

Influence of legal framework on own source revenue performance in Lake Region Economic Bloc counties, Kenya

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ABSTRACT

Own Source Revenue in Kenya is anchored in the 2010 Constitution, the Public Finance Management Act of 2012, and the County Government Act of 2012. Enhancing county-level revenue performance is essential for fiscal autonomy and effective public financial management. However, many counties continue to face challenges, including weak legal frameworks, limited citizen participation, inadequate diversification of revenue sources, and slow adoption of technology. This study was motivated by the persistent fiscal gaps in devolved governments, particularly within the Lake Region Economic Bloc, where counties have significant potential yet continue to underperform in revenue mobilization. The study examined the influence of the determinant—county legal frameworks—on own-source revenue performance, while also assessing how Gross County Product shapes these influences. It was guided by the sequential theory of decentralization. A descriptive survey design was employed, targeting 170 county officials from 14 counties within the bloc. Structured and unstructured questionnaires were used, and a pilot study was conducted in Uasin Gishu County to ensure reliability and validity. The findings revealed that enforceable county legal frameworks ($\beta = 0.198$, $p = 0.004$) enhanced Own Source Revenue (OSR) performance. Overall, county legal framework, public participation, tax diversification, and technology adoption significantly influenced OSR performance ($R^2 = 0.598$; $F = 19.890$, $p = 0.000$), with technology adoption showing the strongest effect ($\beta = 0.332$). Stronger Gross County Product (GCP) significantly moderated these relationships ($R^2 = 0.591$; $F = 30.625$, $p = 0.000$), amplifying the impact of determinants, especially technology and tax diversification. The study concludes that institutional reforms, supported by local economic growth, are essential for sustainable own-source revenue performance. It recommends that county governments strengthen revenue laws to achieve greater fiscal independence.

Keywords: County Legal Framework, Gross County Product, Own Source Revenue Performance, Technology Adoption, Tax Diversification

I. INTRODUCTION

Own Source Revenue (OSR) is widely recognized as a cornerstone of fiscal autonomy for sub-national governments. In principle, it allows local authorities to reduce overdependence on central transfers while improving service delivery. OSR supplements national transfers and is critical for sustaining public services (World Bank, 2021). Globally, OSR effectiveness is shaped by governance structures, economic activities, and administrative capacities. Developed economies, particularly in the European Union and North America, have implemented advanced fiscal decentralization frameworks that emphasize efficiency, accountability, and technological integration in revenue collection (Boadway & Shah, 2009). These models highlight the importance of legal frameworks, political will, and institutional efficiency in enhancing OSR performance (Smoke, 2013). Additionally, digital innovations, such as e-governance and automated tax systems, have significantly improved revenue collection efficiency (Gupta et al., 2017).

In Africa, the adoption of fiscal decentralization has not fully translated into strong revenue performance. While the reforms were designed to promote responsive local governance, weak enforcement of tax laws, limited administrative capacity, and poor taxpayer compliance have constrained outcomes (Fjeldstad & Heggstad, 2012). This experience underscores that political reforms without institutional strengthening are unlikely to yield fiscal sustainability.

Kenya's 2010 Constitution introduced devolution with the expectation that counties would achieve greater financial independence through OSR. More than a decade later, however, performance remains modest. Data from the Commission on Revenue Allocation (CRA) shows that between FY 2013/14 and FY 2022/23, counties mobilized only 63.5 percent of their OSR targets, collecting KSh 344.4 billion against projections of KSh 542.1 billion (CRA, 2023). On average, OSR contributes less than 10 percent of county revenues, indicating that counties remain heavily reliant on

the national equitable share. This persistent gap suggests that devolution has expanded expenditure responsibilities without securing adequate revenue autonomy.

The underperformance of OSR in Kenya has multiple dimensions. Legal frameworks are often fragmented or inconsistently enforced, creating loopholes that weaken collection (Ooko, 2021). Variations in Gross County Product (GCP) have not consistently translated into revenue performance, raising questions about how economic capacity interacts with governance and administrative factors (KNBS, 2022). The Lake Region Economic Bloc (LREB), comprising 14 counties in western Kenya, offers a vivid case study of these challenges. Counties such as Kisumu and Kakamega have relatively high GCP but still fail to maximize OSR potential. Others, like Busia and Homa Bay, collect minimal OSR despite expanding economic activities (CRA, 2023; Ndung'u, 2021). These inconsistencies suggest that fiscal capacity alone does not guarantee revenue performance; rather, institutional, participatory, and technological dynamics play a decisive role.

