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**Effective Governance Practices towards Strengthening Financial Sustainability of  
County Governments in Kenya**

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**Abstract**

**Purpose:** This paper determined the moderation effect of governance on the effect of financial management practices on financial sustainability of Makeni County Government, Kenya.

**Methodology:** Employing a positivist paradigm (philosophy) with an explanatory design, 118 respondents across various departments formed target populace, the study utilized both primary and secondary data, where analysis was via descriptive statistics and inferential analysis.

**Findings:** Governance was found to moderate Public Financial Management practices relationship with financial sustainability, strengthening financial management practices impacts. The study concludes that governance ensures that these practices translate into sustainable financial outcomes.

**Unique Contribution to Theory, Practice and Policy:** Counties should integrate robust governance structures with sound PFM practices, emphasizing transparency, accountability, stakeholder participation, and risk management, to enhance financial sustainability and fiscal independence.

**Keywords:** *Public Financial Management Practices, Governance Financial Controls, Financial Planning, Financial Reporting, Financial Sustainability, Revenue Mobilization*

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## INTRODUCTION

Kenya's enactment of the 2010 Constitution embraced devolution granting 47 county governments the autonomy to manage local affairs, including budgeting and public service delivery. While devolution envisioned to make governance more accessible and promote equitable resource utilization, it has also introduced significant financial sustainability challenges for these counties. Kenyan county governments predominantly rely on transfers from the national government through the equitable share of revenue, which can limit fiscal autonomy and expose them to national budgetary fluctuations (Waweru, 2018). Furthermore, many countries struggle to fully harness their local revenue sources, such as property taxes and business licenses, often due to weak collection systems and administrative inefficiencies (Otieno, 2020). Persistent underperformance in Own Source Revenue (OSR) generation is a common trend across the majority of Kenyan counties, impacting their ability to fund services and development projects independently.

Financial sustainability in county governments is operationalized by the Self-sufficiency ratio(SSR) which is given as a ratio of own source revenue to total revenue, where a threshold of more than 15% show County government is financially sustainable (world Bank2019,;CRA,2020).Canadian Institute of Chartered Accountants (CICA) (1997) describes SSR as a key measure of devolved governments financial sustainability which consequently aligns with IMF and international public sector accounting guidelines which outlines the benefits of generating own revenue over the reliance of central government transfers(IMF,2020).

For devolved governments, assessing financial sustainability involves examining various indicators that reflect a government's financial condition. While traditional financial ratios used in the private sector, such as profitability, debt and liquidity ratios, have been adapted (Smith & Johnson, 2019; Jones *et al.*, (2020), their application in counties seem wanting. The Self-Sufficiency Ratio (SSR), given as a ratio of Own Source Revenue to total revenue multiplied by one hundred is particularly relevant (Mwangi *et al.*, 2021; Odhiambo & Karanja, 2022). It provides a direct indication of a county's fiscal autonomy and its capacity to fund its operations independently, thereby reducing vulnerability to external funding fluctuations.

Public Financial Management is a multifaceted process integral to the functioning of modern governments, encompassing the planning, allocation, utilization and monitoring of public funds to achieve socio-economic objectives (Allen & Tommasi, 2019). Effective PFM practices are essential for promoting economic stability, attracting investment, and fostering sustainable development (Robinson & Wescott, 2023). In Kenya, public financial management practices are undergoing significant transformation to address fiscal vulnerabilities and enhance accountability, with initiatives such as the Integrated Financial Management Information System (IFMIS) introduced to streamline financial processes and reduce opportunities for corruption (World Bank, 2020). However, compliance with Kenya's PFM Act. 2012 the devolved government level faces several challenges, including poor budgeting practices, delayed disbursement of funds, inadequate capacity and issues with revenue collection systems (Kahutu, 2019; Ewang, 2019). The key indicators of PFM that this study will tackle are financial planning, revenue mobilization, financial reporting and financial controls.

