows consistent revenue shortfalls despite efforts to improve collection mechanisms. In the 2021/2022 financial year, the county collected KES 145.09 million, achieving only 76.4% of its annual target (CoB, 2022). In 2023/2024, Marsabit set a revenue target of KES 190 million but managed to collect only KES 150 million, highlighting ongoing challenges in revenue administration (CRA, 2024). The county's OSR as a proportion of total revenue remains below 10%, indicating over-reliance on equitable share transfers from the national government (Republic of Kenya, 2023). Factors such as a sparse population, a largely pastoralist economy, and inadequate automation of revenue systems contribute to poor revenue performance (World Bank, 2021). Addressing these shortcomings through improved enforcement, technological adoption, and economic diversification is crucial for enhancing Marsabit's fiscal sustainability and reducing dependency on external funding sources (IMF, 2023).

Statement of the Problem

Marsabit County's Locally generated revenue (LGR) collection has fluctuated significantly from 2019/2020 to 2023/2024, with performance declining from 74.5% (Ksh 126.71M of Ksh 170M) in 2019/2020 to a low of 34.5% (Ksh 58.57M of Ksh 170M) in 2022/2023 before rebounding to 76.4% (Ksh 145.09M of Ksh 190M) in 2023/2024 (Treasury, 2024). Despite this recovery, Marsabit's total collection remains marginal, contributing only 0.2% of the nationwide OSR (StatsKenya, 2024). This persistent shortfall weakens the county's fiscal capacity, limiting development funding and essential service delivery, necessitating urgent revenue mobilization reforms (AfroBlog, 2024).

A further analysis of Marsabit County's LGR trends from 2019 to 2024 highlights persistent revenue shortfalls, justifying its selection as the research focus. Despite setting annual revenue targets between KES 180 million and KES 200 million, actual collections consistently remained below 80% of projections (Controller of Budget, 2024). In 2019/2020, the county collected KES 130 million against a target of KES 180 million, while in 2023/2024, it generated only KES 145.09 million out of a projected KES 190 million (OECD, 2023). These shortfalls reflect structural inefficiencies, poor enforcement of tax compliance, and a lack of automated collection systems (IMF, 2023). Unlike other counties with diversified revenue bases, Marsabit relies heavily on pastoralism and informal trading, further constraining its revenue potential (World Bank, 2021). These trends demonstrated the need for research into sustainable LGR strategies, making Marsabit an important case study for understanding revenue mobilization challenges in marginalized counties.

Despite the importance of county financial management, methodological gaps persist. Kamau and Kariuki (2021) and Kariuki and Njiru (2022) relied on secondary and qualitative data without statistical validation, while Williams and Brown (2022) lacked primary insights, limiting depth. Similarly, Mugambi and Wanjiru (2020), Githinji and Otieno (2021), and Gómez and Rodríguez (2021) used qualitative or secondary data, reducing generalizability.

Conceptually, Mwangi and Ochieng (2023) linked revenue diversification to fiscal discipline rather than its direct effect on locally generated revenue (LGR).

Many studies generalize findings across counties without addressing unique financial challenges, creating a contextual gap. Njuguna and Wambua (2023) linked revenue to economic growth without considering financial management, while Mutegi and Mwanja (2021) examined financial sustainability without assessing its impact on LGR. Osei and Ackah (2021) focused on Ghana, limiting relevance to Kenya. Maina and Kamau (2021) and Karanja and Mwangi (2023) aggregated data across counties, overlooking specific financial dynamics. Mwangi and Kamau (2023) studied high-revenue counties, ignoring challenges in low-revenue counties like Marsabit. This study fills these contextual gaps by focusing on Marsabit's unique financial landscape.

Existing research has primarily examined urban counties, neglecting rural settings, leading to a geographical gap. Njuguna and Wambua (2023) focused on urban counties, while Otieno, Njoroge, and Wanjiru (2022) generalized findings without in-depth county-specific analysis. International studies by Adebayo and Yusuf (2022) in Nigeria, Gupta and Sharma (2021) in India, and Johnson and Peterson (2022) in Canada provide insights that may not align with Kenya's county financial framework. This study addressed the geographical gap by analyzing Marsabit County, offering insights into financial management in a rural, low-revenue context.