The fiscal gap between potential and actual OSR has serious implications for county governance. Limited revenue mobilization weakens counties' ability to finance development priorities, expand infrastructure, and deliver essential services. CRA reports show that OSR constitutes less than 10 percent of county budgets, while the equitable share from the national government accounts for more than 70 percent of financing (CRA, 2024). Such dependence exposes counties to fiscal vulnerability and undermines the spirit of devolution.

This study was motivated by the need to examine why OSR remains weak despite counties having legal authority, constitutional support, and growing local economies. Scholars have long argued that revenue performance depends not only on economic factors but also on institutional quality, enforcement mechanisms, and taxpayer trust (OECD, 2020). In Africa, success stories such as Rwanda demonstrate that technology and stronger enforcement can improve compliance, yet in Kenya such reforms have been sporadic and uneven (Moore, 2015; Fjeldstad, 2016). For the LREB, which faces rising expenditure needs and urgent development challenges, understanding these dynamics is essential.

By interrogating the role of county legal frameworks—while considering the moderating effect of GCP—this study seeks to provide context-specific evidence. The findings are expected to inform both county and national policymakers on how to strengthen OSR as a pathway to sustainable devolution. The study focused on determinants that shape OSR performance. The county legal framework provides the rules and enforcement mechanisms for revenue collection. Where laws are inconsistent or weakly enforced, revenue leakages and poor compliance tend to follow (Ooko, 2021). Finally, Gross County Product (GCP) represents the economic potential of a county. Prior studies show that stronger local economies do not automatically guarantee higher OSR, suggesting that institutional and governance factors moderate the relationship between economic output and revenue performance (Ndung'u, 2021).

1.1 Statement of the Problem

Own Source Revenue (OSR) forms a critical pillar of fiscal decentralization in Kenya, as it enables counties to finance development priorities and deliver essential services. Yet, counties have persistently underperformed in OSR mobilization, leading to an overreliance on intergovernmental transfers (CRA, 2019; Njoroge & Kinuthia, 2020). This dependency has created fiscal instability and undermined the constitutional goal of financial autonomy for devolved units (World Bank, 2021). Despite policy and institutional reforms, counties within the Lake Region Economic Bloc (LREB) continue to struggle with low OSR growth relative to expenditure needs, signaling that structural and administrative challenges remain unresolved.

Several factors are frequently cited in the literature as critical determinants of OSR performance, but gaps exist in their integration and empirical validation. County legal frameworks remain weak, inconsistent, or poorly enforced, resulting in revenue leakages and inefficiencies (Muchira, 2018). More importantly, there is scant empirical attention to how Gross County Product (GCP)—a measure of county-level economic output comprising agriculture, manufacturing, trade, services, and construction (KNBS, 2020)—moderates the influence. Counties with higher GCP may have stronger economic bases to support revenue mobilization, whereas those with weaker economic structures may remain disadvantaged despite implementing similar reforms. The absence of this moderating perspective limits understanding of why revenue performance varies widely across counties.

Thus, the problem is twofold: First, Persistent underperformance of OSR in LREB counties, reflected in inadequate revenues, high dependence on national transfers, and fiscal instability. Second, there is limited empirical evidence on how county legal frameworks influence OSR performance, especially when considered alongside the moderating role of GCP. This study was therefore motivated by the need to fill these gaps by empirically analyzing how the County legal framework interact with GCP to influence OSR performance in LREB counties. The findings are expected to generate actionable insights for policymakers seeking to strengthen fiscal autonomy and sustainability at the county level.

1.2 Research Objectives

The specific objectives for this study are:

- i. To evaluate the influence of legal framework on Own Source revenue performance in Lake Region Economic Bloc.
- ii. To establish the moderating influence of Gross County Product on the Legal Framework on Own Source Revenue in Lake Region Economic Bloc.

