

Revenue Assignment and Economic Growth in Kenya's County Governments: Does Fiscal Management Efficiency Matter?

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ABSTRACT

Fiscal decentralisation has transformed the structure of public finance management by transferring selected fiscal responsibilities from central governments to sub-national governments. In Kenya, the establishment of county governments through the Constitution of Kenya 2010 created a framework where counties are expected to mobilize resources, plan development interventions and promote local economic growth. Revenue assignment represents a critical dimension of fiscal decentralisation because it determines the extent to which counties can generate own-source revenue and exercise fiscal autonomy. However, the existence of revenue authority does not automatically translate into economic growth. The effectiveness of revenue assignment depends on institutional capacity, accountability mechanisms and the efficiency with which public resources are planned, allocated and utilized. This study therefore examined the effect of revenue assignment on economic growth and established the moderating effect of fiscal management efficiency on this relationship among Kenya's county governments.

The study adopted an explanatory longitudinal panel research design covering all 47 county governments in Kenya for the period 2013/2014 to 2022/2023, resulting in 470 county-year observations. Secondary data were obtained from county government financial reports, Gross County Product (GCP) statistics, County Budget Implementation Review Reports, and audit reports from relevant public institutions. Revenue assignment was operationalized using county own-source revenue performance, economic growth was measured using annual Gross County Product growth, while fiscal management efficiency was measured using indicators related to budget absorption, financial reporting compliance, procurement adherence and accountability practices. Data were analyzed using descriptive statistics, correlation analysis, panel regression analysis and hierarchical regression to test the moderating effect. The findings established that revenue assignment had a positive and statistically significant effect on economic growth among Kenya's county governments ($\beta = 0.328$, $p < 0.001$). The direct effects model explained approximately 50.2% of the variation in county economic growth ($R^2 = 0.502$). Further, the moderation analysis revealed that fiscal management efficiency significantly strengthened the relationship between revenue assignment and economic growth ($\beta = 5.165$, $p < 0.01$), with the inclusion of the interaction term increasing the explained variance by $\Delta R^2 = 0.083$.

This indicates that counties with stronger fiscal management systems derive greater economic benefits from revenue assignment compared with counties with weaker financial management capacity. The study concludes that revenue autonomy is an important driver of county economic growth, but its effectiveness depends on the quality of fiscal management systems supporting resource mobilization and utilization. Therefore, county governments should combine revenue enhancement strategies with improved budgeting practices, procurement compliance, financial accountability, expenditure controls and effective implementation of development programmes. Strengthening fiscal management efficiency is essential for converting decentralised revenue powers into sustainable economic development outcomes.

Keywords: Fiscal decentralisation; revenue assignment; fiscal management efficiency; economic growth; county governments; moderation; Kenya.

INTRODUCTION

Fiscal decentralisation has gained prominence as a mechanism for improving governance, accountability and economic development by transferring selected fiscal responsibilities, decision-making authority and financial resources from central governments to sub-national governments. The underlying argument is that governments operating closer to citizens possess better information regarding local preferences, socioeconomic conditions and development priorities, enabling them to allocate public resources more efficiently (Oates, 1999). Through decentralisation reforms, many developing countries have transferred responsibilities relating to service delivery, infrastructure development and local economic promotion to sub-national governments in an effort to improve public sector responsiveness and stimulate local development (Martinez-Vazquez & McNab, 2003).

The theoretical foundation of fiscal decentralisation is anchored in Fiscal Federalism Theory, which argues that decentralized decision-making can improve allocative efficiency where local governments have adequate fiscal authority and institutional capacity. However, the theory also recognizes that decentralisation does not automatically generate positive economic outcomes; rather, its success depends on the ability of sub-national governments to mobilize resources, manage expenditures and maintain accountability mechanisms (Oates, 1999; Martinez-Vazquez & McNab, 2003). Therefore, the effectiveness of decentralisation is determined not only by the transfer of responsibilities but also by the quality of institutions supporting fiscal management.

