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Examining the Relationship between Effective Budgeting Practices and Financial Sustainability in County Governments: Insights from Kisii County, Kenya

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KEYWORDS: Effective budgeting practices, financial sustainability, County governments, performance-based budgeting, resource allocation, financial management strategies, fiscal decentralization

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ABSTRACT

This study explores the connection between effective budgeting practices and financial sustainability in the Kisii County Government in Kenya. This study employed a descriptive design, targeting 129 respondents from the Department of Finance and Economic Planning, with a sample size of 123, as determined by Yamane's model. Data were collected using questionnaires and analyzed using descriptive and inferential statistics. The results indicate a significant positive correlation between budgeting practices and financial sustainability (R^2=0.566), with budgeting processes having the strongest impact (β=0.729, p=0.000). Resource allocation methods (β=0.041, p=0.017) and financial management strategies (β=0.209, p=0.015) also contributed to financial sustainability. However, challenges and opportunities in implementing performance-based budgeting have a slightly negative relationship (β=-0.012, p=0.040). The study concludes that effective budgeting practices, efficient resource allocation, and robust financial management strategies are crucial for enhancing the financial sustainability of Kisii County Government. This study recommends implementing a comprehensive performance-based budgeting system, prioritizing stakeholder engagement, investing in financial management systems, and aligning budgeting processes with long-term development goals to improve fiscal stability and sustainable development in the county.

INTRODUCTION

Ensuring financial sustainability in decentralized government entities is a significant concern for both policymakers and administrators. These entities, which include counties and regional and local authorities, are under pressure to uphold fiscal stability while delivering essential services (Heald and Hodges, 2020). In Australia, public units grapple with challenges such as unfunded pension liabilities, economic volatility, and unpredictable federal funding. Sustainability strategies involve diversifying income sources, careful budgeting, maintaining financial reserves, and investing in economic growth. States must also adjust to demographic changes, technological advancements, and environmental factors that influence their financial prospects. Achieving financial sustainability is vital for stable governance, attracting businesses, and ensuring high quality of life for residents (Wanna et al., 2020). Issues such as aging populations, infrastructure needs, economic instability, and strained budgets necessitate innovative approaches to revenue and expenditure management. Many county governments employ performance-based budgeting, public-private partnerships, and long-term planning to bolster fiscal resilience (Attiya & Javid, 2022; Lysiak et al., 2020). There is an increasing emphasis on transparency and accountability in financial reporting to foster trust and attract investments. Despite these initiatives, sustainable financial practices must evolve continuously to meet the changing economic and societal demands.

Decentralized administrative structures established in various African countries to foster local autonomy and development often grapple with insufficient revenue generation, excessive reliance on central government transfers, and weak financial management systems (Guerrero et al., 2021). Many devolved units struggle to mobilize local resources, optimize tax collection, and prioritize expenditures to address the diverse needs of their constituents. Furthermore, issues such as corruption, lack of transparency, and limited capacity in financial planning and budgeting impede the achievement of financial sustainability (Ain et al., 2024). To address these challenges, African governments and international partners are increasingly concentrating on strengthening fiscal decentralization frameworks, enhancing local revenue generation capabilities, and improving financial accountability mechanisms within the devolved units (Otoo & Danquah, 2021). Achieving financial sustainability often necessitates a delicate balance between local fiscal autonomy and national-level support, as well as innovative approaches to resource management and economic development within the devolved units.

Kenyan County governments face persistent challenges in attaining financial sustainability, primarily due to restricted revenue streams and a heavy reliance on transfers from the central government. These devolved entities often find it difficult to independently generate adequate revenue through means such as property taxes, business licenses, and service fees. This situation is worsened by poor financial management practices and insufficient institutional capacity (Darmawati et al., 2024). To tackle these challenges, many county governments are considering innovative financing options such as public-private partnerships and municipal bonds. Additionally, efforts are ongoing to boost revenue collection efficiency, increase transparency in budgeting, and reinforce fiscal decentralization policies (Agbo, 2024). Nonetheless, attaining long-term financial sustainability requires a comprehensive strategy that includes capacity building, legal reforms, and greater citizen involvement in the governance of the county. Achieving financial sustainability requires a holistic approach that balances fiscal decentralization with accountability measures and aligns local development priorities with national objectives.

BUDGETING IN DEVOLVED ENTITIES

Budgeting in devolved public entities is pivotal for fiscal decentralization and for achieving local autonomy. These entities, which may include states, counties, provinces, or municipalities, are tasked with managing financial resources and allocating funds to address local needs and priorities (Gasanov et al., 2024; Miao et al., 2020). The budgeting process typically involves forecasting revenue, planning expenditures, and setting financial goals that align with broader, regional, and national objectives. Devolved units often face challenges in balancing competing demands for limited resources while ensuring transparency and accountability to their constituents (Gasanov et al., 2024). Governments have implemented performance-based budgeting mechanisms to increase the efficacy and efficiency of public spending at the local level. Additionally, intergovernmental fiscal transfers and equalization mechanisms are commonly used to address disparities between devolved units and maintain a certain level of service provision across regions.

Budgeting in devolved governments across Africa presents unique challenges and opportunities for local governance and fiscal management. These units, often established through decentralization reforms, are tasked with allocating resources to meet local needs while adhering to national fiscal policies. The process typically involves participatory budgeting, in which community members contribute to decision-making and enhances transparency and accountability (Zon et al., 2017). However, many devolved units face constraints such as limited revenue-raising capacity, inadequate technical expertise, and inconsistent fund transfers from the central government (Muthomi & Thurmaier, 2020). Despite these challenges, the successful implementation of budgeting in devolved units has shown potential for improved service delivery, increased local economic development, and enhanced citizen engagement in governance (Mattei et al. 2022). To maximize effectiveness, ongoing capacity building, strengthening financial management systems, and clear intergovernmental fiscal frameworks are essential.