1.3 Research Hypothesis

The study was guided by the following research hypothesis.

H₀₁: There is no significant influence of Legal Framework on the Own Source revenue performance in LREB.

H₀₂: Gross County Product does not moderate the influence of Legal Framework on Own Source Revenue in LREB.

II. LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Sequential Theory of Decentralization

Falleti (2004) explains decentralization as a process that unfolds sequentially across political, administrative, and fiscal dimensions. The order of these reforms shapes outcomes: when fiscal powers follow administrative and political decentralization, subnational units enjoy both authority and capacity to raise revenues. Conversely, if expenditure responsibilities precede fiscal authority, local governments face unfunded mandates that weaken fiscal autonomy.

In Kenya, the 2010 Constitution devolved service delivery to counties, granting them OSR powers. However, the effectiveness of these powers depends on the enabling legal framework and the capacity built through earlier stages of decentralization (World Bank, 2020). Public participation—anchored in political decentralization—further strengthens accountability and voluntary compliance, making citizens more willing to support county revenue initiatives.

Sequential Theory informs the county legal framework and public participation variables, emphasizing that institutional design and sequencing directly influence counties' ability to raise and safeguard OSR. While decentralization theories are widely studied in Africa, most research emphasizes expenditure responsibilities or intergovernmental transfers rather than county-level OSR generation. The role of legal frameworks and public participation in shaping OSR performance remains underexplored. This study bridges that gap by applying Sequential Theory to examine how legal mandates and participatory mechanisms drive OSR outcomes in Kenyan counties.

2.2 Empirical Literature Review

Empirical studies on revenue performance have consistently highlighted that fiscal sustainability in devolved units depends on several interrelated factors. These include the legal and institutional frameworks guiding taxation, the extent of citizen engagement in fiscal matters, the diversification of revenue streams, the application of modern technology in tax administration, and the strength of the underlying economic base. This review synthesizes empirical findings related to these determinants of own source revenue (OSR), focusing on lessons drawn from both developed and developing contexts, and identifies the gaps that justify the current study in the Kenyan county government setting.

2.2.1 County Legal Framework and Own Source Revenue

Muriithi and Moyi (2003) applied a time-series econometric model using Kenya's national tax data between 1973 and 1999. Their results showed that while reforms temporarily improved buoyancy and elasticity of taxes, weak enforcement, administrative loopholes, and widespread exemptions hindered long-term revenue productivity. The methodological strength lay in the use of elasticity and buoyancy measures to assess productivity trends. However, the study predates the 2010 constitutional reforms that introduced county governments, meaning its insights are limited to the centralized fiscal system. The lack of a subnational focus highlights a gap in understanding how legal frameworks function under Kenya's devolved units.

Fjeldstad and Heggstad (2012) investigated local government revenue mobilization in Tanzania, Uganda, and Ghana through a comparative case study. Their research combined analysis of finance reports with interviews of policymakers and tax administrators. The study found that reliance on politically sensitive revenue bases, such as property taxes and business licenses, compounded by corruption and weak enforcement, led to poor revenue outcomes. This institutional and diagnostic approach generated valuable qualitative insights but did not quantify the scale of revenue losses. In addition, the focus on urban municipalities limits applicability to counties with predominantly rural structures, such as those in Kenya.

Njoroge and Omweri (2019) conducted a survey in Nairobi City County involving 150 respondents, including policymakers and revenue officers. The study established that inconsistencies between county by-laws and national statutes created overlaps and weak enforcement, which in turn led to citizen resistance and reduced compliance. While the findings provided empirical evidence linking legal clarity to OSR at the county level, the single-county design limits generalizability, as Kenyan counties vary widely in terms of economic structures and institutional capacity. Broader multi-county research is therefore needed to capture these variations.

Oduor et al. (2021) used panel regression on data from 15 Kenyan counties between 2013 and 2018 to assess the influence of legal frameworks on revenue performance. Their analysis revealed that clear by-laws and stronger enforcement mechanisms reduced revenue leakages by about 20%. The study's econometric rigor and multi-county scope provided robust evidence of the role of legal frameworks. However, the analysis focused narrowly on the clarity of laws, without examining how counties align their by-laws with national legislation or the institutional processes that underpin enforcement. This gap points to the need for deeper exploration of harmonization practices.

