STRATEGIC RESOURCE MOBILIZATION FOR SUSTAINABLE LOCAL REVENUE GROWTH: AN INTEGRATED FRAMEWORK FOR LAMU COUNTY GOVERNMENT, KENYA

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International Academic Journal of Arts and Humanities (IAJAH) | ISSN 2520-4688

Received: 6th September 2026

Published: 21st September 2026

Full Length Research

Available Online at: https://iajournals.org/articles/iajah_v2_i2_96_119.pdf

Citation: Kimondio, B. M. (2026). Strategic resource mobilization for sustainable local revenue growth: an integrated framework for Lamu County Government, Kenya. *International Academic Journal of Arts and Humanities, 2(2), 96-119.*

ABSTRACT

Local governments around the globe are increasingly under pressure to respond to an ever-expanding set of public service, infrastructure and economic transformation needs with limited public resources, and an uncertain economy. In many decentralized governance systems, it is expected that sub-national governments should increase their internal revenues, to diminish reliance on transfers from the national government and to enhance fiscal sustainability. The fiscal capacity of local governments to mobilize sustainable own-source revenue to support services delivery and long-term development priorities is one of the key elements to effective decentralization, according to the World Bank (2022).

Devotion in Kenya has created a more complex administrative and financial system of county government since the promulgation of the Constitution of Kenya 2010. Counties would be expected to fund such vital areas as health, agriculture, local infrastructure, trade development, fisheries and county transport system. But as per the reports released by Office of the Controller of Budget (2024), many County governments are still facing chronic revenue deficits, poor collection mechanisms and increasing reliance on the equitable share disbursements from the National government. County governments raised about KSh 58.9 billion in own-source revenue during 2023/2024; while this was a positive improvement on the figures raised in the previous year, there were still some counties that fell short of the revenue targets.

Lamu County is a unique opportunity in the devolved governance system of Kenya because of its strategic economic assets, which include the Lamu Port, the Lamu Old Town, fisheries resources, tourism potential, maritime trade opportunities and investments related to the Lamu Port-South Sudan-Ethiopia-Transport Corridor project. Nevertheless, the county still has structural and institutional constraints that hinder the county's ability to sustain revenue growth, such as underutilization of economic sectors, underdeveloped digitization of revenue systems, low compliance rates, and low investment mobilization.

This article looks at the strategic resource mobilization opportunities of Lamu County and suggests an integrated framework for enhancing the sustainable growth of local resources through revenue generation. The article draws on public finance literature, county fiscal reports and policy documents, and other comparative experiences from other jurisdictions to suggest that conventional taxation approaches are insufficient for sustainable revenue growth. Rather, counties need to pursue integrated strategies focused on digital revenue administration, investment promotion, economic diversification, governance reforms, public-private partnerships, and institutional efficiency for fiscal resilience and to unlock long-term economic potential.

INTRODUCTION

Introduction and Context

Local government agencies in the developed and developing economies alike are under increasing pressure to improve financial sustainability in the face of increasing demands for effective public services and infrastructure. Decentralization has been emerging in many places, widely recognized as a preferred model of governance to enhance citizen participation, increase local accountability, and spur local economic growth. But a key element in the effectiveness of decentralized governance systems is the fiscal capacity of sub-national governments to mobilize sufficient resources to fund devolved functions and ensure service provision.

Local governments in many countries spend large shares of public budgets, especially on areas like local infrastructure, transport, housing and health, according to Organisation for Economic Co-operation and Development (2021). However, fiscal imbalances are still being felt by many local governments because of low revenue autonomy, low institutional capacity, fast urbanization and growing expenditure responsibilities. The International Monetary Fund (2023) also noted that sub-national governments in developing economies continue to be highly exposed to fiscal volatility due to overreliance on transfers from the central government and low levels of own-source revenues.

In Africa, fiscal decentralization has grown considerably in the past 20 years, as a means of enhancing the efficiency of governance and strengthening the development at the grassroots. But many local governments still face problems of poor revenue mobilization,informality, low compliance and poor administration. Own-source revenue for many local authorities in Africa is below 20 percent of total revenue and thus does not provide sufficient capacity to fund development priorities, or to be fiscally resilient, according to the African Development Bank (2022).

Since the Constitution of Kenya 2010 came into force, Kenya's public administration has been remarkably changed by the devolved governance system, which has resulted in the formation of 47 county governments with considerable administrative and fiscal powers. With the operationalization of devolution in 2013, the county governments are responsible for County Health Services, Agriculture and Fisheries, Local Trade Development, Early Childhood Education, County Roads and Urban Services among key sectors. Counties are allocated equitable shares by the national government for these functions and also have about 30 revenue sources in form of business permits, property rates, parking fees, cess, market charges, tourism levies and other sources that they can generate.

aggregate of about KSh 58.9 billion in own-source revenue in 2023/2024, much lower than the revenue targets they set themselves, highlighting ongoing structural challenges in the mobilisation of own-source revenues at the local level. A further consequence of delayed disbursement of equitable share allocations from the national government is that counties are vulnerable to cash flow shortages, development projects are stalled, bills are pending and service delivery is interrupted.

The fiscal sustainability challenge is especially acute for counties that have sizable amounts of untapped economic potential. Lamu County is strategically placed as one of the new economic frontiers in Kenya, with its vast coastline resources, its rich tourism legacy and potential, its fisheries sector, its maritime economy potential, its renewable energy potential, and its infrastructure development project under the Lamu Port-South Sudan-Ethiopia-Transport Corridor. The county remains a strategic regional trade and logistics hub with the Lamu Port being operational, and the historic Lamu Old Town has been designated a World Heritage Site by the United Nations Educational, Scientific and Cultural Organization.