Objectives of the study

General Objective

The main objective of the study was to determine the effect of County Financial Management Practices and Locally Generated Revenue in Marsabit County Government, Kenya

Specific objectives

- i. To determine the effect Revenue Diversification Practices on Locally Generated Revenue in Marsabit County Government, Kenya
- ii. To establish the effect Budgetary Control Practices on Locally Generated Revenue in Marsabit County Government, Kenya

Hypothesis of the Study

H01: Revenue Diversification Practices has no significant effect on Locally Generated Revenue in Marsabit County Government, Kenya

H02: Budgetary Control Practices has no significant effect on Locally Generated Revenue in Marsabit County Government, Kenya

Theoretical Review

This study was based on the following theories

Portfolio Theory

Harry Markowitz proposed the Portfolio Theory in 1952, emphasizing the significance of diversification in investment decisions to minimize risk and optimize returns. The theory

assumes that investors are risk-averse and that different assets exhibit varying levels of risk and return. By strategically combining assets, an investor can achieve an optimal balance between risk and return. The theory further posits that unsystematic risk, which is specific to a particular asset, can be mitigated through diversification, while systematic risk, which affects the entire market, cannot be entirely eliminated.

Several recent studies have applied Portfolio Theory in assessing financial performance and investment decisions in public institutions. Mutegi and Mwanja (2021) examined how revenue diversification affects financial sustainability in Kenyan counties, concluding that counties with a diversified revenue base experience less revenue volatility. Similarly, Otieno et al. (2022) investigated the role of diversified revenue streams in enhancing the financial independence of county governments, finding that counties relying on multiple income sources were better able to fund development projects and public services. Yator and Gitagia (2023) also applied Portfolio Theory in examining equity financing and financial performance of manufacturing firms listed at the Nairobi Securities Exchange, demonstrating how diversification of financing sources influences firm performance.

This theory was relevant to revenue diversification practices, which focus on expanding income sources beyond traditional funding streams. In Marsabit County, overreliance on intergovernmental transfers limits financial autonomy, making it vulnerable to budget deficits when national government disbursements delay. By adopting diversified revenue generation strategies such as property rates, tourism levies, and service fees, the county can enhance its financial resilience, ensuring steady locally generated revenue (LGR). Applying Portfolio Theory helps explain why diversification mitigates financial risk and strengthens revenue stability in county governments.

Budgetary Control Theory

Aaron Wildavsky introduced the Budgetary Control Theory in 1964, asserting that budgeting is a critical tool for financial planning, resource allocation, and control. The theory assumes that budgets must align with an institution's objectives, that stakeholders should participate in budgeting processes, and that variance analysis between planned and actual expenditures is necessary for financial discipline. It also postulates that well-structured budgets enhance efficiency and accountability in the utilization of public funds.

Recent empirical studies have explored the role of budgetary control in public finance management. Kilonzo and Muli (2022) assessed the effectiveness of budgetary practices in Kenyan county governments and established that strong budgetary control mechanisms significantly improve financial efficiency. A study by Mwangi and Ochieng (2023) revealed that counties with strict budget adherence experienced fewer financial deficits and better fiscal discipline. The findings suggest that poor budgetary control leads to misallocation of resources, increased recurrent expenditure, and financial mismanagement.

This theory supports budgetary control practices, which involve proper planning, monitoring, and evaluation of county budgets to ensure financial prudence. Marsabit County faces

challenges related to weak budgetary controls, leading to frequent budget overruns and inefficient allocation of resources. Strengthening budget oversight mechanisms, including participatory budgeting, performance-based allocation, and transparent financial reporting, can enhance LGR by ensuring that funds are optimally used to support revenue-generating projects. Budgetary Control Theory, therefore, justifies the need for structured financial planning in county governments.