Olabisi (2012) examined Lagos State, Nigeria, using surveys and administrative tax office records analyzed with descriptive statistics and correlation methods. The study found that inadequate training of tax officers, corruption, and weak enforcement mechanisms negatively affected revenue generation. The metropolitan context, however, makes the findings less transferable to Kenya, where counties encompass both urban and rural settings and operate under a devolved system with different institutional dynamics.

Bird and Slack (2020) conducted a comparative study of Latin American municipalities, analyzing how institutional arrangements and tax frameworks shape revenue performance. Their findings suggested that municipalities with stronger legal clarity and simplified frameworks achieved better compliance and broader tax bases. While informative, the study was largely focused on metropolitan municipalities, overlooking rural areas where informal economic activity dominates. This limits the direct applicability to Kenya's counties, which combine both urban and rural economies.

2.2.2 Gross County Product and Own Source Revenue

Ljungqvist and Smolyansky (2018) employed panel econometric models using U.S. state data from 1970 to 2013 to assess the impact of tax policy on employment and income. They found that corporate tax increases reduced employment and income, while tax cuts had stronger positive effects during downturns. The methodological rigor is notable, but the U.S. state-level context differs markedly from Kenyan counties, which face structural unemployment and weaker revenue bases. Gunter et al. (2019) conducted a cross-country econometric study on VAT and economic growth, finding nonlinear effects consistent with the Laffer curve. Their findings highlight the link between tax policies and economic performance, but the national-level focus on VAT is less applicable to Kenya's county OSR systems, which rely more heavily on licenses, fees, and service charges.

Nguyen et al. (2021) analyzed the U.K. economy using macroeconomic simulation models and found that reductions in income tax boosted GDP, consumption, and investment. The study demonstrates how economic strength enhances fiscal capacity, but the highly formalized U.K. economy contrasts sharply with the largely informal structures of Kenya's counties.

Bird (2015) offered a comparative analysis of emerging economies, arguing that stronger economic bases expanded the tax net and reduced fiscal crises. Although conceptually useful, the study lacked empirical focus at subnational levels, leaving open questions on how Gross County Product (GCP) interacts with OSR in devolved units such as Kenya's counties.

The reviewed literature consistently highlights a positive relationship between economic strength and revenue performance. While studies from developed and emerging economies provide useful theoretical and econometric evidence, their applicability to Kenyan counties is limited by differences in institutional structures and informality levels. This underscores the need for localized empirical studies that test how GCP influences OSR performance within Kenya's devolved governance framework.

III. METHODOLOGY

3.1 Study Area

The research focuses on examining the impact of the county legal framework on the own-source revenue of county governments within the Lake Region Economic Bloc in Kenya. The LREB represents one of the six economic blocs established in Kenya, encompassing 14 counties: Bomet, Bungoma, Busia, Homabay, Kakamega, Kericho, Kisii, Kisumu, Migori, Nandi, Nyamira, Siaya, Transzoia, and Vihiga, all situated around Lake Victoria and its surrounding areas. The LREB was founded with the understanding that, although the devolved system of government aims to tackle enduring political issues related to inclusive governance, the counties might be insufficiently sized to capitalize on economies of scale. No prior research exists regarding the Own source revenue of the LREB as an economic bloc.

3.2 Research Design

This investigation utilized a descriptive survey research framework. The primary objective of survey research design is to provide a detailed account of the current state of affairs (Kothari, 2011). The descriptive survey design enables the researcher to collect information, synthesize it, present findings, and interpret results for the sake of elucidation. The selection of the descriptive survey research design is predicated on the researcher's interest in the current state of affairs within the field, with the understanding that no variables will be manipulated in the process. The selection of a descriptive research design is predicated on its inherent flexibility. This enables the researcher to extrapolate the findings to a broader population context.

3.3 Target Population

The study focused on a cohort of 170 county officials within the County Revenue Administration Unit, individuals who possess a direct impact on the collection of own source revenue from the LREB Counties.