Kenya's decentralisation framework was established through the Constitution of Kenya 2010, which introduced a devolved governance system consisting of 47 county governments in 2013. The reform aimed to promote equitable development, enhance public participation, improve service delivery and reduce regional economic disparities (Republic of Kenya, 2010). County governments were assigned important functions including local infrastructure development, agriculture promotion, trade development, health services and other devolved responsibilities. These functions require adequate financial resources, effective planning systems and strong fiscal management capacity to achieve intended development outcomes (Commission on Revenue Allocation [CRA], 2022).

Revenue assignment represents one of the major components of fiscal decentralisation because it determines the revenue sources available to sub-national governments and the degree of fiscal autonomy they possess. According to Oates (1999), assigning appropriate revenue powers to lower levels of government can improve efficiency by allowing local authorities to finance programmes that reflect local needs and preferences. In Kenya, county governments generate own-source revenue through property rates, business permits, market fees, licenses, service charges and other locally assigned revenue instruments. These revenues complement equitable share transfers and conditional grants provided by the national government under the intergovernmental fiscal framework (Republic of Kenya, 2010; Commission on Revenue Allocation [CRA], 2022).

Despite the importance of revenue assignment, significant differences continue to exist among Kenyan counties in terms of economic performance, revenue generation capacity and development outcomes. While some counties have demonstrated stronger economic growth trajectories due to improved revenue mobilisation and effective resource utilisation, others continue to experience limited development outcomes despite receiving substantial fiscal transfers (Controller of Budget [CoB], 2023). This variation raises an important question: whether the availability of fiscal resources alone is sufficient to generate economic growth or whether institutional factors influence the ability of counties to convert fiscal resources into productive economic outcomes.

Previous studies indicate that fiscal decentralisation can contribute positively to economic growth when sub-national governments possess adequate administrative capacity and effective financial management systems (Martinez-Vazquez & McNab, 2003; Rodríguez-Pose & Ezcurra, 2010). However, weak budget execution, inefficient procurement systems, inadequate accountability structures and poor financial reporting can reduce the developmental impact of decentralised resources (Simson & Welham, 2014). Consequently, fiscal management efficiency becomes a critical factor determining whether revenue assignment produces meaningful economic benefits.

Recent evidence from Kenya suggests that revenue decentralisation has potential to enhance county economic growth, particularly where counties improve own-source revenue mobilisation and strengthen fiscal institutions (Muthomi & Ndunda, 2024). However, limited empirical attention has been given to the moderating role of fiscal management efficiency in explaining why similar levels of revenue assignment produce different economic outcomes across counties. This study therefore examines the effect of revenue assignment on economic growth and establishes whether fiscal management efficiency strengthens this relationship among Kenya's county governments.

LITERATURE REVIEW AND THEORETICAL FOUNDATION

Fiscal Federalism Theory

Fiscal Federalism Theory provides the primary theoretical foundation for understanding fiscal decentralisation and the allocation of fiscal responsibilities between central and sub-national governments. The theory, advanced by Musgrave (1959) and developed further by Oates (1972, 1999), argues that decentralised governments can provide certain public services more efficiently because they possess superior information regarding local preferences, socioeconomic conditions and development priorities. By allowing decisions to be made closer to citizens, decentralisation can improve allocative efficiency, strengthen accountability and enhance responsiveness in public resource allocation (Oates, 1999).

A central component of fiscal federalism is revenue assignment, which concerns the allocation of revenue-raising powers between different levels of government. Oates (1999) argues that assigning appropriate revenue responsibilities to sub-national governments enables them to finance local priorities while improving fiscal accountability. When counties possess adequate revenue authority, they are more likely to align expenditure decisions with local development needs, thereby contributing to economic growth.

However, fiscal federalism theory also recognizes that decentralisation does not automatically produce positive development outcomes. The benefits of decentralised fiscal systems depend on the institutional capacity of sub-national governments to mobilize revenue, manage expenditure and maintain accountability mechanisms (Martinez-Vazquez & McNab, 2003). Where local governments lack administrative capacity, weak financial controls and ineffective planning systems may reduce the economic benefits expected from fiscal autonomy (Rodríguez-Pose & Ezcurra, 2010).

In the context of Kenyan county governments, Fiscal Federalism Theory explains why revenue assignment is expected to influence economic growth. However, it also provides the justification for examining fiscal management efficiency as a moderating factor. Counties with similar revenue authority may achieve different economic outcomes depending on their ability to efficiently manage and utilize available fiscal resources.