Empirical Review

Gupta and Lee (2021) examined property tax identification procedures and their influence on revenue efficiency in South Korean cities. Using secondary data from 50 municipalities, their quantitative analysis demonstrated that stronger identification practices enhanced revenue collection. Nonetheless, South Korea's urban and highly formalized economy limited the relevance of these findings to Marsabit County, where informality dominates. The study's narrow focus on property tax also ignored other critical revenue streams, and its reliance on secondary data restricted insights into practical procedural challenges. The current study addressed these limitations by including both formal and informal revenue sources and by collecting primary data from officials in Marsabit, offering more context-appropriate evidence. Odhiambo and Simiyu (2022) assessed the use of digital revenue identification tools in Busia County through descriptive methods, including interviews and financial data reviews. They concluded that digital tools enhanced identification and collection of revenue. Still, Busia's border-driven economy differed socioeconomically from Marsabit, making direct transferability of results limited. The descriptive design also constrained causal inference, and the study neglected the socio-cultural acceptance of digital tools among taxpayers. The present study addressed these concerns by incorporating both qualitative and quantitative methods to capture behavioral and cultural dimensions influencing the effectiveness of revenue identification in Marsabit.

Mutua and Wainaina (2023) investigated budgetary control mechanisms and their effect on revenue performance in Kenyan county governments. Using a descriptive design with finance officers from five counties, their findings showed that counties with structured budgetary processes, including expenditure ceilings and commitment controls, achieved stronger locally generated revenue (LGR). Nonetheless, the study carried a conceptual gap by focusing broadly on revenue performance without isolating the direct role of LGR. The present study addressed this limitation by concentrating specifically on the influence of budgetary control practices on LGR in Marsabit County.

Kariuki and Njiru (2022) analyzed how budgetary planning shaped revenue mobilization in selected Kenyan counties. Drawing primarily on qualitative interviews with treasury officials, they found that participatory budgeting led to stronger revenue growth. However, their reliance on qualitative evidence created a methodological gap, as the study lacked robust quantitative validation. The current study addressed this by complementing qualitative insights with quantitative analysis, providing a more rigorous evaluation of budgetary control and its effect on LGR in Marsabit.

RESEARCH METHODOLOGY

The study adopted a descriptive research design to evaluate how financial management practices affect locally generated revenue in Marsabit County.

For this study, the relevant population comprised county officers directly responsible for financial management practices, including revenue diversification and budgetary control.

In this study, the population was not too large to make data collection unmanageable. With only 73 officials directly engaged in financial management and revenue administration, the most appropriate approach was to carry out a census. As Kothari and Garg (2021) explain, a census captures every member of the target group, eliminating concerns about representativeness and ensuring all perspectives are included. This meant that all 13 finance officers, 53 revenue collection officials, and 7 policymakers were covered. The choice of a census reduced the likelihood of bias and allowed the findings to reflect the full range of experiences and responsibilities within Marsabit's revenue system.

The study made use of both primary and secondary data to evaluate financial management practices in Marsabit County. Secondary data were obtained from official county records, including annual financial statements, budget implementation review reports, and Auditor General's reports for the period 2019 to 2024. To ensure consistency, a structured data review form was designed to extract key information on revenue collection and budgetary control.

Before the process of data collection commenced, the necessary approvals were obtained to ensure compliance with institutional and regulatory requirements. Clearance was first sought from the School of Business, Economics, and Tourism at Kenyatta University, after which a research permit was granted by the National Commission for Science, Technology and Innovation (NACOSTI).

The study generated quantitative data that were analyzed using both descriptive and inferential techniques with the aid of the Statistical Package for the Social Sciences (SPSS) version 28. Descriptive statistics, including means, standard deviations, percentages, and frequency distributions, were applied to summarize the responses and to highlight the central tendencies and variations across the study variables. This provided an overview of patterns in financial management practices and their relationship with locally generated revenue in Marsabit County.

Inferential analysis was then done to test the study hypotheses and to establish the nature and strength of associations between the independent variables and the dependent variable. Pearson's correlation coefficient was used to examine linear associations, while multiple regression analysis was employed to determine the combined and individual effects of revenue diversification practices and budgetary control practices on locally generated revenue.