The blue economy also has become a key development opportunity for coastal counties. The Kenya National Bureau of Statistics (2023) further indicates that the fisheries and the blue economy in Kenya remains a key driver of employment, food security, tourism and export earnings. Lamu County has great potential in deep-sea fish, marine transportation, cultural and eco-tourism and maritime value chains. But potential much of this economic potential is not sufficiently linked to sustainable county revenue models.

Lamu County is still faced with structural and institutional barriers that hinder revenue mobilization. There is ongoing significant economic activity outside of formal revenue systems, compliance is inconsistent, revenue administration systems are under-digitized, and several revenue streams are underdeveloped. Limited infrastructure, investment priorities, land use issues, and institutional weaknesses further hinder the county's potential to maximize its economic assets for sustainable local revenue generation.

There is an increasing need for innovative and integrated resource mobilization strategies that can mobilize long-term economic value as counties are increasingly pressured to enhance their fiscal independence and reduce overreliance on transfers from the national government. Traditional forms of taxation can no longer alone be the means to sustainable revenue generation. Rather, county governments need to implement more comprehensive approaches that focus on economic diversification, investment facilitation, public sector reforms, online collection of revenues, public private partnerships, compliance, and value-chain development. The key challenge for Lamu County is not so much the lack of economic opportunities, but how to sustainable, inclusively and institutionally efficiently identify, leverage and monetize available opportunities strategically.

The revenue problems faced by county governments in Kenya

Kenya's devolved system of governance remains largely dependent on the financial ability of county governments to effectively mobilise and manage their own revenues. Despite the many accomplishments of devolution on local participation in governance, access to public services, in many areas, fiscal sustainability is one of the difficult challenges that faces county governments more than 10 years after devolved government was introduced.

The Commission on Revenue Allocation (2023) reports that the majority of county governments are still reliant on equitable share from the national government as the biggest share of their revenue, while own-source revenue accounts for a relatively small share of total county revenue in many jurisdictions. This reliance has put counties at significant operational risk especially when the National Treasury delays disbursement. In some cases, the failure to complete equitable share transfer has led to unpaid salaries, outstanding bills, failure to complete development projects, and disruption of services in the counties.

Counties have constitutional powers to raise local revenue, but there have been mixed results in many devolved units. The report of the Office of the Controller of Budget (2024) shows that a few counties have performed well in terms of own-source revenue but many counties have experienced recurring shortfalls compared to their annual targets. The counties of Nairobi, Mombasa, Kiambu, Nakuru and Narok are often among the best-performing counties in terms of local revenues because of a more diversified economic structure, urban advantages, tourism operations and more developed revenue administration system. But still, some of the counties having huge natural and economic potential are not performing well due to structural inefficiency and lack of economic commercialization.

A major constraint on the growth of county revenues is that revenue bases are small. A few traditional sources of revenue like single business permit, market fees, parking charges, land rates, cess collections, etc. are the important sources of revenue for many counties. The World Bank (2022) has noted that traditional local tax systems restrict sub-national governments' fiscal resilience and capacity to diversify their tax revenues for long-term development. Counties that are not well industrialised, have low urbanisation rates or high informal sector employment in Kenya tend to have a difficult time in diversifying their local revenues beyond traditional revenues. Also, revenue administration systems have been weak, which undermines the revenue performance of the counties. Revenue collection systems are still not fully automated, are not integrated and are prone to leakages, corruption, underreporting and inefficiency in many counties. In the case of devolved units, the Ethics and Anti-Corruption Commission (2021) reported that weak internal control, lack of automation and lack of accountability mechanisms are all factors that lead to revenue losses. Manual revenue systems amplify the potential for financial leakages, are less transparent, can be less effectively monitored in real time and provide weaker enforcement capacity.

Furthermore, poor compliance of businesses and taxpayers continues to impact on county revenue mobilization efforts. County taxation systems are seen as burdensome, inconsistent or not tied directly to improving services by many local businesses. The Kenya Private Sector Alliance (2022) identified several taxation issues, inconsistent charges, and poor stakeholder engagement as factors that have led to tensions between the county governments and parts of the private sector. But in several counties, tactics used to crack down on violators have also discouraged voluntary compliance and hurt the business climate.

Furthermore, pressure has mounted on counties to increase spending – while revenue growth is relatively limited – due to rapid urbanization and population growth. According to the Kenya National Bureau of Statistics (2019), the urban population in Kenya is steadily growing which puts pressure on the provision of healthcare, roads, refuse collection, water, markets and urban infrastructure. But in many counties, revenues have not kept up with the growth in service delivery responsibilities, leading to increased revenue shortfalls and unpaid bills.

Another major challenge is linked with the administration of land and property valuation systems. Despite the growth of urbanization and the corresponding rise in land values, property rates are one of the least tapped revenue streams that many counties have. The National Treasury of Kenya (2023) states that obsolete valuation rolls, poor land information systems, land ownership conflicts and inadequate land records remain a challenge for counties to maximise land-based revenue collection. In some counties, value lists have not been revised for years and in some cases have resulted in significant amounts of lost revenue and inequitable tax structures.

There is also a lack of institutional and human resources capacity that impacts on the fiscal performance of counties. In some devolved units, the technical capacity to forecast revenues, data analytics, financial planning and investment promotion and in management of digital systems has undermined the effectiveness of revenue enhancement initiatives. Building institutional capacity is crucial for better capacity in financial management, accountability and sustainable local revenue growth according to Council of Governors (2022).