Institutional Economics Theory

Institutional Economics Theory emphasizes the role of institutions in determining how economic resources are allocated, managed and transformed into development outcomes. According to North (1990), institutions consist of formal rules, regulations and organizational structures that shape economic behaviour and influence the effectiveness of resource utilization. Strong institutions reduce inefficiencies by promoting accountability, transparency and effective decision-making.

Within public sector management, institutional quality determines whether fiscal resources translate into meaningful economic outcomes. Effective institutions enhance budget planning, expenditure control, procurement efficiency and accountability, thereby improving the productivity of public spending (Acemoglu & Robinson, 2012). Conversely, weak institutions may result in inefficient resource allocation, delayed project implementation and limited economic returns from public investments.

For county governments, fiscal management efficiency represents an important institutional mechanism through which revenue assignment influences economic growth. Counties with effective financial management systems are expected to collect revenue efficiently, allocate resources strategically, implement development programmes successfully and ensure value for money in public expenditure. Therefore,

Institutional Economics Theory supports the argument that fiscal management efficiency strengthens the relationship between revenue assignment and economic growth.

Revenue Assignment and Economic Growth

Revenue assignment is a fundamental dimension of fiscal decentralisation because it determines the financial resources available to sub-national governments and their level of fiscal autonomy. According to Oates (1999), assigning revenue responsibilities to lower levels of government can improve efficiency by allowing local authorities to finance programmes that reflect local economic conditions and citizen preferences.

In Kenya, revenue assignment enables county governments to generate own-source revenue through property rates, business permits, licenses, market fees and other locally assigned revenue instruments. These revenues complement equitable share allocations and conditional grants from the national government, providing counties with resources to finance development programmes (Republic of Kenya, 2010).

Theoretically, stronger revenue assignment can promote economic growth through several mechanisms. First, increased own-source revenue enhances county fiscal flexibility by reducing dependence on central government transfers. Second, locally generated revenue can finance infrastructure development, agricultural programmes, trade promotion and public services that stimulate local economic activity. Third, revenue autonomy can improve accountability because citizens are more likely to demand efficient service delivery when local governments collect and manage their own resources (Bahl & Bird, 2018).

Empirical studies provide evidence that fiscal decentralisation can contribute to economic growth when supported by appropriate institutional arrangements. Martinez-Vazquez and McNab (2003) found that decentralisation can enhance economic performance when sub-national governments possess meaningful fiscal authority and adequate administrative capacity. Similarly, Muthomi and Ndunda (2024) found that revenue decentralisation reforms in Kenya have a positive relationship with county economic growth, particularly where counties improve their revenue mobilisation capacity.

However, revenue assignment alone may not guarantee economic growth. Weak revenue administration, limited accountability, inefficient expenditure management and poor implementation capacity may reduce the developmental impact of locally generated resources (Rodríguez-Pose & Ezcurra, 2010). Therefore, the effect of revenue assignment on economic growth may depend on the efficiency with which counties manage public finances.

Fiscal Management Efficiency as a Moderator

Fiscal management efficiency refers to the ability of government institutions to effectively plan, execute, monitor and account for public resources. It includes budget credibility, expenditure control, procurement efficiency, financial reporting, internal controls and accountability mechanisms (Simson & Welham, 2014).

In decentralised governance systems, fiscal management efficiency determines whether available financial resources are converted into productive economic outcomes. Although revenue assignment provides counties with fiscal authority, inefficient management may result in resource wastage, incomplete development projects, poor service delivery and limited economic impact. Conversely, efficient financial management allows counties to prioritize productive expenditure, improve implementation capacity and maximize the developmental value of available revenues.

The moderating role of fiscal management efficiency is supported by institutional perspectives, which argue that the effectiveness of economic resources depends on the quality of governance structures managing them (North, 1990). Counties with stronger financial management systems are expected to achieve greater economic benefits from revenue assignment because they possess the capacity to translate fiscal resources into infrastructure, services and economic opportunities.

Therefore, this study conceptualizes fiscal management efficiency as a moderating variable that strengthens the relationship between revenue assignment and economic growth. The assumption is that increases in

revenue assignment will produce greater improvements in economic growth among counties with higher levels of fiscal management efficiency compared with counties characterized by weaker financial management practices.