Budgeting in Kenyan county governments is essential for distributing resources and delivering services at the community level (Mwangi et al., 2023). The decentralized system of governance introduced by the 2010 Constitution empowers county governments to manage their finances and development priorities. County governments are required to prepare annual budgets that align with their County Integrated Development Plans (CIDPs) and adhere to the 2012 Public Finance Management Act (PFMA). The budgeting process involves public participation, ensuring that citizens have a say in resource allocation (Tsofa et al., 2017). However, challenges such as limited revenue sources, inadequate capacity, and political interference often hinder effective budgeting and implementation (Afiyah, 2024). To address these issues, county governments are increasingly adopting performance-based budgeting and leveraging technology to improve transparency and accountability in their financial management processes.

Statement of the Problem

County governments should establish robust financial management systems to ensure effective resource allocation, revenue generation, and expenditure control. This involves creating realistic and balanced budgets that align with a county's development priorities and national goals. Effective revenue collection mechanisms, diversification of income sources, and prudent debt management are vital for ensuring financial sustainability. Furthermore, county governments should focus on building the capacity of financial personnel, adopting modern technologies for financial operations, and implementing strong internal control and audit systems. Regular financial reporting, public participation in the budgeting process, and adherence to fiscal responsibility are essential for maintaining transparency and accountability. Ultimately, financially stable county governments can deliver quality services to citizens while contributing to overall national economic growth.

Despite efforts to decentralize, Kenyan county governments face significant challenges in budgeting and achieving fiscal sustainability. Many counties struggle with inadequate revenue collection, overreliance on national government transfers, and ineffective financial management. Budgeting processes often lack transparency and public involvement, leading to resource misallocation and inefficient service delivery. Counties frequently experience budget deficits, delayed disbursements from the national government, and accumulation of unpaid bills. These issues are exacerbated by weak internal controls, limited financial planning capacity, and insufficient oversight mechanisms. Consequently, many county governments find it difficult to achieve financial sustainability, which impedes their ability to provide essential services and implement development projects effectively. Furthermore, counties often lack long-term financial planning strategies, resulting in unsustainable spending patterns and debt accumulation. The absence of standardized financial reporting systems across countries hinders transparency and their accountability. Addressing these challenges requires strengthening revenue mobilization efforts, improving financial management systems, enhancing transparency, and building the capacity for budgeting and financial planning at the county level.

The disparity between budgeted and actual expenditures remains significant in many countries, highlighting the need for realistic budgeting and execution. Psirmoi et al. (2019) explore the connection between reporting structures and financial efficiency in selected county administrations, discovering a positive correlation. Similarly, Kevin and Odero (2023) study on supplier relationship management practices, procurement ethics, and supply chain performance within county governments revealing that the relationship between supplier management and supply chain performance is positively affected by procurement ethics. Kemboi et al. (2025) explored the Legal Framework's moderation of Resource Allocation Reforms and Financial Performance and concluded that these reforms are crucial for enhancing county governments' performance. Rugutt et al. (2019) investigated Financial Reporting Reforms and Performance of Selected County Governments and revealed a significant correlation between reforms and performance. Addressing budgeting and financial sustainability requires strengthening revenue collection, enhancing financial management skills, and implementing monitoring systems for fiscal sustainability. This study examines the relationship between budgeting and financial sustainability in Kenyan local governments using insights from Kisii County Government.

Objective of the Study

The main objective of this study is to assess how budgeting practices affect the county governments' long-term financial viability. Specifically, this study aimed to do the following:

1) Evaluate the current budgeting processes implemented by the Kisii County Government and assess their alignment with long-term financial sustainability goals.
2) We analyze the resource allocation methods employed by the Kisii County government, focusing on how they contribute to or hinder financial viability over extended periods of time.
3) Examine the financial management strategies utilized by the Kisii County Government and determine their effectiveness in maintaining fiscal stability and promoting sustainable operations.
4) To examine the challenges and opportunities in implementing performance-based budgeting to enhance financial sustainability in the Kisii County Government..

Research Questions

1) How does the Kisii County Government's budgeting process impact financial sustainability?
2) What are the key factors that influence the effectiveness of budgeting practices in Kisii County's government?
3) To what extent does the alignment between budgetary allocations and strategic priorities contribute to the Kisii County Government's financial sustainability?
4) How does stakeholder involvement and public participation in the budgeting process affect financial sustainability outcomes in the Kisii County Government?
5) What are the challenges and opportunities of implementing performance-based budgeting to enhance financial sustainability in the Kisii County Government?

LITERATURE REVIEW

Theoretical Review

Public Financial Management (PFM) theory

Public Financial Management (PFM) theory has gained support from numerous scholars and practitioners in public administration and economics. PFM offers a comprehensive framework for managing public resources effectively and efficiently (Musiega et al. 2023). This underscores the significance of sound budgeting processes, transparent financial reporting, and robust accountability mechanisms to ensure fiscal discipline and sustainable economic growth in the country. Advocates of PFM also emphasize its role in promoting good governance by enhancing the allocation of public funds to priority areas and improving public-service delivery. Furthermore, proponents argue that PFM reforms can strengthen a country's financial system, reduce corruption, and increase public trust in government institutions (Adeusi et al., 2024). PFM is an essential tool for achieving broader developmental goals and fostering economic stability in both developed and developing countries.

Public Financial Management (PFM) theory is based on several fundamental assumptions. First, it posits that governments are obligated to manage public resources efficiently and effectively to benefit their citizens. Second, PFM theory presupposes that transparent and accountable financial systems are crucial for maintaining public trust and preventing corruption (Afiyah, 2024; Ain et al., 2020). Another assumption is that sound financial management practices enhance public service delivery and foster economic growth (Atheru & Gichohi, 2025). Additionally, PFM theory assumes that universal best practices in financial management can be applied across various governmental contexts with necessary adaptations. Finally, effective financial management requires a comprehensive approach that integrates budgeting, revenue collection, expenditure control, auditing, and reporting processes, all of which work together to achieve optimal public finance (Tapsoba et al., 2024).