Additionally, some of the counties including Lamu along the coast and frontier are beset with underdeveloped infrastructure, security issues on some sections, low level of commercialization of economic sectors and poor linkage of strategic investments in the local economic systems. Projects like the Lamu Port-South Sudan-Ethiopia-Transport Corridor could have a profound impact on regional economic activity, but enabling local revenues to be maximised calls for conscious policy coordination, investment facilitation, value-chain development and better local institutional readiness.

As a result, county governments are increasingly forced to re-consider traditional revenue mobilisation methods and think more creatively and broadly in their approach to mobilise revenues that can enhance fiscal sustainability. The future of sustainable county financing in Kenya will greatly rely on the capacity of devolved units to diversify revenue sources, modernise administration of revenue streams, strengthen governance structures, improve the confidence of the private sector and strategically unlock local economic potential in ways that foster inclusive and long-term development.

Lamu County has potential strategic resource mobilization opportunities.

Lamu County has huge untapped economic potential that can sustain its own economic revenue if managed in an integrated manner through institutional reform and investment promotion. The combination of the County's strategic position on the Indian Ocean coastline, the current national investment in infrastructure and the emerging opportunities of the blue economy make it one of the most promising frontier Counties in Kenya for long-term economic transformation.

The Lamu Port, part of the Lamu Port-South Sudan-Ethiopia-Transport Corridor, is one of the most important economic assets in the county. The intention for the corridor project was to make Kenya a prime regional trade & logistics hub between East and Central Africa. The first berths of Lamu Port are now operational, providing greater maritime connectivity and opportunities for logistics services, warehousing, trade facilitation, transport investments and industrial development, according to the Kenya Ports Authority (2023). Integrated in an effective way in the county planning processes, port related economic activities can be an important source of revenue generation for counties, via business licensing, land rates, trade permits, logistics levies and investment related revenue streams.

The blue economy, in addition to maritime trade, is one of the most promising areas for sustainable income generation in Lamu County. According to the Food and Agriculture Organization (2022), Kenya's fisheries sector contributes over two million lives to its fishing, processing, transport and value chains. Lamu's long coastline and marine ecosystem offer vast potential in marine transport, deep sea fishing, aquaculture, fish processing and sea-based tourism. Nevertheless, significant portion of the fisheries sector in the county is still low commercialised, poorly equipped with cold-chain facilities, low value addition and poorly organised through informal markets.

Improving fisheries value chains has the potential to significantly boost local revenues and employment and contribute to household incomes. Several counties, including Mombasa and Kilifi, have experimented with modernisation of fish landing sites, investments in fish processing and licence reforms, all of which are geared toward making it easier to collect revenues in the fisheries sector. Lamu has potential for similar interventions to enhance formalization of marine economic activities and increase revenue generation via permits, cess, export facilitation, and commercial fisheries investments.

Another important revenue opportunity for Lamu County is under-exploited, which includes tourism. The county is home to the historic Old Town of Lamu, which is a World Heritage Site due to its unique Swahili cultural heritage and its history. The Tourism Research Institute (2023) shows that the tourism industry in Kenya directly and indirectly through the hospitality, transport, trade and related industries added around 2.7 trillion Kenyan shillings to the economy. With the advent of cultural, eco, marine and heritage tourism and increase of foreign demand for coastal tourism, it still remains as a significant part of the sector.

Lamu's tourism industry, however, still has to grapple with infrastructure constraints, marketing constraints, security perception, insufficient investments in tourism facilities, and seasonal tourism flows. Building tourism facilities, developing cultural events, ensuring transport connectivity, fostering hospitality investments and promoting eco-tourism measures could contribute greatly to improving the revenue performance in the sector through tourism levies, business permits, accommodation fees and other economic activities in the local tourism value chains.

The County's land and property income also is underutilized. Land rates and property taxation is one of the most stable and sustainable forms of own-source revenue for devolved governments in the world as indicated by the National Treasury of Kenya (2023). But, significant inefficiencies still exist in many counties due to the lack of timely updates of valuation rolls, inadequate land records management, ownership disagreements, and fragmented digitization of land administration systems. In Lamu County, the opportunities for broadening the bases of property-based revenue collection are available due to the increasing urbanization in the emerging infrastructure corridors and investment zones, provided supported by modern valuation system, geospatial mapping and digitized land administration framework.

Another significant opportunity for diversifying income sources is in agriculture and the development of livestock production. Lamu is known as a tourism and maritime resources hub, but agriculture is also a major occupation for the people. The Kenya National Bureau of Statistics (2023) indicates that agriculture remains an important sector in the rural economy in Kenya as it generates food, employment, and trade. Infrastructure investments in irrigation, agribusiness value chains, livestock markets, and agro-processing would provide opportunities to foster local trade and promote the income of the county from market fees, produce cess, business permits, and agricultural trade.

The development of renewable energy is also a new opportunity in the county. In recent years, Kenya has emerged as a regional leader in renewables investments, specifically wind power, solar power and geothermal power. Due to the geographical nature of Luwulu, there are opportunities for renewable energy projects that could draw in private sector investment and stimulate further economic activity. As per the report of International Renewable Energy Agency (2022), renewable energy investments can help sustain the environment and create a local economic expansion through infrastructure development, job creation, and industrialization.

Importantly, the sustainable mobilisation of resources in Lamu County should not only be through increasing taxes. Overreliance on conventional methods of taxation can lead to a decline in investment and business and resident pushback. Rather, the county needs to work on diversifying their economy, formalizing economic activities, making the county more attractive to investors, establishing better governance structures and increasing economic productivity in the sectors.

