
**OPTIMAL TAXATION POLICIES AND ELECTRONIC GOVERNMENT
PROCUREMENT SYSTEM (EGPS) MIGRATION ON PUBLIC
FINANCE IN KENYA**

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Article Received: 06 March 2026, Article Revised: 26 March 2026, Published on: 16 April 2026

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DOI: <https://doi-doi.org/101555/ijarp.6789>

ABSTRACT

This paper will address the principles of taxation, the merits and demerits of the progressive and regressive tax systems, and the benefits and drawbacks of moving away with Electronic Government Procurement Systems (EGPS) from the manual one in Kenya. The principles of Equity, Efficiency, and Simplicity form the foundation of the study since they are the base tenets of evaluating the effectiveness of a tax regime. The systematic review and comparative policy analysis methodology was adopted to rely on canonical material about public economics and the current policy assessments. The results demonstrate that there is a natural trade-off between equity and efficiency in progressive taxation which requires complicated design decisions in the quest of optimal taxation. More so, the analysis of tax regime highlights the redistribution effects of consumption-oriented, retrogressive taxes. As the Kenyan EGPS analysis indicates, it can be a more transparent, accountable, and efficient system of spending the state funds, which opens it to the possibility of becoming the one that meets the constitutional requirement to have a system that is cost-effective. Nevertheless, application is greatly hindered by such obstacles as resistance on the part of established interests, capacity inequalities, and legislative inertia, which the Public Choice Theory foresaw. The paper concludes that the best policy to employ in public finance is one that is holistic: a policy that balances both the best tax regime and sound digital mechanisms to curb rent-seeking behaviour and enhance value-for-money in state expenditure.

INTRODUCTION

The essential basis of the public finance is taxation the mandatory transfer of resources between the private and the public sector to finance the basic public goods and services. The

design of this resource transfer is important in a modern, democratic welfare state because it determines both economic incentives and resource allocation and social equity. The two major objectives of the paper are (1) to explain the concept of principles of taxation: Equity, Efficiency, and Simplicity with a practical aspect in the form of the optimal taxation in the structure of the government expenditure, and complexities involved in the inter-government relations; and (2) to review and analyse the economic and social factors related to the progressive taxation and regressive taxation, culminating with an analysis of the strong economic reasons behind Kenya to undertake the shift to Electronic Government Procurement System (EGPS).

The main point here is that although theoretical economic concepts give a clear roadmap on how to achieve proper taxation and government policy, its implementation is incredibly complex due to the inevitable equity efficiency trade-off, the existence of government failure, and political motives, and thus creative solutions, such as digital governance (EGPS) are needed to achieve the best social welfare. The paper will contrast and compare concepts of tax incidence and optimal policy design, the controversy on the regressive nature of indirect taxes and prove the causality of poor procurement systems and leakage of national resources which the EGPS supposedly meant to rectify.

Literature Review

Historical Perspective on Previous Research

The lasting principles of good taxation were originally stated by Adam Smith in *The Wealth of Nations* (1776) creating the four canons of taxation equity, certainty, convenience, and economy. These have been summed up in the three fundamental principles of modern public economics as the Equity, Efficiency, and Simplicity.

Equity: This would typically be considered in two aspects: Horizontal Equity (at the same level of ability to pay, have to pay exactly the same amount of tax) and Vertical Equity (when one entity has a higher ability to pay, they should be made to pay more).

Efficiency: A tax is efficient when it maximizes the deadweight loss or excess burden- the loss of economic activity which may take place when a tax alters behaviour (e.g., decreasing labour supply or savings). The issue of Ramsey rule and the theory of optimal taxation is to develop a tax structure that will result in the minimum possible deadweight loss and the required revenue objective.

Simplicity: The tax system ought to be not only simple to the government to administer (low administrative costs) but also simple to the taxpayer to comprehend and follow (low compliance costs).

What is the Current Knowledge on the Subject.

It is indicated in the literature on optimal taxation that the following remains a challenging decision: Optimal equity (where taxes are considerably progressive) can be obtained at the expense of efficiency by skewing the work and investment incentives. This is what inherits the equity-efficient trade-off. Many contemporary economists tend to support a broad-based, low-rate economy to reduce the distortions, commonly accompanied by selective transfers to control the equity issue.