Governance has been broadly defined as the entire structure, processes, rules, laws, and norms that result from interactions, relationships, power dynamics, and communication within people or organized groups, where the expected conduct and practices of different stakeholders are

outlined, facilitating informed decision-making (World Bank, 2006). County governance frameworks are critical in shaping financial sustainability by enacting policies and procedures guiding revenue collection, expenditure prioritization, and fiscal management practices (Lee & Wang, 2019).

Under Kenya's 2010 Constitution, a devolved system with two levels of government (National and County) was established, with clear roles and mandates outlined in the Fourth Schedule. The Kenya County Government Act 2017 further details governance structures, emphasizing increased public participation compared to the national level, aiming to improve social and economic development and bring services closer to the people. The 2010 Constitution also acknowledges transparency, accountability, service delivery inclusivity and equality (Korir & Bett, 2018, World Bank, 2020), with public participation guidelines (2016) expecting counties to involve the public in planning, budgeting, implementation, oversight, vetting and law-making (Carreira, Machado & Vasconulos, 2016).

Empirically, governance is crucial for ensuring that fiscal policies and regulatory frameworks align with sustainable development objectives (Schofield & Jarman, 2021; World Bank, 2023). Mohamed and Muturi (2019), in their research on factors determining financial sustainability in Somalia, observed that effective governance structures positively affect financial sustainability, highlighting the need for interventions to address inadequacies stemming from ineffective policy implementation. Malik (2020) in India also found that the quality of governance directly affected tax revenue collection, suggesting that improved governance systems are essential for achieving financial sustainability by reducing tax evasion. Okuto (2019), investigating challenges facing Kenyan county governments, observed that issues of accountability, inconsistent tax policy application, mismanagement of resources, lack of transparency, and corruption fundamentally hinder effective resource mobilization, directly linking poor governance to fiscal challenges. He recommended that county governments initiate measures to address these challenges and promote stakeholder participation in budget-making processes.

Mosund (2022) empirically demonstrated in Tanzania that non-accountability and lack of openness resulted in poor performance in public institutions, emphasizing that strong governance mechanisms are a prerequisite for effective financial reporting and overall institutional performance. Mwambire and Kasimbei (2022) also noted that while effective financial reporting can improve performance in counties, it calls for proper governance structures to be in place to achieve financial sustainability through proper monitoring and supervision of financial policies. Moreover, governance practices influence the decision-making processes and accountability mechanisms that shape fiscal policies, resource allocation and investment priorities, ultimately impacting the long-term financial sustainability of nations (Hodson & Marvin, 2019).

Devolution typically involves mechanisms for intergovernmental relations, revenue sharing, and policy coordination (Bird & Smart, 2020). In the face of evolving global challenges, such as climate change, demographic shifts and technological disruptions, the imperative for governments to enhance the sustainability of their financial systems has become increasingly urgent (Bergman & Kucera, 2022) As a moderating variable between public financial management practices and financial sustainability, governance will be measured by assessing key indicators such as transparency and accountability (Brown et al., 2021). Strong governance mechanisms, characterized by effective oversight and adherence to legal frameworks, are

essential for fostering public trust and managing finances responsibly (Arapkirwa & Oluka, 2019). Therefore, good governance practices are hypothesized to strengthen the positive relationship between effective PFM practices like financial planning, revenue mobilization, financial reporting & financial controls and financial sustainability.

Financial sustainability is critical to Makueni County's performance and service delivery (Muriithi & Wamiori, 2020). The county's budget is derived from three primary sources: equitable share from the national government, Own Source Revenue (OSR), and conditional allocations (loans and grants). However, Makueni County has consistently grappled with significant challenges in achieving financial sustainability, particularly in its Own Source Revenue generation. This struggle is evident in the county's perennial failure to meet its OSR targets and its heavy reliance on external funding. Delays in the disbursement of equitable shares from the National Treasury exacerbate these issues, leading to critical challenges such as delayed payments for employees and suppliers, and disruptions in essential service delivery (Timboi, 2020). The low OSR directly impacts the county's ability to manage its finances independently and deliver services effectively, making it vulnerable to external funding fluctuations (Mwatsavwa, 2021).