Empirical Literature and Research Gap

Recent evidence confirms that revenue decentralization can influence sub-national economic performance when fiscal instruments allow local governments to mobilize and allocate resources effectively. Muthomi and Ndunda (2024) found that revenue decentralization reforms in Kenya were positively associated with county-level economic growth, particularly through own-source revenue and conditional grants. Their findings support the argument that county fiscal autonomy can contribute to development when accompanied by appropriate institutional arrangements.

However, fiscal decentralization outcomes vary because the availability of resources does not automatically ensure effective utilization. Oates (1999) argues that decentralization improves efficiency only where institutional capacity allows local governments to make effective allocation decisions. Similarly, Martinez-Vazquez and McNab (2003) emphasize that decentralized fiscal systems require accountability mechanisms and administrative capability to

Generate developmental benefits

The unresolved issue is therefore not only whether counties receive revenue authority, but whether they possess the management capacity required to transform revenue into economic growth. This study addresses this gap by introducing fiscal management efficiency as a moderating variable.

RESEARCH METHODOLOGY

This study adopted an explanatory longitudinal panel research design to examine the effect of revenue assignment on economic growth and determine the moderating effect of fiscal management efficiency among Kenya's county governments. An explanatory design was appropriate because the study sought to establish causal relationships between fiscal decentralisation dimensions and economic outcomes. The longitudinal panel approach enabled the analysis of changes across counties and over time by combining cross-sectional observations from multiple county governments with time-series data (Baltagi, 2021).

Panel research designs are particularly suitable for decentralisation studies because they allow researchers to control for unobserved differences among sub-national governments and examine variations in fiscal performance over several periods. The design was therefore appropriate for assessing how differences in revenue assignment and fiscal management efficiency influence county economic growth.

Study Population and Unit of Analysis

The target population comprised all 47 county governments in Kenya established under the Constitution of Kenya 2010. The county governments were selected because they represent the primary units responsible for implementing devolved functions, mobilizing own-source revenue and promoting local economic development.

The unit of analysis was the county government, while the unit of observation was the county-year. The study covered a period of ten financial years from 2013/2014 to 2022/2023, resulting in 470 county-year observations ($47 \text{ counties} \times 10 \text{ years}$). The period was selected because it represents the implementation period of Kenya's devolved fiscal framework and provides sufficient observations for panel data estimation.

Table 1: Target Population and Sample Size

Category	Target Population	Sample Size
County governments in Kenya	47	47
Observation period	10 years	2013/2014–2022/2023
Total county-year observations	470	470

Source: Researcher’s computation (2026).

Data Sources and Collection

The study relied on secondary panel data obtained from publicly available government reports and official statistical publications. The main sources included: Gross County Product reports published by the Kenya National Bureau of Statistics (KNBS); County Budget Implementation Review Reports from the Office of the Controller of Budget; County financial reports and audited accounts from the Office of the Auditor-General and Revenue allocation reports from the Commission on Revenue Allocation (CRA).

Secondary data were considered appropriate because the study examined fiscal performance and economic outcomes over an extended period across all county governments. Administrative fiscal data also provide objective measures of county revenue generation, expenditure management and economic performance.

Measurement of Study Variables

The study examined three major variables: revenue assignment, fiscal management efficiency and economic growth.

Revenue assignment was the independent variable and represented the fiscal capacity of county governments to generate own-source revenue. Economic growth was the dependent variable, measured using Gross County Product (GCP) growth. Fiscal management efficiency was introduced as the moderating variable to assess whether effective financial management strengthens the relationship between revenue assignment and economic growth.

Table 2: Measurement of Study Variables

Variable	Role	Measurement
Revenue Assignment	Independent Variable	County own-source revenue performance as a proportion of total county revenue
Fiscal Management Efficiency	Moderating Variable	Composite indicators including budget absorption, financial reporting compliance, procurement efficiency and accountability practices
Economic Growth	Dependent Variable	Annual Gross County Product growth rate

Source: Researcher’s conceptualisation (2026).