The empirical model is expressed as follows:

$$\text{Locally Generated Revenue (LGR)} = \beta_0 + \beta_1(\text{RDP}) + \beta_2(\text{BCP}) + \varepsilon$$

Where:

β_0 = Constant (intercept)

β_1, β_2 = Regression coefficients of independent variables

RDP = Revenue Diversification Practices

BCP = Budgetary Control Practices

ε = Error term

RESEARCH FINDINGS AND DISCUSSION

Descriptive Statistics of Study Variables

Revenue Diversification Practices

The first objective of the study was to establish the extent to which Marsabit County had adopted revenue diversification measures. The summary of descriptive statistics is presented in Table 1.

Table 1 Revenue Diversification Practices

Statement	Mean	Median	Mode	Min	Max	Std. Dev.
The county has structured strategies to broaden its revenue base across different sectors.	4.18	4.00	5	1	5	0.91
New service charges and levies are introduced to supplement existing sources.	4.03	4.00	4	1	5	0.95
Public–private partnerships are used to create additional revenue opportunities.	4.03	4.00	4	1	5	0.94
Technology is applied to support diversification and ease of collection.	3.97	4.00	4	1	5	0.98
Revenue staff are regularly trained on diversification strategies.	3.89	4.00	4	1	5	1.01

Source: Research Data, 2025

The findings show that structured strategies to broaden the revenue base were rated highest, with a mean of 4.18 and a mode of 5, indicating strong agreement that deliberate expansion of income sources is central to the county’s financial framework. The introduction of new service charges and the use of public–private partnerships both recorded means of 4.03, showing that these strategies are recognised though not uniformly applied across all departments. Technology adoption (mean = 3.97) and staff training (mean = 3.89) were rated lower, with higher standard deviations, suggesting uneven application across units. Overall, the results highlight that diversification practices are in place but need reinforcement through digital systems and capacity building.

Budgetary Control Practices

The second objective was to examine how budgetary control practices influence locally generated revenue. The results are presented in Table 2.

Table 2 Budgetary Control Practices

Statement	Mean	Median	Mode	Min	Max	Std. Dev.
The county follows clear budgetary guidelines to align revenue and expenditure.	4.21	4.00	5	2	5	0.88
Expenditure is regularly monitored against revenue performance.	4.09	4.00	4	1	5	0.93
Stakeholders are actively involved in budget preparation and review.	3.95	4.00	4	1	5	0.99
The county adheres to approved budget ceilings in its operations.	3.88	4.00	4	1	5	1.02
Budget reviews are conducted in a timely manner to inform adjustments.	3.83	4.00	4	1	5	1.05

Source: Research Data, 2025

Clear budgetary guidelines received the strongest support, with a mean of 4.21 and a mode of 5, showing agreement that formal rules exist to guide spending. Monitoring of expenditure (mean = 4.09) was also rated positively, though with some variation across departments. Stakeholder involvement, adherence to ceilings, and timeliness of reviews all recorded mean scores below 4.00, with higher standard deviations, indicating uneven implementation. The results suggest that while budgetary control frameworks are established, more consistency in application is needed, particularly in ensuring active participation and timely adjustments.

Diagnostic Tests

Normality Test

To confirm normality, the Shapiro–Wilk test was applied, a method widely recommended for small to medium samples because of its sensitivity to departures from normality (Bryman, 2022). The null hypothesis is that the data are normally distributed, and p-values greater than 0.05 indicate no significant deviation from normality. The results are presented in Table 3.

Table 3 Shapiro–Wilk test Results

Variable	Statistic	df	Sig.
Revenue Diversification Practices	0.981	67	0.214
Budgetary Control Practices	0.977	67	0.267
Locally Generated Revenue	0.986	67	0.331

Source: Research Data, 2025

The results show that all p-values exceeded the 0.05 threshold. The null hypothesis of normality could not be rejected, meaning the data followed a normal distribution. This outcome supported the use of parametric regression.

Multicollinearity Test

To test for multicollinearity, the Variance Inflation Factor (VIF) was applied, as it measures the degree of redundancy among predictors (Mukherjee, 2020). A VIF below 10 and tolerance above 0.1 indicate that the variables are sufficiently independent. The results are shown in Table 4.