**Table 1: Revenue Trend Analysis**

Financial years	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023
SSR=OSR/ TR *100	4%	3.1%	2.3%	2.1%	3.4%	4.8%	4.3%	4.4%	6.5%	8.3%
Total OSR	189M	215M	220M	219M	322M	511M	465M	521M	749M	891M
Total revenue	4,717 B	6,971 B	9,400 B	10,600 B	9,600 B	10,600 B	10,790 B	11,705 B	11,500 B	10,700 B
Deficit in revenue targets	161M	212M	180M	281M	278M	159M	190M	179M	251M	310M

*Source: County Treasury, 2023*

The data in Table 1.0 explicitly justifies the issue with Makueni County's financial sustainability, showing a consistent failure to meet its internally set OSR targets from 2013 to 2023. These targets, set by the Makueni County Treasury and approved by the County Assembly annually, reflect the county's aspirations and projections for its fiscal capacity. However, they have consistently fallen short, with substantial annual deficits ranging from KES 161 million to KES 310 million. While OSR collection has generally increased over the decade at a decreasing rate (from KES 189 million in 2013 to KES 891 million in 2023, as also noted by (CoB reports, 2022), the trend of SSR shows it is not consistent ranging between 4% to 8.3% from 2013 to 2023. This trend in Makueni is indicative of broader financial sustainability challenges faced by other Kenyan counties. Counties frequently fall behind on OSR targets, with average national OSR collection often falling significantly below projections (COB report, 2022). While there is no single universally mandated threshold for own-source revenue performance in Kenya (CRA 2020, World Bank 2019, and IMF (2009) gives a

threshold of self-sufficiency ratio for devolved governments to attain more than 15% SSR for them to be able to meet their obligations and achieve financial independence.

### **Statement of the Problem**

Devolved governments globally face multifaceted challenges in managing financial resources effectively and efficiently (Baker & Johnson, 2020). County governments must adapt to evolving economic conditions, technological advancements, and regulatory frameworks to achieve and maintain long-term financial sustainability (Garcia *et al.*, 2024). In Kenya, devolution was established under the 2010 Constitution. It plays a pivotal role in promoting local governance, enhancing service delivery, and fostering grassroots development. Comprising 47 counties, this decentralized system aims to enable more efficient and responsive decision-making at the local level (Chege & Muathe, 2020).

The persistent low performance in OSR is attributed to several factors including limited tax base, weak administrative capacity, inadequate trained personnel for enforcement, insufficient information for effective revenue collection, and political interference (Department of Devolution, County Administration, Public Service & Youth, 2022), the absence of dedicated county courts for prosecuting revenue law non-adherence and lack of coordination between the county government and the judiciary further compound these challenges. These issues directly impact critical aspects of financial sustainability, leading to inefficiencies in project implementation, as evidenced by only 60% of planned development projects being completed in the 2019/2020 financial year (Office of the Auditor General, 2020). Such occurrences underscore how poor financial practices directly undermine a county government's ability to achieve its development objectives.

It is crucial to acknowledge that failure to meet Own Source Revenue targets, while a critical indicator, does not singularly define financial sustainability. A county might experience OSR shortfalls but still maintain a degree of sustainability through prudent expenditure management, effective debt control, and efficient utilization of national transfers and conditional grants. This affirms relevance of comprehensive PFM practices beyond just revenue collection. While Makueni County's governance structures can help secure long-term financial sustainability and economic development via promoting accountability and efficient resource management (Arapkirwa & Oluca, 2019), the observed financial shortfalls suggest that their actual influence as a moderating factor on PFM practices and financial sustainability requires deeper investigation. This study, therefore, aims to unpack these interconnected dynamics within Makueni County, providing a holistic assessment that considers all aspects of PFM and the moderating role of governance in ensuring fiscal discipline and accountability amidst revenue challenges.

### **Research Objective**

To determine the moderating effect of governance on the relationship between public financial management practices and financial sustainability of Makueni County Government, Kenya

### **Research Hypothesis**

**H<sub>0</sub>:** Governance has no moderation effect on the relationship between public financial management practices and financial sustainability of Makueni County Government, Kenya

## **Theoretical Review**

### **Agency Theory**

Agency theory by Jensen and Meckling (1976) states that organizations involve principals (shareholders) and agents, in this case, county officials, where the agents may want to act in their interest instead of how the principal would want basically because of information asymmetry. In this relationship, principal lets the agent handle decision-making. The theory highlights that conflicts may arise due to misaligned interests, with agents potentially pursuing their self-interests at the expense of the principal's objectives, such as efficient financial planning and sustainability. Hence this theory tries to solve principal, agents' conflicts.