Theoretical Model Specification

The study estimated the direct effect of revenue assignment on economic growth using a panel regression model. The baseline model was specified as:



$$EG_{it} = \beta_0 + \beta_1 RA_{it} + \beta_2 EA_{it} + \beta_3 IFT_{it} + \beta_4 RC_{it} + \mu_i + \varepsilon_{it} \dots\dots\dots(3.1)$$

Where: EG= Economic Growth for county i at time t, RA=Revenue Assignment, β_0 = Constant term, β_1 =Regression coefficient and ε = Error term

To examine the moderating effect of fiscal management efficiency, the interaction term between revenue assignment and fiscal management efficiency was introduced.

The moderation model was specified as:

$$EG_{it} = \beta_0 + \beta_1 RA_{it} + \beta_2 FME_{it} + \beta_3 (RA \times FME)_{it} + \beta_4 EA_{it} + \beta_5 IFT_{it} + \beta_6 RC_{it} + \mu_i + \varepsilon_{it} \dots\dots\dots(3.2)$$

Where: EG= Economic Growth, RA= Revenue Assignment, FME= Fiscal Management Efficiency and $RA \times FME$ = Interaction term representing the moderating effect of fiscal management efficiency. A significant coefficient of the interaction term (β_3) indicates that fiscal management efficiency significantly moderates the relationship between revenue assignment and economic growth.

Operationalization of Variables

Table 3: Operationalization of Variables

Variable	Indicators	Measurement	Expected Relationship
Revenue Assignment	Own-source revenue capacity	County own-source revenue ratio	Positive
Fiscal Management Efficiency	Budget execution, financial reporting, procurement compliance, accountability	Composite fiscal management index	Positive
Economic Growth	Gross County Product growth	Annual percentage change	Dependent Variable

Source: Researcher's framework (2026).

Data Analysis

The study employed both descriptive and inferential statistical techniques. Descriptive statistics were used to summarize the characteristics and trends of county fiscal variables. Correlation analysis was conducted to establish relationships among the study variables.

Panel regression techniques were applied to estimate the effect of revenue assignment on economic growth. Hausman specification testing was conducted to determine whether fixed-effects or random-effects estimation was appropriate. Diagnostic tests were performed to assess model assumptions, including: Multicollinearity testing using Variance Inflation Factors (VIF); Heteroscedasticity testing; Serial correlation testing and Stationarity/unit root testing. Hierarchical regression analysis was subsequently conducted to determine the moderating effect of fiscal management efficiency. The interaction term between revenue assignment and fiscal management efficiency was entered into the regression model, and changes in explanatory power (ΔR^2) were examined.

Moderation Model Specification

Moderation analysis was conducted to determine whether fiscal management efficiency changes the strength of the relationship between revenue assignment and economic growth. Following moderation procedures

outlined by Hayes (2018), the analysis examined: (1) The direct effect of revenue assignment on economic growth; (2) The direct contribution of fiscal management efficiency; and (3) The interaction effect between revenue assignment and fiscal management efficiency. The moderation effect was considered statistically significant when the interaction coefficient was significant at the chosen confidence level.

RESULTS AND DISCUSSION

This section presents the findings on the effect of revenue assignment on economic growth and the moderating effect of fiscal management efficiency among Kenya's county governments. The analysis was based on a balanced panel dataset comprising 470 county-year observations from all 47 county governments covering the period 2013/2014 to 2022/2023. The section presents descriptive statistics, correlation analysis, model selection tests, panel regression results, moderation analysis and discussion of findings in relation to existing empirical literature.

Descriptive Statistics of Study Variables

The study first examined the descriptive characteristics of the variables used in the analysis. Revenue assignment was measured as the share of own-source revenue in total county revenue, fiscal management efficiency was measured using budget execution efficiency indicators, while economic growth was measured using annual changes in Gross County Product (GCP).

Table 4.1: Descriptive Statistics

Variable	Mean	Standard Deviation	Minimum	Maximum
Economic Growth	—	—	—	—
Revenue Assignment	0.084	0.079	0.005	0.886
Fiscal Management Efficiency	—	—	—	—

Source: Research data analysis (2026).

The results indicate that revenue assignment recorded a mean value of 0.084, implying that own-source revenue accounted for approximately 8.4% of total county revenue during the study period. The standard deviation of 0.079 and the wide range between 0.005 and 0.886 demonstrate considerable differences in revenue mobilisation capacity among counties.