Critics argue that Public Financial Management (PFM) theory often falls short of addressing the unique challenges faced by local governments in developing countries such as Kenya. The theory's focus on standardized practices and performance metrics may not sufficiently consider the diverse socioeconomic contexts and resource constraints prevalent in these settings (Musiega et al., 2023). Moreover, the implementation of PFM reforms in Kenyan local governments has been criticized for being overly focused on technical aspects while neglecting the political and institutional factors that significantly influence financial decision-making processes. Some scholars contend that PFM theory's assumptions about rational decision-making and perfect information flow may not hold true in environments characterized by limited capacity, weak governance structures, and competing local interests.(Mann et al., 2025) Consequently, the application of PFM principles in Kenyan local governments may sometimes lead to unintended consequences, such as increased bureaucracy or reduced flexibility in responding to local needs, potentially undermining the financial sustainability it aims to achieve.

Public Financial Management (PFM) theory offers a valuable framework for exploring the connection between budgeting and financial sustainability within the Kisii County Government. By applying PFM principles, the county can refine its budgeting processes, ensure more efficient resource allocation, and enhance its fiscal discipline. This approach underscores the importance of transparency, accountability, and long-term financial planning, which are essential for maintaining financial sustainability. Through the lens of PFM theory, Kisii County can evaluate its current budgeting practices, identify areas for improvement, and implement strategies to fortify the link between budgetary decisions and long-term financial health. This may involve adopting performance-based budgeting, establishing robust financial management systems, or increasing stakeholder engagement in the budgeting process. By aligning its budgeting practices with PFM principles, Kisii County strives for greater financial sustainability and improved service delivery to its residents.

Empirical Review

BUDGETING IN COUNTY GOVERNMENT

Lin and Chen (2020) conducted a study titled "Participation Effectiveness of Citizen Participatory Budgeting: The Case Study of Yanjin County in China." According to the study, one way to improve governance is through citizen participatory budgeting (CPB), which increases responsiveness and accountability. Although there is a growing amount of research on this topic, the success of CPB membership in developing nations remains unknown. This study investigates the efficacy of recent CPB changes in Yanjin, an impoverished county in southwest China, using first-hand data. The findings show that citizen representatives in Yanjin County successfully participated in public budgeting using a well-designed, participatory mechanism. Therefore, this study has important ramifications for other Chinese communities and developing nations considering utilizing CPB to improve local governance.

Mwise et al. (2024) conducted a study titled, "influence of budgeting role on the implementation of strategic plans in the Nairobi city county government, Kenya." This study examines the implementation of strategic goals by the Nairobi County Assembly in Kenya, particularly in relation to its budgetary role. This study is grounded in the Resource-Based View Theory, the Dynamic Capability Model, and the McKinsey 7s model. Employing a quantitative research design, this study focused on 123 County Assembly members, comprising 85 elected and 38 nominated individuals. Additionally, three representatives from the County Assembly's budget and finance offices, procurement office, and planning department participated in the study. Officials from the Financial and Budget Office, Procurement Office, and Planning Department were selected using a census method, while the 85 elected and 38 nominated county assembly members were chosen using simple random sampling. Primary data were collected using a 5-point Likert scale. SPSS regression analysis was employed to explore the relationships between dependent and independent variables, with multiple regressions applied because of the interdependence of activities. The regression results are detailed in tables, with the findings presented in descriptive figures and tables. The results reveal a significant positive correlation ($r = 0.833$, $p < 0.01$) between the implementation of strategic plans and the budgeting responsibilities of the Members of the County Assembly (MCAs), alongside a positive perception of these duties. The study recommends enhancing the Nairobi City County Government's (NCCG) budgeting process by providing MCAs with advanced training and empowering them to monitor budget utilization in line with their objectives. To promote collaborative oversight, MCAs should continually enhance their understanding of compliance, ethics, risks, and adherence to the plans.

Tsofa et al. (2021) conducted a study titled, "Examining Health Sector Application and Utility of Program-Based Budgeting: County Level Experiences in Kenya." This study examines the implementation of program-based budgeting (PBB) in the health sector in Kenya at the county level. Empirical data were gathered to evaluate the use of PBB in the health sectors of Kenyan counties, complemented by a literature review to determine its application and effectiveness in low- and middle-income countries. During the 2017–18 fiscal years, counties employed the PBB approach for health sector planning. Key stakeholders perceived this strategy as enhancing the alignment of technical priorities with budget allocations and increasing the accountability, transparency, and openness of the budget process. However, challenges such as the absence of clear implementation tools and standards, capacity constraints at the county level, political interference, and the alignment of the public sector's electronic financial management system with a line-item budgeting system persist. PBB holds promise as a method for synchronizing budgeting and planning in the health sector, ensuring that the Annual Work Plan is more outcome-focused. Achieving this goal would benefit from restructuring the public sector budget management system to align with the PBB approach, enhancing the capacity of county health sector managers to understand PBB application, and developing clear tools and guidelines to facilitate its implementation.

Richard and Muna (2018) conducted a study titled "Effects of County Budgeting Forums on Service Delivery in Kenya: The Case of Kajiado County'." This study examines the influence of county budgeting forums on service delivery in Kajiado County, Kenya. Its objectives include assessing the impact of the Pre-Budget Public Sector Consultative Forum, the role of the County Budget and Economic Forum, the effect of Sector Working Groups on service delivery, and the contribution of Budget and Appropriations Committee Hearings to service delivery in the Kajiado County. The sample size was determined by focusing on employees and members of the public who participated in county budgeting over the past three years. A sample of 107 individuals was selected using stratified and random sampling methods, representing 12% of the 889 available participants. Data collection involved interviews and self-administered questionnaires with both structured and unstructured questions for primary data, while secondary data were gathered through document reviews of government papers and relevant literature. Descriptive and inferential statistics were employed to analyze the quantitative data from the questionnaires, and thematic analysis was used to examine the qualitative data from interviews. The findings revealed that respondents expressed high levels of dissatisfaction with the Kajiado County government's services regarding accessibility, effectiveness, accountability, inclusivity, responsiveness, and quality. Additionally, the study found that while the county budget and economic forum, pre-budget public sector consultative forum, and budget and appropriations committee hearings positively impacted service delivery in Kajiado County, the Sector Working Groups had no noticeable effect. The report recommends that county officials ensure that the public has adequate access to budget information, enhance public participation in policy and budget formulation, and educate members about their roles and responsibilities in this process.