Empirical studies by Abdi (2015) and Jensen and Payne (2003) confirm that financial controls, such as audits and strict supervision, would reduce agency costs and enhance fiscal outcomes. Sound oversight facilitates counties to plan their resources more effectively so that financial decisions are not out of focus with institutional goals. Enhancing financial controls not only enhances fiscal discipline, but also helps directly towards finances sustainability' in long term since it helps to reduce inefficiencies as well as helps to promote accountable governance. In the context of financial planning within Makueni County, agency theory emphasizes the crucial need for robust planning mechanisms and transparency, facilitated by effective internal controls, to reconcile government officials' (agents) interests with goals of financial sustainability set by citizens (principals).

### **Institutional Theory**

Institutional Theory, as originally proposed by Meyer and Rowan (1977) and further developed by DiMaggio and Powell (1983), states that devolved governments try to follow certain structures and practices which are legit and necessary in their locality, including laws, cultural norms, regulations what the shareholders would require. This theory posits that organizations, including public institutions, are shaped significantly by their institutional environment, which comprises established social norms, values, and regulations that govern behavior. Specifically, Institutional Theory suggests that organizational practices, such as those related to internal control systems and financial reporting, are often adopted not solely for efficiency but to meet these institutionalized expectations. In Makueni County, this theory aids in identifying key factors shaping financial management practices and governance structures, including government regulations, donor requirements, and broader societal expectations.

Compliance with these regulatory frameworks and societal expectations is crucial for enhancing the legitimacy of public institutions, thereby directly supporting their fiscal sustainability (Meyer & Rowan, 1977; DiMaggio & Powell, 1977). Within county administrations, adherence to institutional practices such as open financial disclosures and robust internal control systems can significantly improve public trust and legitimacy (Ochieng, 2017; Mutua, 2018). This enhanced trust and legitimacy, in turn, can lead to more sustainable financial outcomes as citizens and stakeholders are more likely to support institutions they perceive as credible and well-governed (Makhamara, 2019).

By examining the institutional environment, the study can explain why different public institutions in Makueni County may adopt varying financial management practices and governance structures. Furthermore, Institutional Theory can help to identify potential barriers to improving financial sustainability in Makueni County. For example, if the institutional

environment is resistant to change, it may be difficult to implement new, more efficient financial management practices, thus hindering progress towards sustainability.

Conversely, alignment of financial management practices with regulatory expectations and societal values tends to foster better financial sustainability (Makhamara, 2019). By applying Institutional Theory to this study, researchers can uncover key financial sustainability drivers in Makueni County and identify potential strategies for improving public financial management and governance by addressing the specific institutional pressures and norms at play.

### **Empirical Review**

Governance is critical in PFM effectiveness in devolved systems. A well-governed financial system ensures proper planning, budgeting, and accountability, which are key to financial sustainability. Nyamita *et al.*, (2020) argue that devolved units with stronger governance structures, such as transparent financial reporting, internal auditing, and public participation, are better equipped to manage finances efficiently and sustainably. Poor governance, on the other hand, leads to corruption, wastage, and fiscal deficits, undermining long-term financial stability.

Simiyu (2018) highlights that devolved governments that integrate governance frameworks into their financial management practices such as anti-corruption policies and enhanced oversight experience better fiscal outcomes. By combining both quantitative and qualitative approaches, Simiyu (2018) provided a vast comprehension on how integrating governance frameworks into financial management practices can lead to better fiscal outcomes for devolved governments, emphasizing vitality of PFM's accountability and openness. Governance moderates' relationship between fiscal decentralization and financial sustainability by reducing leakages, increasing accountability, and improving service delivery. Strong governance frameworks, particularly around public participation, procurement processes, and adherence to national financial laws, significantly enhance a county's ability to maintain financial sustainability.