The variation suggests that some counties had developed stronger local revenue bases, while others remained highly dependent on intergovernmental transfers. This supports the need to examine how institutional capacity influences the extent to which revenue assignment contributes to economic growth.

Correlation Analysis

Pearson correlation analysis was conducted to examine the association between revenue assignment, fiscal management efficiency and economic growth.

Table 4.2: Correlation Matrix

Variable	Economic Growth	Revenue Assignment	Fiscal Management Efficiency
Economic Growth	1.000		



Revenue Assignment	0.438**	1.000	
Fiscal Management Efficiency	0.293**	-0.192**	1.000

****Note:** Correlation significant at 0.01 level (2-tailed)

Source: Research data analysis (2026)

The correlation results show that revenue assignment had a positive and statistically significant relationship with economic growth ($r = 0.438$, $p < 0.01$). This indicates that counties with stronger own-source revenue capacity generally experienced higher economic growth.

Fiscal management efficiency was also positively associated with economic growth ($r = 0.293$, $p < 0.01$), suggesting that counties with stronger financial management systems tended to achieve better economic outcomes.

Model Specification and Hausman Test

The Hausman specification test was conducted to determine the appropriate panel estimation method. The results produced a chi-square statistic of 3.46 with a probability value of 0.4845.

Since the probability value exceeded 0.05, the null hypothesis that the difference between fixed-effects and random-effects estimates was systematic was not rejected. Therefore, the study adopted the random-effects GLS regression model.

Effect of Revenue Assignment on Economic Growth

The first objective of the study was to determine the effect of revenue assignment on economic growth among Kenya's county governments.

Table 4.3: Random Effects GLS Regression Results

Dependent Variable: Economic Growth

Variable	Coefficient (β)	Std. Error	z-value	p-value
Revenue Assignment	0.328	0.025	13.040	0.000
Expenditure Autonomy	0.220	0.020	11.220	0.000
Intergovernmental Fiscal Transfers	-0.021	0.034	-0.610	0.544
Regime Change	-0.002	0.003	-0.550	0.580
Constant	-0.047	0.029	-1.590	0.113

Model statistics: Number of observations = 470, Number of groups = 47, Overall $R^2 = 0.502$, Wald $\chi^2 = 355.5$ and Prob $> \chi^2 = 0.000$

Source: Research data analysis (2026).

The results indicate that revenue assignment had a positive and statistically significant effect on economic growth ($\beta = 0.328$, $p < 0.001$). Therefore, counties with stronger own-source revenue capacity experienced higher economic growth compared with counties with weaker revenue mobilisation capacity.



The finding demonstrates that locally generated revenue provides counties with greater flexibility to finance development activities, respond to local priorities and support economic activities. The result supports fiscal federalism arguments that decentralised revenue authority can improve economic outcomes when local governments possess the capacity to manage resources effectively (Oates, 1999).

The finding is also consistent with Muthomi and Ndunda (2024), who found that revenue decentralisation contributes positively to county-level economic performance when supported by appropriate institutional arrangements.

Moderating Effect of Fiscal Management Efficiency on Revenue Assignment and Economic Growth

The study further examined whether fiscal management efficiency strengthens the relationship between revenue assignment and economic growth.

Hierarchical regression analysis was conducted by introducing the interaction term between revenue assignment and fiscal management efficiency.

Table 4.4: Moderation Results for Revenue Assignment × Fiscal Management Efficiency

Variable	β	p-value
Revenue Assignment	0.229	0.000
Fiscal Management Efficiency	0.185	0.000
Revenue Assignment × FME	5.165	0.000
Model Statistics	$R^2 = 0.861$; $\Delta R^2 = 0.083$; Observations = 470	

Model statistics: Overall $R^2 = 0.861$, $\Delta R^2 = 0.083$ and Observations = 470

Source: Research data analysis (2026)

The interaction between revenue assignment and fiscal management efficiency was positive and statistically significant ($\beta = 5.165$, $p < 0.001$). The inclusion of the interaction term increased the explanatory power of the model by 8.3% ($\Delta R^2 = 0.083$).

This confirms that fiscal management efficiency significantly moderates the relationship between revenue assignment and economic growth. The positive interaction indicates enhancing moderation, meaning that counties with stronger fiscal management systems obtain greater economic benefits from revenue assignment.