Another significant opportunity of digital transformation is in the field of local revenue administration. Counties that have implemented an integrated digital revenue collection systems have credited higher efficiency, transparency, leakages reduction and compliance monitoring. Efficient and effective digitization of public finance management systems has a great impact on accountability and revenue performance in decentralized governance systems (World Bank 2021). In Lamu County, integrated e-revenue systems could have the effect of enhancing revenue collection information, minimising the risk of corruption, boosting taxpayers' information and enabling evidence-based financial planning.

The other key factor is the importance of enhanced PPPs and investment facilitation mechanisms. Finally, a strategic partnership between the county government, development partners, local communities and private investors can help mobilise much needed funding for tourism infrastructure, fisheries modernization, logistics development, renewable energy and industrial development. The United Nations Development Programme (2022) has reported that partnerships between governments and private sector actors are more and more necessary to mobilise sustainable development financing at local levels.

Finally, Lamu County will have to move from narrow and traditional revenue collection mechanisms towards a broader economic transformation strategy that encourages investment, productivity, commercialization and institutional efficiency for long-term fiscal sustainability. While the county has significant natural and strategic assets, turning these into sustainable revenue growth will require purposeful governance changes, strategic planning, institutional update and long-term economic insight.

Strategies for Local Revenue Growth Based on Evidence

Raising taxes or boosting enforcement efforts is not sufficient to ensure sustainable growth of local revenues. Counties and local governments with a greater emphasis on growing economic activity, strengthening governance systems, improving institutional efficiency and expanding the formal economic base have a stronger performance in terms of their fiscal capacity. Bird and Slack (2015) argue that a mix of efficient taxation, economic competitiveness, administrative capacity and public confidence in government institutions are key to successful local revenue mobilisation.

Integrated strategies that can simultaneously boost accountability, investment attractiveness, and compliance systems, and unlock existing economic potential will be required to generate sustainable revenue growth for Lamu County. If complemented with specific policy measures and institutional changes, the county's strategic location in Kenya's blue economy and regional trade can offer significant medium- to long-term fiscal opportunities.

Integrated administration and automation of digital revenues.

Another immediate opportunity for enhancing county revenue performance is to boost digital revenue administration systems. In many devolved units in Kenya, manual collection systems are still contributing to leakages, underreporting, delayed reconciliations, and poor enforcement. The Office of the Auditor-General (2023) identified weaknesses in manual revenue collection systems as one of the biggest accountability issues in the county governments.

Those counties with investments in integrated digital revenue systems have reported significant gains in efficiency and transparency. For example, in Makueni County and Kiambu County, the use of digital payment systems has led to better revenue monitoring and minimize opportunities for leakages due to cash transactions. The World Bank (2021) found that digitizing local revenue systems can enhance taxpayer compliance, provide audit trails, and provide real-time monitoring of revenue performance.

Digital transformation should encompass the following in Lamu County: integrated e-payment systems, automated licensing platforms, digital business registration databases, geospatial land mapping, Centralized and revenue management dashboards.
This would help to increase transparency, enhance forecasting accuracy, minimize corruption risk, and facilitate evidence-based fiscal planning.

Improving the Blue Economy and Fisheries Value Chains

One of the most strategic long-term revenue opportunities for Lamu County is the blue economy. The blue economy contributes to the national economic transformation agenda in Kenya through the fisheries, maritime transport, tourism, aquaculture and marine trade sectors, which have become increasingly important and are prioritised over time. Sustainable fisheries development plays a substantial role in coastal economies regarding jobs, export revenues, and local economic development (FAO 2022).

But the majority of Lamu's marine economic activities are informal and have not been value added. Exporting of fish and marine transport and small scale fisheries is not always done within the formal revenue structure of counties. The commercialisation potential within the sector could be significantly enhanced through investment in fish landing sites, fish cold storage and fish processing plants, and marine logistics infrastructure.

Further, continue to strengthen local livelihoods, fisheries cooperatives and market access mechanism will enhance livelihoods and performance of county revenue. Integrated blue economy approaches can significantly boost local economic resilience and the generation of government revenues, as has been seen in Seychelles, Mauritius and other countries.

Diversification and Development of the Cultural Economy of Tourism

Lamu County is still getting a significant part of its income from tourism which is still underdeveloped. The county has vast opportunities for growing the related economic activity of tourism because of its unique Swahili heritage, its coastal ecotone, its historical architecture and its cultural identity. The Tourism Research Institute (2023) indicates that coastal tourism continues to be one of the key markets of tourism in Kenya, especially in cultural heritage and eco-tourism. For Lamu County to benefit from tourism in terms of the revenues, it needs to look past the traditional methods of promoting tourism and create integrated tourism value chains that can boost local participation and retention of tourism expenditure within the county's economy. This includes: expanding eco-tourism investments, strengthening hospitality infrastructure, improving transport connectivity, promoting cultural festivals, enhancing marine tourism, and strengthening local creative industries.

Additionally, the county is already hosting the annual Lamu Cultural Festival, which is a testament to its cultural tourism potential. Growing these events and enhancing destination marketing and tourism infrastructure could have a significant impact on business, hospitality investments and the county's revenue collection.

Most importantly, good security arrangements and infrastructure development continue to be necessary to bring back the investors' confidence and visitors' perception in the area. The United Nations World Tourism Organization (2022) suggests that for any emerging destinations, infrastructure quality, brand and security stability are critical determinants of tourism growth.