When it comes to tax systems, progressive taxes (such as income tax, in which the average rate of tax rises with income) are perceived as vertically fair, and regressive taxes (such as sales or consumption taxes, which extract a higher proportion of income out of the poor) are seen as actually increasing inequality. Indirect taxes however tend to provide a more stable source of revenue to governments.

Digital governance, as applied to E-procurement is referred to, has been pointed out in the literature as having the potential to fight systemic corruption and incompetence in government expenditure, which in Kenya has been seen to represent a good share of government income. EGPS helps to have an electronic audit trail, standardization, and accessibility to tenders, which enhance competition and transparency. Other digital reforms in Kenya have had their feet put in the water by the Integrated Financial Management Information System (IFMIS), providing an illustrative example of what issues to expect, such as opposition to change, capacity, problematic legal framework, etc.

METHODOLOGY

This academic paper follows a Systematic Literature Review and Comparative Policy Analysis as the methodology. This is done to bring together the classical theories of taxation and the existing policy implementation issues in the backdrop of a developing economy (Kenya).

Selection and Inclusion Criterion.

The sources that the literature review of this paper was based on are two:

Canonical Public Economics Texts: Inclusion criteria were based on texts of established authorities on Public Finance (e.g., Stiglitz and Gruber) which give theoretical grounds to

such principles of taxation, and optimal taxation and the economic justification of government intervention.

Modern Policy Sources and Literature: The inclusion criteria were defined by current and quality research (e.g., peer-reviewed journals, policy think-tank papers, government reports) related to the EGPS implementation in Kenya, comparative taxation, and use of economic theory in developing country financial management processes.

Elaborate on the Selection and Inclusion Process.

The search was thematic, using terms like principles of taxation, optimal taxation theory, progressive vs regressive tax incidence, and Kenya e-government procurement system the rationale and the challenges in the search. The articles were chosen due to their explicitness concerning the two major questions of the paper. This stringent screening is what makes the arguments relying on the established theory as well as evidence-based policy analysis.

Reporting Results

The analysis of the selected literature and policy texts have led to two overall themes of results the design and the impacts of the tax system and the motivation and actual implications of the EGPS project. The best tax design: the Design stretch past progressivity.

Optimal Tax Theory can guide the pursuit of a perfect tax system, which will maximize social welfare at a minimum deadweight loss which can be created by imposing distorting taxes on consumers (Fischer).

In Support of State Expenditure and EGPS Reform.

EGPS can not only improve the quality of financial services done to and by the government (e.g. by providing defense and infrastructure) but also perform the task of redistribution and economic stabilization.

Theme 1: Comparison of Progressive and Regressive systems of Tax.

Progressive Taxes (e.g., Income Tax): It concurs with one of the vertical equity principles that (the higher the base) the higher the tax rate. In the case of the US, the federal income tax is progressive.

Positive Results: Cut down the income inequality drastically and will be applied in stabilizing the economy in cycles.

Negative Results: Would probably result in greater losses to the deadweight by scaring labour supply, human capital supply and savings by rising marginal rates. The avoidance

strategies of taxation may also be shaped towards the rich people and businesses and this is what makes one wonder whether there is any progressivity there at all.

Regressive Taxes (ex: Sales /Consumption /VAT /GST): It is an indirect consumption tax and it is of the same rate across all levels of income.

Good Profile: Stable Revenue Sources not quite vulnerable with the economic fluctuations. They are also very handy to administer.

Negative Results: Are literally unfair (regressive), and impose a higher burden on the low-income households who have a higher proportion of income spent on things to consume, such as food, cooking gas and transport. This kind of financial burden may enhance income and wealth disparity.

Theme 2: The Implementation of EGPS in Kenya: Rational and Problems.

The Government of Kenya is currently shifting its processes of public contracting from an old-fashioned manual system to Electronic Government Procurement System (EGPS). This is a national strategy shift to e-Government, which is meant to institutionalize good governance, financial effectiveness, and adherence to the core tenets of the public procurement (National Treasury, 2025). This article has presented a strong case of the reasons why this move should be done, the practical advantages of EGPS and the dire shortcomings of the previous manual system.

Negative effects of Manual Procurement Versus EGPS.

The constraints of the manual paper-based procurement system were the literal motivation of the present-day reform. The system had a number of structural and functional drawbacks inherent in it:

Risks of Corruption and a Weak Control: There was lack of transparency, a weak exposure to evaluation and decision-making and therefore prone to bid rigging, insider dealing and fraud (PPOA, 2011). Without a centralized piece of digital record, it was not easy to identify or establish malpractice (Kissflow, n.d.).