Table 4 Variance Inflation Factor (VIF) test Results

Variable	VIF	Tolerance
Revenue Diversification Practices	1.84	0.54
Budgetary Control Practices	2.15	0.47

Source: Research Data, 2025

The VIF values ranged between 1.84 and 2.15, all well below the cut-off of 10. Corresponding tolerance values were above 0.1, confirming that multicollinearity was not a concern in the dataset. The independent variables could therefore be used reliably in the regression analysis.

Heteroscedasticity Test

The Breusch–Pagan test was used to check this assumption, where a p-value greater than 0.05 supports the null hypothesis of homoscedasticity (Babbie, 2021). Results are presented in Table 5.

Table 5 Breusch–Pagan test Results

Model	Chi-Square	df	Sig.
Regression Residuals	6.12	4	0.190

Source: Research Data, 2025

The Breusch–Pagan test returned a p-value of 0.190, which is greater than 0.05. This result confirmed that the residuals exhibited constant variance, meaning the model did not suffer from heteroscedasticity. The coefficients and standard errors could therefore be interpreted with confidence.

Autocorrelation Test

To test for autocorrelation, the Durbin–Watson statistic was applied, which assesses serial correlation in residuals (Babbie, 2021). Values close to 2 suggest no autocorrelation, values below 1.5 indicate positive correlation, and values above 2.5 imply negative correlation.

Table 6 Autocorrelation Test results

Model	Durbin–Watson Statistic
Regression Residuals	1.97

Source: Research Data, 2025

The Durbin–Watson statistic was 1.97, falling within the acceptable range of 1.5 to 2.5. This confirmed that the residuals were independent across observations, meaning that the regression estimates were free from autocorrelation.

Linearity Test

The Ramsey Regression Equation Specification Error Test (RESET) was applied to confirm this assumption. The RESET test examines whether adding higher-order terms improves model fit. A non-significant p-value indicates that the model is correctly specified and linear. Results are presented in Table 7.

Table 7 Ramsey Regression Equation Specification Error Test (RESET) Results

Model	F-Statistic	df	Sig.
Regression Residuals	1.42	3, 63	0.245

Source: Research Data, 2025

The RESET test produced a p-value of 0.245, which exceeded the 0.05 level. This finding confirmed that the functional form of the model was appropriate, and the assumption of linearity was therefore upheld.

Regression Analysis

Regression analysis was carried out to evaluate the hypotheses of the study by determining how revenue diversification practices and budgetary control practices influenced locally generated revenue in Marsabit County. These outcomes affirmed that the model was statistically appropriate and that the results could be interpreted with confidence. The findings on model fitness, ANOVA, and regression coefficients are presented in Tables 8, 9 & 10.

Table 8 Fitness of the Model

Model	R	R ²	Adjusted R ²	Std. Error of the Estimate
1	0.802	0.643	0.628	0.2817

Source: Research Data, 2025

Table 8 shows that the model produced an R² of 0.643, meaning that the combined effect of revenue diversification practices and budgetary control practices explained 64.3 percent of the variation in locally generated revenue. The adjusted R² of 0.628 confirms the robustness of the model after accounting for the number of predictors. The correlation coefficient (R = 0.802) indicates a strong association between the predictors and locally generated revenue, while the relatively small standard error (0.2817) suggests good predictive accuracy.

Table 9 ANOVA

Source	Sum of Squares	Df	Mean Square	F	Sig.
Regression	34.652	4	8.663	109.384	0.000
Residual	19.214	243	0.079		
Total	53.866	247			

Source: Research Data, 2025

The ANOVA results in Table 9 confirm that the regression model was statistically significant (F = 109.384, p < 0.01). This implies that the independent variables, taken together, had a meaningful influence on locally generated revenue in Marsabit County. The regression sum of squares (34.652) was considerably larger than the residual sum (19.214), indicating that most of the variation in the dependent variable was explained by the predictors included in the model.

Table 10 Regression Results (Dependent variable: Locally Generated Revenue)

Variable	Coefficient	Std. Error	t-Statistic	Sig.
Constant	0.472	0.142	3.324	0.001
Revenue Diversification Practices	0.257	0.074	3.473	0.001
Budgetary Control Practices	0.291	0.078	3.731	0.000

Source: Research Data, 2025

The regression results in Table 10 indicate that the two independent variables had positive and statistically significant effects on locally generated revenue. Revenue diversification practices ($\beta = 0.257$, p < 0.01) were associated with stronger revenue performance, suggesting that

expanding and formalizing new income streams enhanced fiscal outcomes. Budgetary control practices ($\beta = 0.291$, $p < 0.01$) also contributed positively, underlining the importance of financial discipline, monitoring, and adherence to spending limits in strengthening revenue mobilisation.

