Why Municipalities are the Game Changer for Revenue Generation

As Kenya deepens its devolution journey, one truth continues to emerge: counties cannot sustainably finance development through their equitable share of nationally raised revenue alone. Rising demand for public services, rapid urbanization, expanding infrastructure needs and increasing expectations from citizens require counties to strengthen their own-source revenue. One of the most underutilized opportunities for achieving this lies in Kenya's cities and municipalities.

Municipalities are not merely administrative units. They are the engines of local economic growth: hubs where businesses are established, trade flourishes, land values appreciate, investments are attracted and the service economy expands. When effectively governed, municipalities transform urban growth into predictable and sustainable local revenue. When poorly managed, they become missed opportunities, even in areas with significant economic potential.

Kenya's urban landscape is undergoing a profound transformation. Small towns are rapidly evolving into commercial centres, peri-urban settlements are expanding and economic activity is increasingly concentrating around urban areas. This transformation should naturally translate into higher own-source revenue through property rates, single business permits, parking fees, market charges, development approvals and user charges for municipal services. Yet, many counties continue to underperform in revenue collection. The challenge is often not the absence of economic potential, but weaknesses in municipal governance and administration.

Lamu County provides a compelling example of how municipalities can become effective revenue multipliers. Over the past decade, municipalities such as Lamu have grown into vibrant residential and commercial centres. Rather than allowing urban expansion to occur in an unplanned manner, the county invested in structured municipal governance, integrated urban planning, strengthened institutional management and modern revenue administration systems.

One of Lamu County's most significant reforms was the delegation of revenue collection functions to Lamu Municipality. This decentralization brought revenue administration closer to taxpayers, improving efficiency while simplifying compliance for residents and businesses. Property owners can pay rates more conveniently, traders obtain permits through streamlined processes, and enforcement has become more transparent and predictable. The outcome has been sustained growth in own-source revenue without increasing tax rates.

The results speak for themselves. Revenue collected by Lamu Municipality increased from KSh 22.3 million in Financial Year 2021/22 to KSh 53.9 million in Financial Year 2024/25—more than doubling within four years following the delegation of revenue collection responsibilities.

Urban planning has equally been central to this success. Growth in residential estates, commercial developments, logistics facilities, and other investments diversified the municipality's revenue base, reducing dependence on any single economic sector. Lamu demonstrates that municipalities achieve stronger financial performance when urbanization is actively planned rather than merely accommodated.

Another critical lesson is the importance of institutional capacity. Revenue enhancement depends on accurate property databases, updated valuation rolls, skilled municipal staff, efficient digital systems and consistent enforcement. Where these systems are weak, counties lose substantial revenue—not because citizens are unwilling to pay, but because governments lack the institutional capacity to assess, bill and collect revenue efficiently and fairly.

Lamu's experience reinforces a broader national lesson. Strengthening municipalities is not merely an urban governance agenda—it is an economic imperative for Kenya's devolved system of government. Counties seeking to enhance own-source revenue should prioritize several reforms.

First, they should digitize revenue management systems to reduce leakages, improve data integrity, enhance efficiency and strengthen taxpayer confidence. Second, counties should regularly update valuation rolls while ensuring transparency, public participation, and fairness in property valuation. Third, municipalities must move beyond passive administration and actively promote local economic development by attracting investment, facilitating business growth and supporting enterprise development. Finally, counties should strengthen municipal boards and management teams to provide effective governance, accountability and professional oversight.

Equally important, counties must demonstrate to residents that the revenue collected translates into visible improvements in service delivery. Citizens are more willing to comply with tax obligations when they can see tangible investments in roads, markets, drainage systems, street lighting, waste management, public spaces and other municipal services. Revenue collection ultimately rests on a social contract built on trust, accountability, and responsive governance.

Kenya's path towards financially resilient counties will not be found solely in increased national transfers or higher taxes. It will be built through vibrant, well-planned, professionally managed municipalities that enhance own-source revenue and convert urban growth into sustainable local prosperity and economic transformation.

Written by Mary Mwiti, EBS - Chief Executive Officer, Council of Governors.

https://www.the-star.co.ke/opinion/star-blogs/2026-07-21-mwiti-why-municipalities-are-the-game-changer-for-revenue-generation