Time Consuming and Labor Intensive: It entailed the use of physical processes that consumed a lot of paperwork processes such as printing, distributing, filing and getting several manual signatures. This left procurement processes with stretched man-power hours that were in excessively slow, leading to wastage of critical time and therefore led to the

delay of important government projects (MavenVista Technologies, n.d.; Planergy Software, n.d.).

Ineffective and expensive Record keeping: Manual records needed an excessive number of staff and space, staff who were taking up a lot of resources by the way of physical sitting and storage area, file clerks, and managing archives. Paperwork could also be lost, misplaced or damaged which made it difficult to audit and causing losses in institutional memory (MavenVista Technologies, n.d.).

Limited Competition and Supplier Access: Suppliers (excluding the major cities) had to travel physically to place a bid, which restricted the participation and concentrated an opportunity to a smaller, well-positioned group (PPOA, 2011).

Inconsistent Purchasing: Suppliers relied on insiders for information regarding other competitors and retracted files for corrections. A nonstandardized digital platform was also a factor that made various procuring entities approach procedures differently, resulting in biased decision-making and a constant disagreement regarding whether the process was fair or unfair (Kissflow, n.d.).

Based on these drawbacks, the interest in the implementation of EGPS underscores the necessity to strengthen integrity and efficiency of state expenditure. The manual system was found to be incomplete to satisfy the current transparency and the best value of money requirements (The Constitution of Kenya, 2010, Art. 227; Kiptoo, 2025).

Fighting Corruption and promoting Integrity: The manual system being full of physical contacts and paperwork provided the opportunity to cheat, and was prone to tempering, with people conspiring and playing with tender documents (PPOA, 2011). Auditing revealed numerous cases where physical extractions of documents were discovered, done with intention to give other competitors an unfair chance. EGPS also presents an immutable digital audit trail, which automates the processes, and limits human discretion, lowering chances of corruption, and increases trust by people (Makua, 2014; National Treasury, 2025).

For Improving Operational Efficiency and Cost-Effectiveness: The paper cycle had a notorious reputation of being slow, costly, and time-consuming (Planergy Software, n.d.). EGPS will probably considerably reduce the time of the procurement cycle, eradicate the

expenses linked to the paper, printing and physical stores, and eventually create more advantages on the funds of the populace (About eGP, n.d.; KLRC, 2025).

Enhancing Transparency and Accountability: Contemporary state finance requires the live publicity in the way of expenditure of tax revenues. The EGPS provides a means of faster procurement by justifying procurement and enabling the online publication of tender documents, evaluation criteria, and contract awards, which helps an oversight body and a citizen to monitor expenditure by taking into account the legal requirement of openness (About eGP, n.d.; KURA, 2025).

Meeting Digital Governance Standards: The initiative falls under the larger national agenda of using the Information and Communication Technology (ICT) to modernize state institutions and enhance the speed and quality of service delivery in all sectors (Makua, 2014). EGPS will result in the savings of time in the procurement cycles and incurring costs of transactions (e.g., printing, distribution), transparency and accountability. It creates an electronic audit trail, enable standard notices and award of contracts to be published online and remove manual approval process within the company. The national treasury projected that the system would save the government up to 10% of the amount that can be procured which is in millions of shillings, money that can be channelled to more important areas.

Institutional and Compliance Hurdles: It has been debunked that the system would solve all the inefficiencies on its own and without legal challenges. The adoption of the EGPS by Kenya in response to the Public Procurement and Asset Disposal Act (PPAD Act, 2015) is a reform initiative meant to address the constitutional mandate of having a transparent, fair, competitive, and cost-effective public procurement system (Article 227).

Resistance to Change:

Top-level management resistance (absence of commitments) and political interference has also been named as resulting in an extremely stumbling block which may result in a permissive procurement environment that continues to create fraud. This is in line with the ideas of Public Choice Theory in which actors (politicians, bureaucrats) act in their own interest (i.e., to retain discretionary power) with respect to social well-being.

Capacity and infrastructure coup Gap: There have been concerns on inadequate supplier readiness, non-existent end user readiness, insufficient IT infrastructure as well as network problems particularly in rural locales, which hinder effective usage.