A study by Kijiba (2018) examined how financial skills, financial record keeping, competencies and the professional auditors of financial made by the stakeholders resorted to data to better financial management practices. This study established that poor financial record-keeping and maintenance resulted in financial management practices. Data were amassed using structured questionnaires distributed to a sample of stakeholders involved in financial management, including finance officers, managers, and auditors. The questionnaires were designed to assess financial skills level, financial record-keeping quality and perceived financial professionals' competencies. The above study emphasized the importance of good record-keeping and maintenance practices as key to achieving sound financial management practices. From this study, it is evident that if good financial management practices are to be achieved in our public institutions, there is a need to begin training sessions to equip employees with financial knowledge to eliminate the role of record-keeping. This will lead counties to achieve financial sustainability. A conceptual gap is identified in that governance was not examined as the moderator and therefore its influence PFM practices relationship with fiscal sustainability is not accentuated.

Wasiche (2018), focused on the financial challenges facing government public schools in Siaya County. It was uncovered school experienced poor record keeping, financial illiteracy of the teachers and absence of records for purchases made by the school. This study recommended that the need for urgent measures be put in place if sound financial management was to be

achieved in Siaya County. The study explored the relationship between good governance and documentation and how it affects financial performance in an institution if applied descriptive survey design which is effective in addressing an occurrence. Secondly, the study relied on data from public day secondary schools in Siaya County. By choosing to rely on a small size population as respondents, it ignored information that would have been provided by another category of schools such as private or boarding schools. By choosing to ignore other categories of schools, it makes generalization limited about schools in Siaya as this will not reflect the correct situation on the ground. Effective governance records result in better financial performance in an institution and act that will lead to financial sustainability. Good governance should strive to achieve transparency, accountability and suitable resource allocation to achieve financial sustainability. However, since there was no examination of governance, a conceptual gap was identified and will be addressed by examining the same in the present study. Also, the contextual scope being a school set-up presents a very huge gap as the findings cannot be generalizable.

A study by Miruka (2020), sought to explore how governance influences the financial performance of Kenyan institutions. Data was amassed via combination of questionnaires and document analysis. Results showed that where institutions are now an independent board to operate freely, it affects financial performance positively. This study examined how aspects of governance such as a robust audit committee board promote accountability, strategic market decisions and transparency within the institution. Though this study showed that independent board committees in our institutions could result in better financial performance, however, these findings cannot be generalized to all government institutions. However, it ignored external factors that could influence the outcome of financial performance. A conceptual gap is brought forth by the study of financial performance of Kenyan institutions instead of their financial sustainability.

A study by Munyua (2019) ascertained governance structures impacts on Kenyan counties financial sustainability. Data were collected through semi-structured interviews with key stakeholders involved in county governance, including county executives, finance officers, and members of county assemblies. The interviews were designed to explore participants' perceptions of governance structures, financial oversight mechanisms' effectiveness, and the challenges faced in ensuring financial sustainability. This study established that counties with sound governance structures result in improved financial sustainability especially if departments of monitoring and resource management are effective. This study went on to show that for counties to achieve budgetary controls and financial performance, they need to embrace accountability and transparency measures. The above findings, this study lacked an identifying specific case from county government and demonstrate how transparency and accountability measures could be assessed and their consent results. For effective budgetary controls, transparency and accountability should be observed in counties thus encouraging other stakeholders to scrutinize and monitor budgetary procedures thus blocking opportunities for financial management and misappropriation of public funds resulting in financial sustainability in counties. The review examined governance as the independent variable instead of the moderator, creating a conceptual gap.

Ochieng's (2021) study examined how governance promotes financial sustainability. This study observed that allowing stakeholders to participate in matters of financial decision-making and employing proper monitoring systems leads to enhanced financial management. The quantitative data were analyzed using descriptive statistics and regression analysis to identify

relationships between governance practices, stakeholder participation, and financial sustainability outcomes. The study goes on to encourage proper governance practices where revenue is used efficiently. Though this review accentuated vitality of stakeholder participation in the county’s financial decision, it did not consider other factors that could affect financial management such as the environmental political and social dynamics of individual counties. It is deduced from this study that governance practices such as stakeholder participation monitoring systems can lead to financial sustainability.