DISCUSSION OF FINDINGS

The study established that revenue assignment significantly improves economic growth among Kenya's county governments. The positive coefficient indicates that counties with higher own-source revenue capacity are better positioned to finance development priorities and stimulate economic activity.

However, the results also demonstrate that revenue assignment alone is insufficient. The significant moderation effect confirms that institutional capacity determines whether counties can transform fiscal autonomy into economic outcomes.

Counties with effective budgeting systems, stronger expenditure controls, improved procurement practices and better accountability mechanisms are more likely to convert locally generated revenue into productive

investments. This finding supports Institutional Economics Theory, which emphasizes that institutional quality determines how effectively resources are transformed into economic outcomes (North, 1990).

Hypothesis Testing Summary

Table 4.5: Hypothesis Testing Results

Hypothesis	β	p-value	Decision
H ₀₁ : Revenue assignment has no significant effect on economic growth	0.328	0.000	Rejected
H _{04a} : FME does not moderate revenue assignment and economic growth relationship	5.165	0.000	Rejected

The results indicate that the null hypothesis (H₀₁) was rejected because revenue assignment had a positive and statistically significant effect on economic growth ($\beta = 0.328$, $p < 0.001$). This confirms that counties with stronger revenue assignment capacity are more likely to achieve improved economic outcomes.

Similarly, the moderation hypothesis (H_{04a}) was rejected because the interaction between revenue assignment and fiscal management efficiency was statistically significant ($\beta = 5.165$, $p < 0.001$). This confirms that fiscal management efficiency significantly strengthens the relationship between revenue assignment and economic growth.

SUMMARY OF FINDINGS

The study examined the effect of revenue assignment on economic growth and the moderating role of fiscal management efficiency among Kenya's county governments. Using panel data from all 47 county governments over the period 2013/2014 to 2022/2023, the study assessed whether counties with greater revenue-generating capacity achieve better economic outcomes and whether effective fiscal management systems enhance this relationship. The empirical analysis generated three major findings.

First, the study established that revenue assignment has a positive and statistically significant effect on economic growth among Kenya's county governments. The regression results showed that revenue assignment had a positive coefficient ($\beta = 0.328$, $p < 0.001$), indicating that increases in county revenue assignment are associated with improvements in economic growth. This finding suggests that counties with stronger capacity to generate own-source revenue are better positioned to finance development-oriented activities, support local economic initiatives and respond effectively to county-specific development needs.

The finding demonstrates the importance of fiscal autonomy in promoting local economic development. When counties have access to predictable and locally generated financial resources, they gain greater flexibility in prioritizing expenditures based on local socioeconomic conditions. Unlike complete dependence on intergovernmental transfers, own-source revenue provides counties with greater control over resource allocation and enables them to invest in programmes that directly influence economic activity, such as infrastructure development, agricultural support, trade promotion and public service improvement.

The finding supports the principles of Fiscal Federalism Theory, which argues that decentralised governments can improve resource allocation because they possess better knowledge of local priorities and conditions compared with central authorities (Oates, 1999). By assigning revenue responsibilities to counties, governments create opportunities for local authorities to mobilize resources and align spending decisions with community needs. However, the results also suggest that the benefits of revenue assignment depend on the ability of counties to effectively manage and utilize available resources.

Second, the study found that fiscal management efficiency significantly strengthens the relationship between revenue assignment and economic growth. The moderation analysis revealed a positive and significant

interaction effect between revenue assignment and fiscal management efficiency ($\beta = 5.165$, $p < 0.001$). This indicates that the economic benefits associated with revenue assignment are greater in counties with stronger fiscal management systems compared with counties where financial management practices are weaker.

The moderating effect highlights that revenue availability alone is not sufficient to generate sustainable economic growth. Counties may have the authority to collect revenue; however, without effective planning, budgeting, expenditure control, procurement management and accountability mechanisms, such resources may fail to produce meaningful development outcomes. Effective fiscal management ensures that locally generated revenue is directed towards productive investments, efficiently implemented projects and services that contribute to economic transformation.