DISCUSSING FINDINGS

Factors that Affect/Predict Policy Making (Taxation)

The equity-efficiency trade-off is the most important determinant of the choice of tax system. As in many developing countries, policymakers in Kenya have been more dependent on consumption-based taxes (such as VAT/GST). This dependence is motivated by the relative simplicity and stability of consumption taxes, which are more readily collectible when economies have large informal sectors and have high rates of income tax non-compliance.

Background as it relates to the literature review: It is well-known in the literature that while a progressive income tax (a tax that is vertically equitable) will reduce inequality, it will increase the deadweight loss and will encourage tax avoidance, which in turn reduces economic efficiency. However, consumption taxes being regressive violates the principle of vertical equity directly and fulfils the principle of efficiency by being less distortionary.

Justifications for the Results

The tax results are most explicable by the theory of optimal taxation, which states that no tax is perfect. As a result, governments employ a mixed regime that combines the progressive nature of income taxes and the stability and relative efficiency of indirect taxes, and frequently employ targeted social spending (e.g., subsidies on basic goods) in order to reduce the regressive nature of consumption taxes.

Barriers and Factors Affecting/Influencing Policy Making (EGPS)

The EGPS policy is intended to remedy an instance of market failure and government failure. High information asymmetry existed in the manual procurement system, which resulted in moral hazard (risky or corrupt behaviour of public officials) or rent-seeking behaviour.

Characterize Findings by Themes: Both the barriers to EGPS implementation are primarily institutional/political and capacity/technological.

Institutional/Political Barriers - This theme is described by Public Choice Theory. In the case of Kenya, the recorded opposition by politicians and bureaucrats is an unexpected consequence of a policy that is meant to improve people's welfare. Representatives are driven by, the need to be re-elected, and for politicians the concentrated benefits (to special interests) vs the dispersed costs make the discretionary power of a manual system an attractive option. Some Governors, members of the county assembly and bureaucrats oppose the EGPS because it takes away their power, status and capacity for rent-seeking (capturing existing

wealth through use of political influence) by removing the need for manual approval processes and introducing a transparent audit trail.

Capacity/Technological Barriers: These include poor IT infrastructure and training. This implies problems of implementation, a type of government failure in which the unintended consequences of the poorly executed government policies occur.

CONCLUSIONS

The objectives of the research were to comment on fundamental principles of taxation and to analyse the objective, reasoning and practice of the EGPS of Kenya.

The primary research findings validate the fact that the principles of equity, efficiency, and simplicity continue to be primary in the public finance, albeit they are in the state of reciprocal tension. The comparison between progressive and regressive taxes brings out an inherent trade-off whereby vertical equity is met by the progressive income tax at the expense of more economic distortion whereas the regressive consumption tax provides stability at the expense of overloading the poor. Moreover, a sound economic motivation- an opportunity to save billions and improve competition through addressing the government failure and rent-seeking- is evident in the Kenyan EGPS analysis. Nevertheless, the paper understands the weakness of the existing implementation, and that is mostly the problem of overcoming the political resistance and lack of capacity to support system effectiveness.

The importance of the results is that the optimal fiscal system is not only about the technical structure of the tax code, it also heavily relies on the effective introduction of parallel changes, including the digital procurement system, to make sure that the public funds are well-spent and transparent.

RECOMMENDATIONS

In accordance with the research conclusions, it is possible to issue the following recommendations in the opinion of the author:

Optimize the Tax Mix to Counter Regressivity: The government should continue having a progressive tax platform but increase its efficiency by expanding the tax base and making it easy to comply with it to avoid evasion. To counter the retrogressive influence of consumption taxes, the state ought to raise specific subsidies or tax credits of basic commodities and low-income families.

Acclimatize Legal and Institutional Structures to EGPS: The administration should find a solution to the legislative and political opposition that presently disjoints the EGPS implementation process. The former would need political determination at the top, to create compulsory consumption, and with it, required amendments in the legal frameworks to reduce administrative discretion, in order to reduce rent-seeking.

Invest Heavily in Human and Technical Capacity: Recognize the existing capacity constraints through investing in compulsory and standardized training to all the procuring entity employees and suppliers. It requires a parallel and ongoing initiative to develop IT infrastructure with the principal of intergenerational equity especially the network reliability in decentralized government units to maximize the potential of the EGPS in terms of efficiency and accountability.

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