Governance plays a vital moderating role in public financial management relationship with Kenya's devolved governments’ financial sustainability. Studies consistently show that stronger governance frameworks—encompassing transparency, accountability, public participation, and anti-corruption measures—enhance financial management outcomes, leading to better financial sustainability. Counties that fail to integrate governance into their financial processes face significant risks of fiscal instability and inefficiency.

**METHODOLOGY**

This research employed a positivist epistemology philosophy. The positivist philosophical approach allows a study to propose hypotheses depending on the available theories related to the research problem (Shah *et al.*, 2016). The research utilized explanatory research design which according to Das (2016) is appropriate for research that aims at establishing variables’ relationship. Stewart and Sunkpho (2020) stated that explanatory design aims at answering the why questions, and it involves creating causal explications of a phenomenon when the problem under study is not well understood and unstructured. The study collected both primary and secondary data through closed-ended questionnaires and data extraction form from the County Director in charge of finance. The respondents to the questionnaire comprised of 118 officers drawn from various departments and committees within the county government to ensure a comprehensive examination of PFM practices and their effect on financial sustainability in Makueni County.

**Moderation Effect Model**

A two-stage procedure, as suggested by Whisman & McClelland (2005) was used in models 1 and 2 to establish whether governance moderates’ explanatory variable relationship with the dependent variable. In stage one, public finance management practices were regressed on the dependent variable (Financial Sustainability (FS) as model 3.1 depicts

$$Y = \beta_0 + \beta_5 G_t + \epsilon \dots\dots\dots 1$$

Y = Financial Sustainability (FS)

$\beta_0$  = -Intercept constant

$\beta_5$  = Regression Coefficient.

$G_t$  = Governance

$\epsilon$  = Error term.

Stage two involved regressing Public Financial Management practices, governance and PFM\*G integration on Financial Sustainability (FS in model 3.3

$$Y_t = \beta_0 + \beta_6 PFM + \beta_7 G_t + \beta_8 PFM * G + \epsilon \dots\dots\dots 2$$

$Y_t$  = Financial Sustainability (FS)

$\beta_0$  = -Intercept constant

$\beta_6, \beta_7$  and  $\beta_8$  = Regression Coefficients.

*PFM* = Public Financial Management Practices

$G_t$  = Moderating Variable (Governance)

*PFM*\*  $G_t$  = Interaction of public financial management practices and Governance.

$\epsilon$  = Error term.

## RESULTS AND DISCUSSION

Descriptive statistics provided overview of the general financial sustainability, public financial management practices and governance levels within Makueni County. The descriptive statistics results are presented in Table 2.

**Table 2: Descriptive Statistics**

Descriptive Statistics	Mean	Std Dev
Public Financial Management Practices	3.575	1.274
Governance	3.61	1.313
Financial Sustainability	3.57	1.311
<b>Total average</b>	<b>3.585</b>	<b>1.299</b>

Source: Research Data (2025)

The results indicate that respondents generally agree that strong public financial management practices contribute to financial sustainability, as reflected in the aggregate 3.757 mean score. Overall, the findings suggest that financial practices in Makueni County are considered an important mechanism for enhancing transparency, accountability, and ultimately, financial sustainability, although there may be room to strengthen some practices such as implementing robust accountability mechanisms and ensuring reporting accuracy. These findings concurred with those of De Villiers and Sharma (2020) who argue that regulatory bodies, academic institutions, and businesses must collaborate to create robust reporting frameworks that meet these evolving needs. This study confirms the critical role of financial reporting. Similarly, Orazalin and Mahmood (2020) and Richard (2019) highlighted that Financial reporting is key to financial sustainability because it helps to prevent loopholes that otherwise could have been used for corruption or misappropriation of public funds. For effective financial reporting, there is a need for proper structures of governance and well-equipped.