3.4 Sampling Design

The study utilized stratified and purposive sampling methods in its execution. Stratified sampling is employed when the characteristics of a population exhibit diversity, ensuring that each characteristic is adequately represented within the sample. This contributes to the broader applicability and credibility of the study, while also mitigating research biases such as undercoverage bias. In a stratified sample, the researcher categorizes the population into distinct subpopulations referred to as strata.

The research employed a specific sampling design to determine the sample size utilized in the study. An increase in sample size correlates with a reduction in the potential error associated with generalizing findings to the broader population (Saunders, Lewis and Thornhill, 2003; Creswell, 2009). The research employed the methodology established by Yamane (1967:886), subsequently refined by Saunders et al. (2003) and later adopted by Israel in 2013, to determine the appropriate sample sizes.

$$n = \frac{N}{1+N(e^2)}$$

Where:

n=sample size, N=population size, e=the error of sampling.

While the sampling error of 0.05. Therefore, using Saunders et al., (2003) formula the sample size of the study was 120 counties' staffs

The sample size is calculated as shown below.

$$n = \frac{170}{1+170(0.05^2)} = 120$$

A sample of 120 respondents was chosen instead of surveying the complete target population of 170 due to statistical, logistical, and methodological factors. Employing the formula of Saunders et al. (2003), the requisite sample size for a population of 170, with a 5% margin of error, was determined to be 120, hence insuring statistical representativeness of the sample. Moreover, surveying all 170 responders would necessitate increased time, money, and personnel, hence diminishing the efficiency of the operation. The chosen sample size was sufficiently large to encompass demographic variety, guaranteeing that the results would be generalizable while maintaining an acceptable margin of error ($\pm 5\%$). Additionally, survey fatigue and non-response concerns were acknowledged, as not all 170 individuals would be accessible or inclined to participate. The study engaged 120 respondents, representing 71% of the target population, adhering to best practices in social science research to ensure valid, reliable, and cost-effective data collecting, while achieving a confidence level of 95%. The study employed a basic random sampling procedure to select people within the strata. The Neyman allocation formula was employed to allocate respondents into the designated strata. The objective of the method is to optimize survey precision, given a predetermined sample size. The optimal sample size for stratum h, utilizing Neyman allocation, would be:

$$n_h = \left(\frac{N_h}{N}\right)n$$

Where,

n_h - The sample size for stratum h; n - Total sample size,

N_h -The population size for stratum h; N - The total population.

Hence, distribution was as follows;

3.5 Data Collection

Data collection is the acquisition of information, evidence, and facts from a designated population, enabling the formulation of conclusions, informed decision-making on critical matters, or the dissemination of knowledge to others. The provided information may be utilized by diverse entities, including educational institutions. The target respondents



were one hundred twenty (120) officers in the County Revenue Administration Unit who directly impact the collection of own source revenue from the 14 LREB Counties. The researcher employed a questionnaire utilizing a Likert scale to gather data. The questionnaires contained structured questions. The researcher favored this method due to its ease of administration and efficiency in data collection within a brief timeframe.

3.6 Data Analysis

The researcher quantitatively examined data by summarizing it and employing descriptive statistics to facilitate a coherent explanation of the scores. Statistical quantifiable data was systematically evaluated to derive conclusions and recommendations. Data analysis approaches employed included measures of central tendency. Quality assessments at the primary level were conducted during data collection, whereas secondary level quality assessments occurred during data entry. The raw data was input into computers and analyzed utilizing the Statistical Package for the Social Sciences (SPSS). Data was given in frequencies and tables for comparative analysis and clarity. Multiple linear regressions utilizing SPSS were subsequently employed to examine the impact of the County Legal Framework, Public Participation, Tax Diversification, and Technology on the performance of Own Source Revenue among LREB counties. The subsequent model was implemented:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon \dots\dots\dots \text{Equation 3.1}$$

Where,

- Y = Own source revenue performance
- β_0 =Constant or coefficient of intercept
- X_1 = County legal framework.
- X_2 = Public Participation
- X_3 = Tax Diversification.
- X_4 = Technology
- $\beta_1 \dots \beta_4$ =Represents the corresponding coefficients for the respective independent variables
- ε = Error term i.e. disturbance factors which represent residual or values that are not captured within the regression model.