Land Administration Reforms and Property Revenue Enhancement

International experience shows that property taxes are one of the most reliable and predictable sources of local government revenue. Kelly (2013) notes that land and property taxes can provide a sustainable revenue stream for decentralised government due to the immobility of land and its relative ease of identification in the formal administration.

This situation however, is not the same in Kenya, where many counties are still losing significant revenue as a result of the outmoded valuation rolls, the incompleteness of land records, and poor land administration systems. The investment zones, urban growth areas and infrastructure corridors in Lamu County present great opportunities for strengthening land-based revenue collection systems, provided institutional reforms are in place.

There are ways in which the county can boost its property revenue performance, which include: updating valuation rolls, digitizing land records, increasing the GIS capability, updating land ownership records, and combining property taxation to the physical planning systems.

A modern land administration system would not only help boost county revenues, it would also help foster investment security and facilitate efficient land planning and coordination of infrastructure development.

This area covers investment promotion and the establishment of public-private partnerships.
The capacity of counties to attract and retain productive investments is strongly correlated with their long-term growth in local revenues. The United Nations Conference on Trade and Development (2022) highlighted the importance of investment promotion as a means to boost local economic growth and jobs and increase taxable economic activity.

Lamu County has tremendous investment opportunity in: logistics, renewable energy, tourism infrastructure, fisheries processing, agribusiness, and maritime services.
But to be able to attract sustainable investments, a supportive policy environment is needed with the following characteristics: regulatory predictability, infrastructure development, efficient licensing systems, land access certainty and Mechanisms to protect investors

Public-private partnerships might also be used to help finance strategic infrastructure developments without putting undue pressure on county budgets. Joint efforts with private investors and development agencies could help us to modernize our infrastructure as well as get a larger and more diversified revenue base for the county in the longer term.

Improving compliance by building trust and good governance.

Revenue mobilisation is not just a technical issue, but also a governance issue. Taxpayer compliance is frequently related to trust in the effectiveness of government services, fairness, and accountability. Fjeldstad and Heggstad (2012) found that a perceived value in public services from tax revenues, transparency, and accountability in taxation increases citizens' willingness to pay taxes.

In many counties, resistance to the imposition of local taxes is associated with the belief that they are not getting good services, that there is corruption, or that there is a lack of financial accountability. To restore public trust in Lamu County, the following will be necessary: transparent use of revenue, participatory budgeting, regular public financial reporting, anti-corruption safeguards, and enhanced citizen participation.

Enforcement costs and taxpayer resistance can be substantially lowered and voluntary compliance can be very much enhanced by institutional accountability mechanisms.

Economic Diversification and Local Enterprise Development

Ultimately, sustainable growth in the revenues of the counties will require a broadening of the base of their economies, rather than just an increase in the amount of tax imposed on current businesses. Diversification of an economy also translates to fiscal resilience, as counties less exposed to shocks and fluctuations in one sector are more likely to be resilient.

Support for small business, agribusiness, fisheries cooperatives, tourism enterprises and youth entrepreneurship could considerably broaden the county's revenue base in the long term for Lamu County. Small and medium enterprises (SMEs) play a significant role in employment generation and resilience of local economy in developing economies as per the International Labour Organization (2021).

Access to finance, infrastructure, business incubation, market access and digital inclusion will support increased sustainable economic activity, formalisation and business growth in the counties and enhance livelihoods and strengthen sustainable county revenue performance over time.

Lessons from comparable jurisdictions:

Institutional reforms, digitisation, economic diversification and investment-focused governance are elements that have been employed together and have led to sustainable growth in local revenue in other counties in Kenya and other jurisdictions globally. Although some local economic situations vary from one region to another, the success stories offer valuable lessons to counties like Lamu that are looking to enhance fiscal sustainability without unduly burdening both citizens and businesses via over-taxation.

An outstanding lesson learnt from the successful counties in Kenya is the value of digital administration of incomes. Generally, Nairobi City County has been one of the top-performing counties in the country in the collection of Own Source Revenue (OSR) especially because it has a wide economic base and the revenue collection processes have been digitized. The Annual Report on County Own Source Revenue (COSR) (2024) by the Office of the Controller of Budget (OCB) indicates that Nairobi County still receives the highest percentage of COSR in the country, with the main revenue sources being the automation of parking systems, business permits administration, land rates administration, and integration of digital payment systems.

Likewise, Makueni County is nationally renowned as one of the counties to promote transparency and accountability in county financial management systems. The county implemented integrated revenue collection platforms and extended the participation of citizens, leading to an increase in trust and compliance. The Council of Governors (2022) has also noted that participatory governance and financial transparency have played a significant role in enhancing revenue performance and people's trust in devolved governance.

Narok County also has significant lessons to offer on strategic use of natural resources and tourism.

The county has an excellent income from tourism related activities of the Maasai Mara National Reserve since that time. The Commission on Revenue Allocation (2023) noted that counties with organized conservation and tourism management systems, particularly those oriented towards tourism, are more likely to gain sustainable local income from tourism and to boost local economic activity.

The Narok experience proves to be crucial for Lamu County in the sense of mobilizing natural and cultural resources into organized value chains that bring local benefit in a wide-spread manner. Lamu's tourism profile is not comparable to wildlife-based touristic destinations, but the historic heritage, coastal ecosystem and cultural identity are equally important in the case of fostering tourism-driven revenue generation through adequate infrastructure, destination branding and investment facilitation.

Another critical learning point comes from Mombasa County where the economy of the port, tourism and urban commerce has been progressively used to enhance the performance of the local revenue stream. The investments in digital parking systems, modifications of trade licenses and modernisation of infrastructure for the tourism industry have contributed to the efficiency in collecting revenues and to an increase in economic activity. The Mombasa case study shows the need to mainstream maritime economies in wider county revenue planning processes.