The results indicate that respondents generally agree that governance practices contribute to financial sustainability, as reflected in the aggregate mean score of 3.61. Leadership integrity in Makueni County has led to financial sustainability through building trust and promoting ethical behavior, suggesting that respondents view ethical leadership as a key driver of sound financial management. Other governance practices, such as effective governance structures for revenue collection, internal and external audits, public participation and adherence to legal requirements are recognized as good governance practices that generally support financial sustainability.

Similarly, Simiyu (2018) in support of the findings provided a vast comprehension on how integrating governance frameworks into financial management practices can lead to better fiscal outcomes for devolved governments, emphasizing vitality of PFM's accountability and openness. Governance moderates' relationship between fiscal decentralization and financial

sustainability by reducing leakages, increasing accountability, and improving service delivery. Strong governance frameworks, particularly around public participation, procurement processes, and adherence to national financial laws, significantly enhance a county's ability to maintain financial sustainability.

The finding also supports those of Wasiche (2018) who argued that effective governance records result in better financial performance in an institution and act that will lead to financial sustainability. Good governance should strive to achieve transparency, accountability and suitable resource allocation to achieve financial sustainability. A study by Munyua (2019) also established that counties with sound governance structures result in improved financial sustainability especially if departments of monitoring and resource management are effective. This study went on to show that for counties to achieve budgetary controls and financial performance, they need to embrace accountability and transparency measures.

Similarly, respondents disagreed that there has been successful diversification and mobilization of own revenue sources mean 3.57 reflecting persistent reliance on national government allocations. The findings also implied that while Makueni County has experienced some improvements in revenue trends and financial management, its financial sustainability remains weak, primarily due to limited own-source revenue generation and insufficient diversification of funding streams. This underscored the need for strengthened revenue mobilization strategies and effective financial management practices to enhance fiscal autonomy. These finding support the finding of CRA, (2020) and World Bank, (2019) which found that despite the inception of devolution, Makueni County faces significant financial sustainability challenges, largely due to overreliance on national government transfers and consistent shortfalls in own-source revenue (OSR). From 2013 to 2023, the trend shows an inconsistent Self-Sufficiency Ratio (SSR) between 4% and 8.3%, which is far below the required rate to achieve financial independence.

### Moderation Regression Analysis

**Table 3: Step One: Test for Moderating Effect -Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.839 <sup>a</sup>	.704	.698	.45974

a. Predictors: (Constant), Governance, Public financial management practices score

The results presented in Table 3 assess the overall significance of the first-stage regression model, which examines direct PFM practices and governance effects on financial sustainability before including the moderating interaction term. The model obtained an Adjusted R value of 0.698 indicating a strong overall relationship between the combined predictors (PFM practices, and governance The R Square value of 0.693 suggests that approximately 69.8% of the variation in governance can be explained by the combined effect of PFM

**Table 4: Step One: Test for Moderating Effect - Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.144	.244		-.589	.557
	Public financial management practices score	.634	.106	.520	6.010	.000
	Governance	.401	.094	.368	4.252	.000

a. Dependent Variable: Financial Sustainability

Source: Survey Data (2025)

Overall, these results demonstrate that both PFM practices and governance independently and significantly influence financial sustainability, thereby supporting the progression to Step Two where the interaction between PFM and governance will be tested to determine moderation effect presence. Outcomes presented in Table 5 show second stage of the moderation analysis, where the interaction term between Public Financial Management (PFM) practices and Governance (PFM\*G) is introduced into the model. The aim is to assess whether governance moderates PFM practices relationship with financial sustainability.

**Table 5: Step Two: Test for Moderating Effect -Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.833 <sup>a</sup>	.693	.687	.46759

a. Predictors: (Constant), PFM\*G, Public financial management practices score

Source: Survey Data (2025)

The model obtained an R value of 0.833, indicating a strong overall relationship between the combined predictors (PFM practices, governance and their interaction term) and financial sustainability. The R Square value of 0.693 suggests that approximately 69.3% of the variation in financial sustainability can be explained by the combined effect of PFM practices, governance, and their interaction. This indicates a high explanatory power of the model.