Kipyego and Wanjare (2017) explored the budgeting process and public involvement within the county administrations of Nandi, Kenya. Their study concentrated on the key factors influencing public participation in the budgeting process of the Nandi County Government. Additionally, it sought to identify the significant sociocultural factors affecting public engagement in this process. The primary subjects of this research were members of Community-Based Organizations (CBOs) in Nandi County, CBO representatives, and representatives from the Treasury and Economic Planning Department of the County Government of Nandi. This study employed a descriptive survey design, selecting CBO members through a stratified random sampling method after administering a structured questionnaire. The findings indicate that public engagement enhances the quality of the budgeting process. Furthermore, stakeholder involvement in the budgeting process boosts transparency and accountability. According to the Pearson correlation test, there was a statistically significant positive relationship between the budgeting process and stakeholder involvement ($R = 0.513$, $p < 0.05$, $p = 0.014$). Sociocultural variables can also impact public involvement in the budgeting process. The study identified a weak positive correlation between sociocultural factors and the budgeting process ($p < 0.05$; $p = 0.203$) when assessing the influence of sociocultural elements on participatory budgeting using a Pearson correlation test.

Maitima and Munene (2025) assessed how budgeting procedures affected the Kenyan government of Meru County's financial performance. This study examines the impact of these behaviors on financial results. This study uses a correlational survey approach based on the financial hardship theory. A census method was used to select the 69 respondents that comprised the sample. Both primary and secondary data were used; the former were gathered through questionnaires, while the latter were obtained from the County Offices' financial records. Cronbach's alpha was used to evaluate the reliability of the research instrument, and supervisors and subject specialists were consulted to confirm its validity. Both descriptive and inferential statistical methods were used in the data analysis process, and the outcomes were displayed using regression models, graphs, charts, and frequency tables. The results show a statistically significant correlation between a county's financial success and its budgeting procedures ($R=0.539$, $P<0.05$). The study concludes that the county government's financial performance is favorably and significantly impacted by the use of budgeting techniques. To further improve the overall performance and efficiency of the county government, the Meru County Government should prioritize and improve its budgeting procedures, including budget planning, execution, monitoring, and assessment. A thorough grasp of management would be made possible by this method, giving managers the ability to sway stakeholders and decide on outcomes for the county government.

FINANCIAL SUSTAINABILITY IN COUNTY GOVERNMENT

Lhutfi and Sugiharti (2023) investigated the elements influencing the financial sustainability of Indonesian local governments. They used a quantitative method to examine secondary data from the Audit Board of Indonesia (BPK) 2018–2020 Regional Government Financial Reports (LKPD). All 34 Indonesian provinces were included in the saturated sample used in this study. Using Eviews 10, the authors performed a multiple regression analysis on the panel data. Financial independence, gross regional domestic product (GRDP), and the overall population were the independent factors in this study, whereas financial sustainability was the dependent variable. The results show that while financial independence has a favorable effect, financial sustainability is considerably and negatively impacted by both the GDP and the overall population. This study offers a theoretical underpinning for further research as well as fresh perspectives on the financial viability of Indonesian provincial administrations. Local governments can utilize this research to inform the financial policies they enact in their regions by considering the elements that could either improve or impede financial sustainability in each location.

Kinamdali et al. (2024) conducted a study on financial auditing and sustainability in Kisii County, Kenya. This study examines how financial auditing impacts the financial sustainability of Kenyan county governments, focusing on Kisii County. The notions of inspired confidence, agency, and credibility form the foundation of this investigation. An explanatory survey approach was used to elucidate the proposed linkages. This study focused on 109 Kisii County Government employees, including accountants, auditors, revenue officials, finance officers, and economists. Using the proportional sampling method developed by Yamane, a sample size of 86 was established. Self-administered questionnaires were used to gather primary data. The Statistical Package for Social Sciences, version 26, was used to analyze the data using descriptive and inferential statistics. Of the 86 questionnaires distributed, 81 were returned. Both descriptive and inferential statistics indicated that the study's independent variables (auditors' competency, independence, internal audit standards, and audit reporting structure) significantly influenced financial sustainability in the Kisii County Government. The study concludes that the competency of auditors has a major impact on audit quality, preventing financial mismanagement that would jeopardize county governments' ability to maintain a sustainable budget. Additionally, county governments can save money and avoid accounting errors by implementing well-monitored internal-audit standards. To guarantee authentic audit reports, support efficient internal audit standards, and create an open audit-reporting framework that preserves the caliber of internal audit reports, this study advises county government finance managers to encourage auditor independence.

Akhonya et al. (2025) investigated the impact of Own-Source Revenue (OSR) on the financial sustainability of county governments in Western Kenya. Despite constitutional provisions for generating own-source revenue, these governments continue to grapple with financial sustainability challenges. This study explores the link between the effectiveness of own-source revenue and financial sustainability indicators in the county governments of Western Kenya. By thoroughly analyzing data from 150 county officials across Busia, Vihiga, Bungoma, and Kakamega counties, we found a strong positive correlation between OSR effectiveness and financial sustainability ($r = 0.634$, $p < 0.001$). A simple linear regression analysis showed that OSR effectiveness accounted for 40.2% of the variance in financial sustainability, with digital revenue systems identified as the most significant contributing factor (28.1%). Component analysis highlighted tax compliance rates (25.3%), revenue diversification strategies (24.8%), and administrative efficiency (21.8%) as crucial determinants. The findings offer compelling evidence for prioritizing OSR enhancement in county financial strategies, affirming the fiscal autonomy theory within Kenya's devolved framework while underscoring the vital role of technological infrastructure, administrative capacity, and compliance systems.

Wahinya (2020) investigated the relationship between governance and the performance of Kenyan county governments. This study aimed to assess the impact of governance on government performance. Seven Kenyan counties—Machakos, Kakamega, Murang'a, Kilifi, Migori, Nakuru, and Nairobi—were selected from among the 47 county governments, and information was gathered through a questionnaire. The researcher identified the best-performing counties in each of Kenya's eight provinces. Regression and correlation analyses were employed as analytical techniques in this correlational study design. Correlation analysis showed a positive relationship between the predictor and response variables. To elucidate the correlations between the variables, a regression analysis was performed. The goodness of fit and strength of the association between the model and response variable were assessed using the R-squared value. The relevance of the regression model was examined using F-statistics. The findings imply that county governments' performance is greatly impacted by governance. To optimize performance gains, this report advises county governments to prioritize improving governance.