On the international level, Rwanda is considered to be a good example when it comes to local government modernization and digital governance reforms. The World Bank (2022) noted that Rwanda's investment in e-governance systems has led to great efficiency of public sector, minimized corruption risks, and boosted the administration of local revenues. Digitisation facilitated the local government in enhancing taxpayer registration, automating billing and enhancing monitoring of public financial flows.

The Rwandan example is a good point of departure to show the power of technology-supported governance to increase fiscal efficiency and accountability in Lamu County. Digital systems minimize human discretion in collecting revenues, improve data management and compliance monitoring.

In Seychelles, there are lessons to be learned for blue economy governance in coastal and island economies. Seychelles has strategically invested in marine conservation, fisheries governance, sustainable tourism and ocean based economic planning as part of its wider economic development planning. The country has achieved a good success in integrating the blue economy in sustainable economic growth as well as balancing environmental sustainability and economic revenues (United Nations Development Programme, 2022).

The Seychelles experience also highlights the need to incorporate environmental sustainability in the strategies for mobilising resources in the long term in Lamu County. There is a need to establish sustainable management frameworks that can sustain the ecological value of marine ecosystems, while also providing economic productivity and local revenue generation in support of fisheries resources and tourism assets.

A further lesson from such jurisdictions is that investment facilitation and economic formalisation are important. Counties and local governments with a proactive approach to private sector development perform better in the longer run than those that don't, due to the fact that economic growth enlarges the tax base naturally. Streamlined licensing systems, investments in infrastructure and predictable regulatory environments are some of the factors that substantially increase the local investment attractiveness and business formalisation (International Finance Corporation, 2021).

Conversely, regions with a high level of bureaucracy, unpredictable tax regimes, poor infrastructure and governance instability tend to be less enticing to productive investments that could drive sustainable growth in revenue. As is relevant for the frontier counties like Lamu, strategic infrastructure investments alone will not necessarily lead to a transformation of their economies, but require specific local investment integration policies.

The experiences of successful jurisdictions also show that the growth of revenues cannot only be sought through aggressive tax measures. An overly high level of taxation, with no corresponding increase in economic growth and improvement in service delivery can deter investments, push people into the informal sector and undermine taxpayer compliance. Bahl and Bird (2018) argue that sustainable local government financing requires revenue mobilization strategies to be linked to the broader economic development goals, with well-formed accountable governance structures. In sum, the lessons from similar counties and international examples suggest that the growth of sustainable local revenues requires a mix of: strong institutional capacity, digital transformation, investment-oriented governance, economic diversification, transparent financial management, public trust, and efficient use of local economic resources.

These lessons highlight the importance of resource mobilization based on a long-term, integrated strategy that is not just about short-term revenue collection but about a resilient and inclusive local economy that can support sustainable development in the future for Lamu County.

Initiatives to pursue for sustainable revenue growth

Lamu County has a huge economic potential but this will all come down to the county's capacity to transform strategic opportunities into concrete, coordinated and institutionally sustainable action. Poor implementation structures, lack of institutional coordination, a lack of political commitment and weak stakeholder engagement are common reasons for the failure of revenue mobilization reforms, rather than a lack of policy ideas. The World Bank (2021) identifies that good public sector reforms depend on good governance systems, administrative capability, accountability structures and implementation consistency over the long term.

The process of implementing should start with preparing a detailed and evidence-based resource mobilisation framework that is in line with the county's long-term development plan for Lamu County. A framework should explicitly specify which are the key economic sectors, revenue growth objectives, institutional roles, implementation time horizons, investment prospects, and performance monitoring indicators. The Commission on Revenue Allocation (2023) finds that counties with revenue planning that is part of a larger economic development plan tend to be better resourced to achieve sustainable fiscal results.

Institutional strengthening and governance reforms

One of the key factors in good revenue mobilization is institutional capacity. Many counties are still limited in technical capacity to improve revenue from areas like revenue forecasting, financial analysis, digital systems management, land administration and investment facilitation. The Council of Governors (2022) also notes that enhancing the capacity of county institutions is critical for better public financial management and for the counties to become fiscally sustainable.

Lamu County should hence focus on: Capacity building of revenue administration staff, modernisation of financial management systems, enhancing internal audit processes, and improving the coordination between the departments.

Simultaneously, there is a need to enhance governance and accountability mechanisms. Public confidence is an important factor in enhancing willingness to pay and in minimising opposition to local taxation. Fjeldstad and Heggstad (2012) found that transparency in governance systems has a significant positive impact to taxpayer confidence and willingness to abide by local revenue arrangements.

The county should make it a habit to ensure: regular public announcements of revenues performance, citizen participation in budgeting processes, transparent procurement systems, and anti-corruption safeguards.

Reforms to accountability systems would not only increase public trust but would also minimize leakages and more efficiently utilize resources.

Accelerating Digital Transformation

The use of digital transformation should continue to be a focal point of revenue generation in Lamu County. Integrated digital systems help to increase transparency, minimise revenue leakage opportunities, create convenience for taxpayers and enable evidence-based financial planning. The

International Monetary Fund (2023) notes that the use of digital public financial management systems tends to lead to better efficiency in revenue administration and expenditure control.
Lamu County should focus on: integrated e-revenue systems, mobile payment integration, automated licensing platforms, Geospatial land information systems, and Centralized and taxpayer databases.