**Table 6: Step Two: Test for Moderating Effect - Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.202	.393		3.058	.003
	Public financial management practices	.279	.200	.229	1.400	.164
	PFM*G	.103	.027	.613	3.752	.000

Survey Data (2025)

a. Dependent Variable: Financial Sustainability

Table 6 presents the regression coefficients for the moderation model, where Public Financial Management (PFM) practices, governance, and the interaction term between PFM practices and governance (PFMG) were entered to predict financial sustainability. The results show that the interaction term **\*\*PFMG** has a statistically significant effect **\*\*** on financial sustainability ( $\beta = 0.613$ ,  $p < 0.001$ ). This indicates that governance significantly moderates PFM practices'

relationship with financial sustainability. In other words, impacts of PFM practices on financial sustainability becomes stronger when governance mechanisms are robust.

On the other hand, the main effect of PFM practices becomes statistically insignificant in the presence of the moderating variable ( $\beta = 0.229$ ,  $p = 0.164$ ). This reduced significance implies that governance alters how PFM practices translate into financial outcomes. Specifically, it suggests that PFM practices alone may not strongly enhance financial sustainability unless they operate within a governance environment characterized by transparency, accountability, and effective oversight.

The moderation analysis demonstrates that PFM practices and governance independently contribute to financial sustainability in Makueni County (Step One). Governance significantly moderates the effect of PFM practices on financial sustainability (Step Two). The interaction suggests that the effectiveness of financial planning, revenue mobilization, reporting, and controls is contingent upon governance quality. Strong governance strengthens the relationship, while weak governance diminishes the impact of PFM practices.

The finding of this study concurred with those of Nyamita *et al.*, (2020) that argue that devolved units with stronger governance structures, such as transparent financial reporting, internal auditing, and public participation, are better equipped to manage finances efficiently and sustainably. Poor governance, on the other hand, leads to corruption, wastage, and fiscal deficits, undermining long-term financial stability.

Similarly, Simiyu (2018) in support of the findings provided a vast comprehension on how integrating governance frameworks into financial management practices can lead to better fiscal outcomes for devolved governments, emphasizing vitality of PFM's accountability and openness. Governance moderates' relationship between fiscal decentralization and financial sustainability by reducing leakages, increasing accountability, and improving service delivery. Strong governance frameworks, particularly around public participation, procurement processes, and adherence to national financial laws, significantly enhance a county's ability to maintain financial sustainability.

The finding also supports those of Wasiche (2018) who argued that effective governance records result in better financial performance in an institution and act that will lead to financial sustainability. Good governance should strive to achieve transparency, accountability and suitable resource allocation to achieve financial sustainability. A study by Munyua (2019) also established that counties with sound governance structures result in improved financial sustainability especially if departments of monitoring and resource management are effective. This study went on to show that for counties to achieve budgetary controls and financial performance, they need to embrace accountability and transparency measures.

## **CONCLUSION AND RECOMMENDATION**

### **Conclusion**

Governance is a key enabler. Governance mechanisms were shown to directly impact financial sustainability while moderating PFM practices-financial outcomes relationship. Strong governance enhances the effectiveness of financial management practices, underscoring the importance of integrity, transparency, accountability, and legal compliance. Integrated approaches are essential. Achieving financial sustainability in Makueni County requires a combination of sound PFM practices and robust governance structures. Counties cannot rely solely on financial management tools or revenue generation; governance quality must

complement these practices to ensure sustainable fiscal performance. Overall, the study concluded that financial sustainability in devolved governments is a product of both effective public financial management and strong governance, which together determine the county's capacity to manage resources, deliver services, and maintain fiscal independence.

### **Recommendation**

Based on the study findings, the study recommends that governance mechanisms, including transparency, accountability, legal compliance, ethical leadership, and public participation, should be strengthened. Since governance significantly moderates the effectiveness of PFM practices, investing in good governance is crucial for achieving sustainable financial outcomes. County officials should receive continuous training on financial management, governance, and strategic planning to improve efficiency and fiscal discipline. Professional certification and adherence to best practices can enhance overall performance. Policymakers should design policies that integrate financial management reforms with governance improvements. Establishing clear oversight structures and monitoring mechanisms will ensure PFM practices translate into measurable financial sustainability.

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