3.6.1 Model for Testing the Moderating Effects

The moderating model investigates whether the association between an independent variable, X, and a dependent variable, Y, fluctuates based on varying levels of a third variable, Z. A moderating variable affects the strength and/or direction of the association between a predictor and an outcome, either enhancing, reducing, or modifying the predictor's impact. Moderating effects are defined as an interaction between factors or variables, where the impact of one variable depends on the levels of the other variable in the study. Aiken and West (1991) provide thorough elucidations of moderator effects along with a framework for their assessment and evaluation. Moderation effects were analyzed by moderated regression analysis, wherein all predictor variables and their interaction term are centered prior to model estimate to improve the interpretation of regression coefficients.

$$Y = \beta_0 + \beta_1X + \beta_2Z + \beta_3X*Z + \varepsilon \dots\dots\dots \text{Equation 3.2}$$

Where:

- Z – Moderator (Gross County Product)
- $X*Z$ –Interaction term that tests moderation

IV. FINDINGS & DISCUSSION

4.1 Descriptive Statistics of the Variables

4.1.1 Influence of County Legal Framework on OSR Performance

This section will focus on the influence of County Legal Framework on OSR Performance in LREB County governments. The summary of the descriptive statistic is as shown in Table 1 where the respondents rated various aspects of the county legal framework affecting OSR on a Likert scale. In the scale of 1-5 (where 1=Strongly Disagree, 2=Disagree, 3=Undecided, 4=Agree, 5 = Strongly Agree).

Table 1*County legal Framework Descriptive Results*

Description	SD (%)	D (%)	U (%)	A (%)	SA (%)	Mean	S.D
Existing county by-laws provide a strong foundation for enhancing OSR collection.	2 (2.0)	8 (7.9)	15(14.9)	56(55.4)	20 (19.8)	3.87	0.91
The county's tax framework supports effective revenue mobilization.	21(20.8)	15(14.9)	23(22.8)	19(18.8)	23 (22.8)	3.11	1.45
County legal instruments are harmonized with national tax laws and policies.	8 (7.9)	4 (4.0)	28(27.7)	31(30.7)	30 (29.7)	3.74	1.30
Legal provisions adequately address revenue leakages and non-compliance.	6 (5.9)	5 (5.0)	15(14.9)	45(44.6)	30 (29.7)	3.91	1.08
Enforcement of county revenue laws is consistent and fair in practice	1 (1.0)	4 (4.0)	18(17.8)	54(53.5)	24 (23.8)	3.99	0.82

N=101

The descriptive statistics presented in Table 1 indicate that the county legal framework is an important determinant of OSR performance, though with varying levels of effectiveness across its components. The analysis is presented thematically under five sub-variables: county by-laws, tax frameworks, harmonization with national tax laws, legal provisions on revenue leakages, and enforcement practices.

Existing County By-Laws

The results show that respondents moderately agreed that existing county by-laws provide a strong foundation for enhancing OSR collection, with a mean of 3.87 and a standard deviation of 0.91. This suggests that counties in the LREB region have enacted legal instruments that respondents generally perceive as supportive of revenue mobilization. The relatively low variability indicates consistency of opinion across counties. These findings are consistent with Oduor et al. (2021), who demonstrated that the establishment of clear and enforceable by-laws significantly reduced revenue leakages by up to 20 percent, thereby improving revenue outcomes.

County Tax Framework

The county tax framework recorded the lowest mean score of 3.11 and the highest standard deviation of 1.45. This indicates considerable divergence in respondents' perceptions regarding the ability of county tax frameworks to support revenue mobilization. In some counties, respondents considered the tax framework adequate, while in others it was viewed as weak and ineffective. The wide variation mirrors the findings of Njoroge and Omweri (2019), who established that inconsistencies and ambiguities in county tax frameworks weakened enforcement mechanisms, reduced compliance, and ultimately constrained OSR performance.