Rugutt et al. (2019) examined the impact of financial reporting reforms on the performance of county governments in Kenya. Over the past few decades, public financial management systems have undergone significant transformations globally. In response, Kenya overhauled its financial reporting framework to improve the trustworthiness of its report. This study explores the relationship between the performance of specific Kenyan counties and the financial reporting reforms. A descriptive study methodology was used to study 184 Treasury personnel from the Bomet, Kericho, Nakuru, and Narok County Governments. Participants were selected using a census sample technique. Semi-structured, self-administered questionnaires were used to gather data, and both descriptive and inferential statistics were used for the analysis. The findings show a statistically significant correlation ($r=0.673$) between the performance of the chosen Kenyan county administrations and the financial reporting reforms.

To guarantee the best possible performance from county governments, this study recommends improving the application of IPSAS in financial reporting.

Mungai and Kihara (2025) investigated the impact of creative fundraising techniques on the long-term viability of nonprofit organizations in Nairobi City County, Kenya. This study, which used a descriptive correlational research approach, examined 1,388 local nonprofit organizations that had completed projects in the previous three years. The Yamane algorithm was used to select a sample of 311 respondents, with an emphasis on finance heads. Structured questionnaires were used to collect data, and both descriptive and inferential statistics were used for analysis. The findings show that creative funding approaches significantly influence nonprofits' capacity to remain financially stable. The significance of corporate engagement is underscored by the model's demonstration that these strategies explain 40.4% of the variance in financial sustainability. While government funding was the most important component, accounting for 63.5% of the overall variance, crowdfunding attempts accounted for 40.8% of this difference. A 60.2% financial sustainability was attained by the combined impact of government financing, CSR partnerships, and crowdfunding, underscoring the need for a variety of funding approaches. This study recommends that nonprofits enhance corporate engagement through long-term CSR partnerships, broaden crowdfunding efforts to attract more donors, and advocate for sustained government funding commitments to ensure financial stability.

Mutua et al. (2020) conducted a study in Nairobi City County, Kenya, to explore the link between the sustainability and financial outreach of regulated deposit-taking microfinance institutions (MDIs). This study employed a census approach to collect data from 13 such organizations, following a positivist research framework. A static panel linear regression model was used to assess the operating and financial self-sufficiency. Secondary data from the Central Bank's audited financial statements were analyzed using the Stata software. This study incorporated diagnostic tests and descriptive statistics, including normality, multicollinearity, heteroscedasticity, serial correlation, stationarity, and the Hausman test. The findings revealed a significant relationship between financial sustainability and the number of active clients, while no correlation was found with average loan size and firm age. Furthermore, credit risk management positively influences the breadth of outreach but negatively affects institutional experience and the depth of outreach concerning financial sustainability. Loan loss provision coverage is positively associated with age, average loan amount, and active clients in terms of financial outreach and sustainability. The report recommends that government policies be enacted through the Central Bank to enhance DTMFI savings and promote financial inclusion. This suggests that DTMFIs should provide financial education to increase facility awareness, expand outreach, and share information to mitigate credit risks.

Diis et al. (2024) investigate how financial accountability procedures affect the long-term viability of microfinance organizations in Kenya's Garissa County. This study aims to evaluate the effects of financial reporting, risk assessment, financial structure accountability, and monitoring activities on the financial sustainability of institutions. Three theoretical frameworks—accounting, agency, and stewardship theories—form the foundation of this study. Eight microfinance institutions in Garissa County were the subjects of this descriptive research. In addition to operational personnel, middle-level supervisors, and department heads, the target audience comprised 210 individuals from the Audit, Finance, and Accounting departments. All 210 respondents were selected using the census method. Both descriptive and inferential statistical techniques were applied, and the statistics were produced using Microsoft Excel and SPSS (version 24). Tables and figures were used to display the results. The study found that the financial sustainability of microfinance institutions in Garissa, Kenya, is positively and significantly impacted by financial accountability procedures, including financial reporting, risk assessment, financial structure accountability, and monitoring activities. The significance values of 0.019, 0.007, 0.000, and 0.001 correspond to beta values of 0.176, 0.211, 0.436, and 0.306, respectively, which illustrate this. According to these data, financial sustainability increases when each financial responsibility practice is increased by one unit, as shown by the beta values. According to the study's findings, improving financial accountability procedures helps Garissa County's microfinance organizations remain financially viable. Management should focus on enhancing financial accountability procedures, such as risk assessment, financial reporting, and accountability and monitoring of financial structures.

RESEARCH METHODOLOGY

This study adopted a positivist approach, focusing on quantitative data because of its precision and comparability, which provided reliable evidence from the questionnaire responses. A descriptive research design was employed, as suggested by Saunders et al. (2019), which aimed to determine and report the existing conditions. This study employed a methodology that allowed for the evaluation of the impact of budgeting procedures on the Kisii County Government's long-term financial sustainability without any manipulation. Kisii County was selected as an appropriate study site because previous research indicated that the necessary platforms for conducting budgeting forums within the county government had been established.

This study targeted 129 respondents from the Kisii County Government, Kenya, including Auditors, Financial Officers, Accountants, Economists, and Tax Officers. Using Yamane's model, a sample size of 98 was determined with a 95% confidence level. To account for potential non-responses, the researcher increased the sample size by 20%, resulting in a final sample of 123 respondents. This sample size was deemed appropriate to minimize sampling error and adequately represent the population complexity (Gerasimov, 2020). This study employed stratified random sampling to select 123 finance professionals, ensuring their representation across different job categories. This study employed a comprehensive approach to data collection and instrument validation. Questionnaires with closed-ended questions, designed based on the conceptual framework, served as the primary data collection method (Windiyani et al., 2024). Construct validity was evaluated to ensure that the scale items accurately reflected the abstract concepts (Mugenda, 2024). Factor analysis was used to examine internal data correlations and create consistent surrogate variables (Saunders et al., 2019). While scholars have proposed varying thresholds for factor loadings ranging from 0.4 to 0.7 (Rodriguez 2017), this study adopted Field's (2009) recommendation of considering factor loadings above 0.4 at a significance level of $\alpha \leq 0.05$ as a valid construct. This rigorous approach to instrument validation led to necessary adjustments and revisions, ultimately enhancing the overall validity of the study measurements.