This finding reinforces the argument of Institutional Economics Theory, which emphasizes that institutions determine how resources are managed and converted into economic outcomes (North, 1990). Strong institutional arrangements provide the necessary mechanisms for ensuring transparency, accountability and efficiency in public resource utilization. Therefore, counties with stronger fiscal management capacity are more likely to maximize the developmental impact of revenue assignment.

Third, the study established that the inclusion of fiscal management efficiency as an interaction variable significantly improved the explanatory power of the model. The moderation model increased the explained variation in economic growth by 8.3% ($\Delta R^2 = 0.083$) beyond the direct effect of revenue assignment. This finding confirms that fiscal management efficiency provides additional explanatory value in understanding variations in county economic growth outcomes.

The increase in explanatory power demonstrates that differences in county economic performance cannot be explained solely by variations in revenue capacity. Instead, institutional factors influencing how counties plan, manage and utilize financial resources play an important role. Counties with similar levels of revenue assignment may experience different economic outcomes depending on the effectiveness of their financial management systems.

Overall, the findings demonstrate that increasing county revenue authority alone is insufficient to achieve sustainable economic growth. While revenue assignment provides counties with the financial foundation required for local development, the realization of economic benefits depends significantly on institutional capacity, governance practices and fiscal management efficiency. The study therefore concludes that fiscal decentralisation should not only focus on expanding county revenue powers but also on strengthening the systems that govern resource management.

Consequently, efforts aimed at improving county economic performance should adopt a dual approach. First, county governments should strengthen revenue mobilisation strategies through improved revenue administration, expansion of sustainable revenue sources and enhanced compliance mechanisms. Second, counties should invest in improving fiscal management efficiency through stronger budgeting processes, effective expenditure controls, transparent procurement systems, timely financial reporting and accountability frameworks.

The findings provide important policy implications for Kenya's devolution framework. Strengthening county fiscal autonomy without improving financial management capacity may limit the expected benefits of decentralisation. Therefore, national and county governments should view revenue assignment and fiscal management efficiency as complementary elements required to achieve sustainable county-level economic growth.

CONCLUSION AND RECOMMENDATIONS

This study examined the effect of revenue assignment on economic growth and the moderating role of fiscal management efficiency among Kenya's county governments. Using panel data from all 47 county governments covering the period 2013/2014 to 2022/2023, the study established that revenue assignment significantly contributes to economic growth. The findings demonstrate that counties with stronger own-

source revenue capacity are better positioned to finance development priorities, improve service delivery and support local economic transformation.

However, the study further established that revenue assignment alone is insufficient to guarantee sustainable economic growth. The significant moderating effect of fiscal management efficiency demonstrates that the economic benefits of fiscal autonomy depend on how effectively counties plan, allocate and utilize available resources. Counties with stronger financial management systems are more capable of translating revenue authority into productive investments and improved economic outcomes.

The study therefore concludes that successful fiscal decentralisation requires more than transferring revenue responsibilities to county governments. It requires the development of strong institutional frameworks that promote effective budgeting, expenditure control, accountability and efficient implementation of development programmes. Revenue autonomy and fiscal management efficiency should therefore be considered complementary components of county economic development.

Based on the findings, the study recommends that county governments should strengthen own-source revenue mobilisation by improving revenue administration systems, expanding sustainable revenue bases and adopting digital revenue collection platforms. Improved revenue forecasting, enforcement of compliance measures and reduction of revenue leakages will enhance counties' fiscal capacity and reduce excessive dependence on national transfers.

County governments should also strengthen fiscal management efficiency by improving budget planning, increasing development budget absorption, strengthening procurement systems and enhancing financial reporting practices. Effective internal controls and accountability mechanisms should be prioritized to ensure that locally generated revenue is directed toward productive economic activities. National oversight institutions, including the Commission on Revenue Allocation, the Office of the Controller of Budget and other relevant agencies, should continue providing technical support and capacity-building programmes to strengthen county public financial management systems. Such support should focus on improving revenue administration, expenditure efficiency, financial transparency and institutional capacity.

Finally, county governments should adopt integrated fiscal strategies that combine revenue enhancement with effective resource management. Expanding fiscal autonomy without strengthening management capacity may limit the expected benefits of devolution. Therefore, sustainable county economic growth requires both increased revenue authority and improved governance systems.

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