In Kenya, especially, with high penetration of the mobile money service, a digital payment platform can be a significant step towards compliance, with a reduced reliance on cash based collection systems that are prone to leakages and inefficiencies.
Digital systems should also be linked to county business registration systems, tourism systems, fisheries permits, and land administration systems to enable a complete county revenue system with real-time data analytics and monitoring systems.

Investment facilitation and economic integration.

Deliberate integration policies are needed in order to bring local economic transformation from large infrastructure projects. The development process that accompanies the Lamu Port-South Sudan-Ethiopia-Transport Corridor brings significant potential for local businesses to develop, logistics services, expansion of trade and industrialization. To reap these benefits however, proactive strategies at county level are required to facilitate investment.

The United Nations Conference on Trade and Development (2022) states that local governments with predictable regulatory frameworks and effective systems for supporting investors offer greater potential for sustainable private sector investment.
Lamu County must thus enhance: investment promotion frameworks, one-stop services for investors facilitation, infrastructure planning coordination, and enterprise integration programs at the local level.

Particular care must be taken to ensure that local communities and businesses are included in new economic opportunities associated with maritime trade, tourism, logistics, fisheries and infrastructure.

Enhancing Sector-Specific Economic Value Chains

To sustain the growth in revenue, it is crucial to increase the productive activity of the economy in various areas. Counties should not only go on tax; but prioritize improving economic value chains that can yield jobs and commercialization, investment and trade.

Priority sectors in Lamu County are:

- fisheries and blue economy activities,
- tourism and hospitality,
- agriculture and agribusiness,

- logistic and transport services,
- renewable energy,
- and cultural industries.

The Food and Agriculture Organization (FAO, 2022) argues that investments in fisheries value chains have a huge impact on enhancing productivity, export capacity, and the economic involvement of local communities in coastal economies. Likewise, the Tourism Research Institute (2023) states that tourism diversification helps boost economic resilience and intensifies the local retention of tourist expenditure in destination economies.

Strengthening value chains for Lamu County should involve:

The modernization of fish landing sites is required, which includes the following: developing and expanding cold-chain infrastructure, tourism infrastructure improvement, support of local tourism business and businesses, agribusiness market development, and promotion of local manufacturing and processing activities.

Over time, these would diversify the county's economy and create ongoing revenue opportunities.

Land and Urban Development Planning

With the increasing growth in infrastructure and urbanisation in the county, good land administration and urban planning will be vital to sustainable revenue generation. In efficient Property Taxation Systems, the tax is amongst the most reliable and stable sources of local government financing in the world (Kelly, 2013).

In Lamu County, it’s priority to: updating valuation rolls, digitizing land records, improving physical planning systems, enhancing land ownership documents, and the use of geospatial technologies in land administration.

Also, the right urban planning is needed to avoid the development of informal settlements, conflicts of land use and uncontrolled development patterns leading to a diminished potential for long term revenues and infrastructure efficiency.

Public Participation and Social Inclusion

RMR reforms are more likely to be sustainable when communities are engaged in governance processes and have an understanding of the benefits of the RMR changes. Tax resistance is often associated with feelings of being excluded, treated unfairly or poor service delivery results in many jurisdictions.

The United Nations Development Programme (2021) has noted that inclusive governance systems foster public trust, bolster policy legitimacy and increase sustainability of development.

It is, therefore, recommended that Lamu County enhance: stakeholder engagement forums, participatory budgeting, taxpayer education programs, and community feedback mechanisms. Furthermore, deliberate effort should be made to meaningfully engage youth, women, small-scale entrepreneurs, fishermen and other marginalised groups in local economic development process.

Monitoring, evaluation and long-term sustainability

Continuous learning and monitoring of resources and policy changes are necessary for sustainable resource mobilization. Counties that have been good at improving their revenue performance tend to regularly analyze the effectiveness of policies, monitor changes in the economy and make adjustments when needed.

The County of Lamu should create: revenue performance dashboards, sector monitoring indicators, compliance tracking systems, and periodical policy review mechanisms.

Rather than focus on short-term revenue goals, performance measurement should evaluate other factors, including: economic growth, business formalization, investment inflows, employment creation, taxpayer satisfaction, and improvements in service delivery.

Finally, Lamu County's sustainable local revenue growth will need to incorporate a transformation of local economic planning and active (as opposed to reactive) revenue collection. The strategic assets of the county offer significant opportunities for fiscal growth, but their realization requires good governance, institutional modernization, planning that fosters investment growth and inclusive development strategies that will create a resilient local economy in the future.

Conclusion

The viability of Kenya's devolved governance model will come to rely more heavily on the ability of county governments to boost their internally generated revenues and minimize overreliance on equitable share transfers from the national government. Despite the successes of devolution in enhancing local participation in governance and improving access to public services in many areas, financial constraints have remained an obstacle to counties in effectively funding development priorities, maintaining infrastructure and ensuring service delivery. Despite an increase in expenditure commitments and the growing demand for decentralized services, many counties continue to experience substantial shortfalls in their own-source revenue as per the Office of the Controller of Budget (2024).

Lamu County is a unique opportunity in Kenya's devolved governance system due to its strategic economic assets, such as the maritime environment and potential, fishing and aquaculture, tourism heritage, emerging infrastructure investments, and the growing opportunities in the blue economy. The Lamu Port-South Sudan-Ethiopia-Transport Corridor project has also been ongoing, adding to the county's potential as a regional hub for trade and logistics, which could attract investment, trade, and industrial activity. But the county has yet to be able to fully realize these opportunities in sustainable local revenue performance because of structural, institutional and administrative issues.