Harmonization with National Tax Laws and Policies

The harmonization of county legal instruments with national tax laws and policies yielded a mean of 3.74 and a standard deviation of 1.30. While respondents generally agreed that county legal instruments align with national statutes, the variability indicates uneven implementation across counties. This implies that some counties have made significant progress in aligning their legal frameworks, whereas others continue to face challenges of disjointed systems. Njoroge and Omweri (2019) similarly noted that a lack of consistency between county and national legislation undermined compliance and weakened enforcement, thereby constraining OSR performance.

Legal Provisions Addressing Revenue Leakages and Non-Compliance

Respondents also agreed that legal provisions adequately address revenue leakages and non-compliance, with a mean score of 3.91 and a standard deviation of 1.08. This indicates that most counties have in place legal safeguards to minimize revenue losses, though their adequacy varies across jurisdictions. These findings corroborate Oduor et al. (2021), who emphasized that robust legal measures serve as an essential safeguard in sealing revenue loopholes, thereby contributing to stronger fiscal performance.

Enforcement of County Revenue Laws

Enforcement of county revenue laws emerged as the most positively rated sub-variable, with a mean score of 3.99 and the lowest standard deviation of 0.82. This reflects a strong consensus among respondents that enforcement practices are generally consistent and fair across counties. The findings underscore the importance of enforcement in enhancing compliance and revenue collection. Comparable evidence is presented by Olabisi (2012), who observed that inefficiencies in enforcement and tax administration in Lagos State had a detrimental effect on revenue performance, thereby highlighting enforcement as a critical determinant of OSR outcomes.

Generally, the findings suggest that county governments in the LREB region have made significant progress in establishing legal frameworks supportive of OSR performance, particularly through by-laws, legal safeguards, and enforcement mechanisms.

4.1.2 OSR Performance

This section focuses on OSR Performance in LREB County Governments. The summary of the descriptive is as shown in Table 2.

Table 2
OSR Performance Results

LREB COUNTY	GCP (Million)	OSR COLLECTIONS (Million)					FIVE YEAR GROWTH RATE
		2023	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024
KISUMU	343,264	804.39	1,248.06	1,199.15	1,153.46	1,443.61	79.47%
KAKAMEGA	291,817	1,180.33	1,111.11	1,221.67	1,309.68	1,347.83	14.19%
BUNGOMA	268,684	975.13	758.25	983.30	1,177.33	1,120.91	14.95%
KISII	268,484	719.00	702.00	898.00	1,019.00	1,180.00	64.12%
TRANS NZOIA	231,741	356.08	340.45	379.99	477.28	476.64	33.86%
KERICHO	230,560	473.73	595.98	566.82	501.35	841.93	77.72%
NANDI	218,809	-	-	-	200.74	630.73	
BOMET	211,774	201.51	183.01	201.51	242.40	238.93	18.57%
HOMA BAY	184,466	274.60	233.87	337.40	491.50	1,200.50	337.18%
MIGORI	161,556	305.69	288.54	386.87	406.36	512.57	67.68%
NYAMIRA	150,928	185.57	162.56	166.05	284.59	369.80	99.28%
SIAYA	144,288	179.43	332.88	434.38	508.04	610.74	240.38%
BUSIA	123,819	226.17	322.60	292.74	343.92	369.20	63.24%
VIHIGA	109,075	148.20	169.11	240.89	241.35	338.06	128.11%
TOTAL	2,939,265	6,029.83	6,448.42	7,308.77	8,357.00	10,681.45	77.14%
GROWTH RATE		-	6.9%	13.3%	14.3%	27.8%	

Source: Office of the Controller of Budget (2024); (KNBS, 2024)

Table 2 presents OSR collections for the 14 LREB counties between FY 2019/2020 and FY 2023/2024. The results indicate that total OSR mobilization rose steadily from KSh 6.03 billion in 2019/2020 to KSh 10.68 billion in 2023/2024, representing a 77.3% cumulative increase over five years. Annual growth fluctuated, recording 6.9 percent in 2020/2021, 13.3 percent in 2021/2022, 14.3 percent in 2022/2023, and peaking at 27.8 percent in 2023/2024. This upward trend demonstrates progressive improvements in counties' capacity to mobilize local revenue, though performance remained uneven across the bloc.