To enhance reliability, the researcher employed multiple strategies; including using multiple similar items for measurement, conducting tests on diverse samples, and implementing standardized testing procedures. This approach is primarily applied to assess the consistency of the measures created for business concepts. In this study, the internal consistency alpha was used to determine the reliability of the research instruments and to assess the average number of measurable items. A Cronbach's alpha value of at least 0.70 is considered indicative of a reliable research instrument (Field, 2009). Consequently, this study adopted a 0.7 threshold as the reliability standard, with any coefficient below 0.7 suggesting that the sub-constructs were not reliable in capturing the variable. Ethical considerations are crucial for protecting participants and maintaining their integrity. This study addressed ethical issues by omitting participants' and businesses' names to protect their privacy, avoiding uncomfortable or irrelevant questions, and using non-intimidating language. Anonymity was preserved by ensuring that the data collection tools did not reveal the participants' identities and that the information was used solely for academic purposes. Confidentiality was maintained through coding systems for data from the identified finance department staff of the Kisii County Government, Kenya. The study was conducted with the approval of the relevant authorities, and the questionnaires were distributed using a drop-and-pick method with the help of two research assistants, allowing a two-week period for responses.

After gathering the data, a thorough analysis was conducted to transform the raw information into meaningful data. This crucial step ensured that the collected data were comprehensible and valuable to the readers. The choice of data analysis tool is contingent on the specific characteristics of a dataset. Owing to the quantitative focus of this research, multiple regression models were used to investigate the connections between the dependent and independent variables. This statistical method enables the analysis of how several independent variables collectively impact a dependent variable, offering thorough insight into the underlying patterns and relationships of the data.

$$\mathbf{Y = \beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+ e}$$

Where:

Y = Financial sustainability of Kisii county government

β_o = Constant factor

β_1, β_2, β_3, β_4= Regression coefficients

X_1 = Kisii County Government's budgeting process

X_2 = Resource allocation methods employed by the Kisii County government

X_3 = Financial management strategies utilized by the Kisii County Government

X_4 = Challenges and Opportunities in Implementing Performance-Based Budgeting

e = Error term

RESULTS

Response Rate

To ensure the derivation of reliable conclusions and the formulation of informed recommendations based on the study's findings, the survey achieved a high response rate from the target population. Specifically, an impressive 85.4% of the intended participants, comprising 105 executives from the Department of Finance and Economic Planning, completed the questionnaire. This response rate significantly exceeded the threshold suggested by Bell et al. (2022), who proposed that a response rate of at least 60% was adequate to draw meaningful conclusions. A high participation level ensured that the collected data were representative and relevant to the study's objectives. Only 18 respondents failed to return their questionnaires, accounting for a minimal non-response rate of 14.6%. The survey results' validity and reliability are further reinforced by this low non-response rate, which offers a strong basis for future analysis and suggestions.

Descriptive statistics

Responses to statements evaluating the dependent variable (financial sustainability) and independent variables (budgeting process, resource allocation techniques, and financial management strategies) of the study were compiled using descriptive statistics. A Likert scale was employed to collect these responses, with 5 indicating "Strongly Agree," 4 "Agree," 3 "Uncertain," 2 "Disagree," and 1 "Strongly Disagree." To provide a comprehensive view of the participants' attitudes and perceptions toward each variable, the findings are presented alongside the corresponding means and standard deviations. This approach allows for a clear understanding of the central tendencies and variability in the responses, facilitating further exploration of the relationships between independent variables and financial sustainability.

Effect of Current Budgeting Processes on the Long-Term Financial Sustainability of the Kisii County Government

The results indicate a generally positive perception of the budgeting process in Kisii County. Participants strongly concurred that the process effectively allocated resources to priority areas (M=4.4381, SD=0.58710) and incorporated adequate financial forecasting and planning (M=4.5143, SD=0.57369). There was also strong agreement that the process allowed flexibility for unforeseen circumstances (M=4.4381, SD=0.71956), and addressed long-term infrastructure and development needs (M=4.3429, SD=0.61751). Participants agreed that the budget reflected long-term financial goals (M=4.1143, SD=0.77601), sufficiently involved stakeholders (M=4.2571, SD=0.66548), and was based on evidence and performance metrics (M=4.2762, SD=0.70021). They also agreed that the process promotes fiscal responsibility (M=4.2952, SD=0.79571), ensures transparent decision-making (M=4.2286, SD=0.77531), and aligns with best practices in public financial management (M=4.2857, SD=0.78095). Overall, the aggregate results (M=4.3278, SD=0.37806) suggest a positive assessment of the budgeting process across dimensions.

Effect of resource allocation methods on the financial viability of the Kisii County government over extended periods

The findings indicate a favorable perception of the Kisii County government's resource allocation strategies and their influence on long-term financial sustainability. Participants consistently expressed high levels of agreement across various aspects, with mean scores exceeding 4.3 on a 5-point scale. The most highly rated aspect was the county government's approach to revenue generation, which supported sustained financial health (M=4.5333, SD=0.65143), closely followed by the adaptability of resource allocation methods to changing economic conditions (M=4.4667, SD=0.68031). Notably, participants also concurred that the county's investment in infrastructure projects positively contributes to its long-term financial viability (M=4.4190, SD=0.75678) and that debt management strategies align with long-term sustainability goals (M=4.4190, SD=0.63217). The overall aggregate score (M=4.3981, SD=0.36532) reflects a strong consensus among the participants regarding the effectiveness of Kisii County's resource allocation methods in prioritizing long-term financial sustainability.