As illustrated in the analysis in this article, sustainable increases in local revenue can only be attained by a combination of taxation and revenue enforcement and cannot be solely achieved by pursuing the latter. Over-dependence on traditional tax instruments in the absence of growth of productive economic activity frequently leads to low compliance, investor resistance and financial instability of counties. Rather, sustainable revenue generation hinges on the broader economic transformation strategies that can increase investment, enhance governance structures, promote institutional efficiency and broaden the formal economic base.

One of the most immediate and practical opportunities of improving revenue efficiency in Lamu County is through Digital transformation. Revenue leakages can be reduced significantly, transparency can be increased, compliance monitoring can be strengthened and financial planning can be improved if revenue systems are integrated, licensing processes are automated, geospatial land administration technologies are used and centralized taxpayer databases are established. Likewise, significant investments in fisheries modernization, tourism diversification, renewable energy, agribusiness value chains, and maritime commerce could have a profound impact on diversifying the county's economy and creating sustainable long-term revenue streams.

The study also confirms the continued importance of the quality of governance for effective resource mobilization. Taxpayer compliance and investment confidence are heavily driven by public trust, institutional accountability, policy consistency and citizen participation. In general, counties with predictable regulatory environments and transparent use of public resources have a more favorable ability to attract private sector investment and to maintain fiscal reforms over the long-term.

Counties like Makueni County, Narok County and Mombasa County, as well as Rwanda and Seychelles, show that it is possible to have sustainable growth in local revenues if governments embed digital governance, investment facilitation, economic diversification, and institutional modernization within long-term development planning agendas.

Finally, to ensure the long-term fiscal sustainability of Lamu County, it will be essential to strategically utilise existing economic opportunities and to bolster governance systems and institutional resilience. Sustainable resource mobilization can therefore not only be interpreted as a function of revenue collection but also as an economic development strategy which seeks to create a productive, inclusive and financially resilient local economy that can contribute to long term development and better living standards for the local people.

Strategic Recommendations

Improve the Digital Revenue Administration Systems

Lamu County needs to speed up the process of digitization of revenue administration systems with the use of integrated e-revenue platforms, automated licensing systems, mobile payment integration and centralized taxpayer databases. The World Bank (2021) says that digital public financial management systems promote transparency, help prevent revenue leakage and aid compliance monitoring. Complete automation of county revenue streams would increase efficiency, bolster accountability and aid evidence-based fiscal planning.

Commercialise and Modernise the Blue Economy

The county should focus on organized commercialization of fisheries and other ocean economy activities by investing in fish landing centres, cold chain facilities, fish processing plants, and fish farming infrastructure. Strengthening fisheries cooperatives, fishery licensing and marine value chains would boost local income and at the same time enhance sustainable sources of income for counties. The blue economy should be a key element of the county's long-term sustainability plan, particularly in regard to its financial sustainability in a strategic coastal location.

Develop Tourism and Cultural Economy diversification

To maximise the opportunities of tourism related revenues, Luamu County should build its tourism infrastructure, brand the county as a tourist destination, develop cultural heritage preservation and invest in eco-tourism. Growth in cultural festivals, hospitality investments, marine tourism activities and transport connectivity would drive growth in local businesses and allow for tourism taxing to boost revenue collection through tourism levies, permits and commercial activity. Security coordination and infrastructure upgrading are also needed to boost investor confidence and that of visitors.

Improve land administration and property revenue systems

The county needs to modernize land administration systems by upgrading land records to digital maps, updating valuation rolls, adopting geospatial mapping technologies, and improve physical planning frameworks. Although taxing property is one of the most predictable streams of local government revenues in the world, many counties still continue to cede significant amounts of revenue to the community as a result of antiquated valuation mechanisms and ineffective land management institutions. Better land administration would yield better collections of revenues and would contribute to orderly urban development and provide investment security.

Enhance Investment Promotion and Public-Private Partnerships

Lamu County needs to develop more robust investment facilitation structures that can mobilize private sector investment in the fields of tourism and logistics, fisheries, renewable energy, agribusiness and maritime trade. Predictable regulatory environments, as well as efficient investor support systems, play a large role in enhancing investment inflows, according to the United

Nations Conference on Trade and Development (2022). P3 should also be extended to assist in funding infrastructure and modernizing sectors, and not put too much strain on the county's purse.

Improve Governance, Transparency and Public Trust

Good governance and citizen trust in county institutions are essential to sustainable revenue mobilization. The county government should enhance transparency by more frequent public financial reporting, participatory budgeting, anti-corruption mechanisms, and citizen engagement mechanisms. Fjeldstad and Heggstad (2012) find that there is a positive link between voluntary taxpayer compliance and individuals' feeling that taxpayer money is effectively used to produce public value.

Encourage Economic Diversification and Local Enterprise Development

In order for long term fiscal sustainability to be achieved, they must increase productive economic activity instead of over-taxing existing businesses. Lamu County should thus foster Small and Medium Enterprises, Agribusiness Development, Youth Entrepreneurship, Fisheries Cooperatives and Local Manufacturing Projects, that can help in diversifying the economic base of the County. The investments in enterprise development, business incubation and market access would lead to a gradual formalization of economic activity and a more sustainable revenue growth.

Integrate Monitoring, Evaluation and Policy Coordination into institutions

The county should have well-designed monitoring and evaluation mechanisms to monitor revenue performance, growth of investments, the compliance trend and economic development in the different sectors. Revenue enhancement strategies need to be continually monitored and revised as new economic realities and results emerge. Increased coordination of activities among the county departments, development partners and private sector roles would further enhance the effectiveness of the policies and long-term financial sustainability.

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