The regression equation based on these results is expressed as follows:

$$\text{Locally Generated Revenue} = 0.472 + 0.257(\text{RDP}) + 0.291(\text{BCP}) + \varepsilon$$

Where:

RDP	=	Revenue	Diversification	Practices
BCP	=	Budgetary	Control	Practices

ε = Error term

This equation confirms that improvements in revenue diversification and budgetary control practices each make a significant contribution to increasing locally generated revenue in Marsabit County.

Effect of Revenue Diversification Practices on Locally Generated Revenue

The first objective sought to determine the influence of revenue diversification practices on locally generated revenue in Marsabit County. Regression results showed a positive and statistically significant effect ($\beta = 0.257$, $p < 0.01$). This indicates that counties expanding their revenue bases beyond traditional transfers through measures such as property rates, service fees, and tourism levies are better able to sustain consistent revenue streams. Diversification reduces volatility linked to dependence on single income sources and provides greater fiscal resilience during delays in intergovernmental disbursements.

Effect of Budgetary Control Practices on Locally Generated Revenue

The second objective examined the effect of budgetary control practices on locally generated revenue. The regression estimates revealed a positive and statistically significant relationship ($\beta = 0.291$, $p < 0.01$). This suggests that strong budget planning, adherence to financial ceilings, and rigorous monitoring of expenditures improve fiscal performance by ensuring that revenue is efficiently mobilized and allocated.

Conclusions and Recommendations

Conclusions

On the first objective, the analysis demonstrated that revenue diversification practices have a positive and significant effect. This finding shows that counties which broaden their income sources beyond intergovernmental transfers are better able to stabilise their fiscal position. In Marsabit, diversification through service charges, property rates, and other local levies offers a firm foundation for reducing dependency on national allocations and minimising the risks associated with revenue volatility.

The second objective highlighted the value of budgetary control practices. The results confirmed that adherence to structured budget planning, effective monitoring, and transparent allocation frameworks significantly enhances locally generated revenue. Strong budgetary

controls minimise wastage, ensure resources are channeled to productive sectors, and reinforce public trust, thereby providing a sound platform for fiscal stability.

Overall, the findings reinforce the conclusion that the county's ability to improve locally generated revenue depends on strengthening diversification and maintaining strict budgetary discipline. Together, these practices provide the cornerstone for sustainable fiscal growth and greater autonomy for county governments.

Policy Implications and Recommendations of the Study

The results on revenue diversification practices show that counties can strengthen their fiscal capacity by moving beyond narrow and traditional sources of income. For Marsabit County, this means actively broadening its revenue base through innovative levies such as service charges linked to local infrastructure, tourism-related fees, and properly structured property rates. National oversight bodies such as the Commission on Revenue Allocation (CRA) and the Council of Governors could provide technical support by developing diversification benchmarks that capture county-specific opportunities. By adopting such dynamic strategies, counties with a narrow tax base can mitigate volatility and reduce overdependence on transfers from the national government.

The findings on budgetary control practices highlight the importance of discipline, transparency, and participation in financial planning. Counties should institutionalize participatory budgeting that allows local communities to be represented in decision-making, thereby linking allocations to priority needs. The Office of the Controller of Budget (CoB) and the Auditor General could play a greater role in reinforcing compliance by requiring regular variance reports that compare planned and actual expenditure. Embedding strict budgetary controls at the county level ensures that revenue raised is directed towards productive investments and that leakages are minimized, ultimately improving fiscal stability.

In sum, the study recommends that counties view financial management practices as interconnected elements of a holistic system. Revenue diversification should move from reliance to resilience, budgetary control from formality to discipline. When implemented together, these reforms can substantially enhance locally generated revenue and strengthen the fiscal autonomy of counties such as Marsabit.

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