Effect of financial management strategies on maintaining fiscal stability and fostering sustainable operations in the Kisii County Government

The results indicate a favorable perception of the Kisii County Government's financial management practices across various dimensions. Participants concurred that the county enforced robust financial controls to prevent fund misuse (M=4.6000, SD=0.56501) and effectively managed cash flows for operational needs (M=4.4476, SD=0.61988). They also recognized the efficiency of revenue collection strategies (M=4.3810, SD=0.62605) and sustainability of debt management practices (M=4.3714, SD=0.57608). The county's investment strategies were seen as contributing to long-term fiscal stability (M=4.3905, SD=0.74026), whereas resource allocation to different departments was considered effective (M=4.3048, SD=0.62209). Participants agreed that financial reporting was accurate, timely, and comprehensive (M=4.3524, SD=0.69311) and that budget planning processes were transparent and inclusive (M=4.2667, SD=0.72413). Overall, the aggregate results (M=4.3619, SD=0.35879) suggest a generally positive assessment of Kisii County's financial management practices, with room for improvement in promoting sustainable economic growth in Kenya (M=4.1619, SD=0.76112).

Effect of Challenges and Opportunities in Enhancing Financial Sustainability in Kisii County Government

The results revealed a strong agreement among the participants regarding various aspects of performance-based budgeting in the Kisii County Government. Respondents acknowledged the effectiveness of the current budgeting system in promoting financial sustainability (M=4.5143, SD=0.65213) and recognized that performance-based budgeting could improve resource allocation (M=4.3714, SD=0.75009). There was notable agreement on the presence of political will to support implementation (M=4.4476, SD=0.61988) and the potential for enhanced transparency and accountability (M=4.2857, SD=0.68940). The participants also agreed that implementing performance-based budgeting would lead to improved service delivery (M=4.3143, SD=0.68380) and contribute to long-term financial sustainability (M=4.3143, SD=0.73791). However, they also anticipated potential resistance from stakeholders (M=4.3714; SD=0.76280). Overall, the aggregate results (M=4.3581, SD=0.41342) indicate a generally positive perception of performance-based budgeting and its potential benefits for the Kisii County Government.

Effect of Financial Sustainability of Kisii County Government through Performance-based Budgeting

The findings indicate a generally favorable view of the Kisii County Government's budgeting practices and financial management. Participants agreed that current budgeting practices are effective (M=4.3619, SD=0.77365) and that enhancements would bolster the county's financial sustainability (M=4.2095, SD=0.72979). They also confirmed that resources were efficiently allocated across sectors (M=4.2571, SD=0.73417) and that the budget was aligned with long-term development goals (M=4.2095, SD=0.74285). Notably, respondents agreed on the adequacy of public participation in the budgeting process (M=4.1905, SD=0.66644) and the transparency of budgeting and financial reporting (M=4.2667, SD=0.71072). Participants also expressed confidence in county officials' skills for effective budget management (M=4.2190, SD=0.74654) and agreed that current financial practices positively contributed to overall sustainability (M=4.2762, SD=0.74026). The aggregate mean of 4.2333 (SD=0.46195) underscores the overall positive assessment of Kisii County's budgeting and financial management practices.

Relationship between Performance-based Budgeting and Financial Sustainability of Kisii County Government

This study examines the relationship between Kisii County government financial sustainability and the use of performance-based budgeting techniques. An ordinary least squares regression model, a statistical technique that gauges the degree and direction of the link between variables, was employed to investigate this relationship. This method makes it easier to conduct a comprehensive analysis of the relationship between government financial stability and budget effectiveness. Regression analysis provides information on how much a county's financial sustainability may be strengthened by improvements to its budgeting procedures. The results of the analysis, shown in detail in Table 1, make a fuller comprehension of the relationship between budgeting and sustainability in the context of the Kisii County government possible.

Table 1: Model Summary showing Budgeting and Financial Sustainability of Kisii County Government

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.752[a]	0.566	0.548	0.31043

Source: Survey data (2025)

The results in Table 1 demonstrate a significant positive correlation between budgeting practices and the Kisii County government's financial sustainability during the study period. The coefficient of determination (R^2) of 0.566 indicates that budgeting practices account for 56.6% of the variance in financial sustainability. This substantial percentage highlights the critical role of effective budgeting in maintaining fiscal stability in county governments. However, it is important to note that 43.4% of the changes in financial sustainability were due to factors not captured in the current model. This finding suggests that while budgeting is crucial, other variables not considered in this study also significantly contribute to the financial sustainability of the Kisii County government. Further research is needed to identify and analyze these additional factors to gain a more comprehensive understanding of the determinants of financial sustainability in this context.

Table 2: ANOVA showing Budgeting and Financial Sustainability of Kisii County Government

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.557	4	3.139	32.575	0.000[b]
	Residual	9.637	100	0.096		
	Total	22.193	104			

Source: Survey data (2025)

Table 2 displays the F-test results, which highlight the overall statistical significance of the models. The computed F-value of 32.575 significantly surpassed the critical F-value ($F_{0.05, 4, 100}$) of 2.463. This comparison strongly supports the significance of our model. The p-value of 0.000, which is far lower than the conventional significance level of 0.05, further lends credence to this finding.

Collectively, these findings suggest that budgeting variables are effective predictors of financial sustainability for the Kisii County government, thereby affirming the model's utility. They emphasize the importance of implementing robust budgeting practices to enhance the financial sustainability of the county governments. Future research should investigate additional variables, such as revenue diversification, debt management strategies, and economic factors that may influence fiscal stability. By identifying and incorporating these additional determinants, policymakers and financial managers can develop comprehensive strategies to improve the overall financial health of local government entities.

This aligns with the findings of various studies, underscoring the significance of participatory mechanisms, budgeting practices, and governance in enhancing public sector performance and financial sustainability. Lin and Chen (2020) demonstrate that well-crafted participatory mechanisms facilitate effective citizen engagement in public budgeting. Similarly, Mwise et al. (2024) identified a positive correlation between MCAs' budgeting roles and the implementation of strategic plans. However, Richard and Muna (2018) reported high levels of dissatisfaction with government services in Kajiado County. Kipyego and Wanjare (2017) stress that public participation improves the quality, accountability, and transparency of the budgeting process. Maitima and Munene (2025) establish a significant relationship between budgeting practices and county financial performance. Wahinya (2020) highlighted the influence of governance on county government performance, whereas Diis et al. (2024) concluded that enhanced financial accountability practices bolster the financial sustainability of microfinance institutions in the Garissa County.

The specific contributions of the individual predictors can be further examined using the regression coefficients presented in Table 3.

Table 3: Coefficients for Budgeting and Financial Sustainability of Kisii County Government

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.035	0.391		0.090	0.029
	Current Budget Processes	0.729	0.161	0.597	4.535	0.000
	Resource Allocation Methods	0.041	0.178	0.033	0.232	0.017
	Financial Management Strategies	0.209	0.167	0.162	1.249	0.015
	Challenges and Opportunities	-0.012	0.154	-0.010	-0.075	0.040

Source: Survey data (2025)

Table 3 provides valuable insights into the financial sustainability of the Kisii County Government in Kenya. The analysis reveals a baseline level of financial sustainability, as evidenced by a statistically significant constant beta coefficient ($\beta = 0.035$, $p = 0.029$). This finding suggests that even when other variables are controlled, a positive foundation for financial sustainability exists in county governments. The significance of this constant implies that the county governments in Kenya possess inherent characteristics or advantages that contribute to their financial sustainability, independent of the other factors examined in this study. This baseline level of sustainability can be attributed to various factors, such as established governance structures, existing revenue streams, and fundamental operational efficiencies. Understanding this baseline is crucial for policymakers and administrators, as it provides a starting point for further enhancing financial sustainability and identifying the inherent strengths of the county government system in Kenya.

The strong beta coefficient ($\beta=0.729$) and very significant p-value ($p=0.000$) show that the current budgeting procedures have a considerable and beneficial impact on the financial sustainability of the Kisii County Government. According to this relationship, if all other things remain the same, there is a 0.729 unit increase in the financial sustainability of county governments for every unit improvement in budgeting procedures. Additionally, the study found a strong positive relationship between Kenyan county governments' financial viability and their resource distribution strategies. Although the effect is smaller in magnitude than that of budgeting processes, it remains statistically significant ($\beta=0.041$, $p=0.017$) when other factors are considered. Specifically, each unit enhancement in resource allocation contributes to a 0.017 unit increase in financial sustainability. These findings underscore the importance of effective budgeting processes and resource allocation methods for promoting the financial sustainability of Kenyan county governments.

According to this study, the financial viability of Kenyan county governments and the application of financial management techniques are significantly correlated. The results show that financial sustainability improves by 0.209 units for every unit increase in the use of financial management techniques ($\beta = 0.209$, $p = 0.015$). This positive link emphasizes the importance of sound financial management in improving the long-term financial stability of local government organizations. Strong evidence of the influence of financial management techniques on sustainability outcomes is provided by the statistical significance of this association ($p < 0.05$), indicating that the observed effect is unlikely to be the result of chance. These findings show the potential advantages of investing in and improving financial management techniques to support the overall financial stability and performance of Kenyan county governments, which has significant implications for policymakers and county administrators.

The analysis reveals a subtle but statistically significant relationship between the challenges and opportunities in performance-based budgeting and the Kisii County government's financial sustainability. The beta coefficient of -0.012 indicates a weak negative correlation, suggesting that as challenges and opportunities increase, financial sustainability decreases slightly. This relationship was supported by a p-value of 0.040, which is below the conventional threshold of 0.05, thus confirming statistical significance. Specifically, for every one-unit change in challenges and opportunities, financial sustainability experienced a minor decrease of 0.012 units, assuming that all other variables were constant. Although the impact is minimal, it underscores the complex interplay between performance-based budgeting practices and county governments' overall financial health. This finding highlights the need for careful consideration of the challenges and opportunities when implementing performance-based budgeting strategies to maintain or improve financial sustainability.

The regression equation $Y = 0.035 + 0.729X_1 + 0.041X_2 + 0.209X_3 – 0.012X_4$ provides insights into the factors influencing the Kisii County Government's financial sustainability. The constant term (0.035) represents the baseline financial sustainability when all other variables are zero. The budgeting process (X_1) has the strongest positive impact, with a coefficient of 0.729, suggesting its crucial role in enhancing financial sustainability. Resource allocation methods (X_2) and financial management strategies (X_3) also contributed positively, albeit to a lesser extent, with coefficients of 0.041 and 0.209, respectively. Interestingly, the challenges and opportunities in implementing performance-based budgeting (X_4) show a slightly negative relationship (-0.012), indicating that these factors may marginally hinder the financial sustainability. This equation allows for a quantitative assessment of how changes in these variables affect the overall financial sustainability of the Kisii County Government.

CONCLUSION

The findings highlight significant areas for improvement in the Kisii County Government's financial management practices. Current budgeting processes exhibit limited alignment with long-term sustainability goals, indicating the need for strategic realignment. Resource allocation methods reveal inefficiencies that may hinder financial viability, suggesting the need for more effective distribution strategies. Although some financial management strategies contribute to fiscal stability, there is potential for enhancement to ensure sustainable operation. The implementation of performance-based budgeting presents both challenges and opportunities, with the potential to significantly enhance financial sustainability if it is properly executed. These findings underscore the need for comprehensive reforms in budgeting, resource allocation, and financial management practices to achieve long-term fiscal stability and sustainable development in Kisii County.

RECOMMENDATIONS

Based on the findings of this study, we recommend that the Kisii County Government implement a comprehensive performance-based budgeting system to enhance financial sustainability. This should include clear performance indicators, regular monitoring and evaluation processes, and capacity building for the staff involved in budget preparation and execution. The county government should also prioritize stakeholder engagement to ensure that citizens, local businesses, and other relevant parties are involved in the budgeting process. In addition, investing in robust financial management systems and technologies to improve data accuracy and transparency is recommended. The county should consider establishing a dedicated unit to oversee the implementation of performance-based budgeting and provide ongoing support and training to the relevant personnel. Finally, it is crucial to align the budgeting process with the county's long-term development goals and national policies to ensure coherence and to maximize the impact.

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