Counties such as Kakamega, Kisumu, and Bungoma consistently mobilized more than KSh 1 billion annually, reflecting relatively stronger legal frameworks, broader tax bases, and earlier adoption of automated systems. These results confirm the arguments by Oduor et al. (2021), who observed that institutional capacity and legal clarity significantly reduce revenue leakages. On the other hand, medium-performing counties such as Kericho, Migori, and Kisii displayed progressive but fluctuating revenue collections, often reflecting challenges in enforcement and limited diversification. For example, Kericho experienced a decline in 2022/2023 before rebounding strongly in 2023/2024. Low-performing counties, including Busia, Vihiga, and Nyamira, continued to collect below KSh 400 million annually despite modest improvements, echoing Mwangi's (2016) findings that weak public participation undermines compliance in smaller counties. A notable case was Homa Bay, which recorded a sharp increase from KSh 491.5 million in 2022/2023 to KSh 1.2 billion in 2023/2024, suggesting the success of reforms in diversification and technology adoption.

Two patterns emerge from these results. First, counties with higher Gross County Product (GCP) tended to achieve stronger OSR growth, consistent with Bird's (2015) assertion that economic bases expand the tax net and enhance fiscal resilience. Second, the sharp acceleration in growth in the final year may reflect the cumulative effects of enhanced automation, structured enforcement, and greater compliance, consistent with Mwaura and Karanja's (2022) findings on the transformative role of mobile payment platforms. Overall, while OSR performance in the LREB has improved significantly, disparities remain across counties.



4.2 Correlation Analysis

Correlation analysis measures the strength and direction of the relationship between two variables. The Pearson correlation coefficient was used to assess the linear relationships between the independent variables and OSR performance.

Table 3
Correlation Matrix

		OSR Performance	Legal Framework	Public Participation	Tax Diversification	Technology
OSR Performance	Pearson Correlation Sig. (1-Tailed)	1				
Legal Framework	Pearson Correlation Sig. (1-Tailed)	0.375* 0.001	1			
Public Participation	Pearson Correlation Sig. (1-Tailed)	0.452* 0.008	0.271* 0.022	1		
Tax Diversification	Pearson Correlation Sig. (1-Tailed)	0.304* 0.036	0.050* 0.009	0.100* 0.056	1	
Technology Adoption	Pearson Correlation Sig. (1-Tailed)	0.426* 0.001	0.250* 0.060	0.325* 0.068	0.375* 0.017	1

*. Correlation is significant at the 0.05 level (1-tailed).

The results show a positive and significant relationship between legal frameworks and OSR performance ($r = 0.375, p = 0.001$). This implies that counties with clearer by-laws, stronger enforcement, and better harmonization with national laws mobilize higher revenues. These findings align with Muriithi and Moyo (2003), who showed that weak enforcement and exemptions undermine long-term revenue productivity, and with Oduor et al. (2021), who established that clear by-laws reduced revenue leakages by 20%. Similarly, Njoroge and Omweri (2019) found that inconsistencies in county laws led to poor compliance.

4.3 Regression Analysis

Regression analysis was performed to evaluate the ability of the independent variables to predict the outcome of the dependent variable, under the assumption of a linear relationship, employing ANOVA and model coefficients.

Table 4
Model Summary of determinants and OSR Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.773 ^a	0.598	0.580	0.7101

a. Predictors: (Constant), County legal framework, Public participation, Tax diversification, Use of technology

b. Dependent Variable: OSR Performance

Table 4 indicates that the regression model exhibits a robust fit, accounting for 59.8% of the variance in OSR Performance as explained by the predictors (County legal framework, Public engagement, Tax diversification, and Use of technology). The robust correlation ($R = 0.773$) and minimal standard error of estimate (0.7101) suggest that the model is dependable and the predictors substantially aid in elucidating the variance in OSR Performance.

As shown in Table 5, the researcher used ANOVA analysis to determine how well the regression equation predicted the dependent variable and fit the data.

Table 5
ANOVA Test results

Model		Sum of Squares	df	Mean Square	F	Sig
1	Regression	40.100	4	10.025	19.890	0.000 ^b
	Residual	48.412	96	0.504		
	Total	88.511	100			

a. Dependent Variable: OSR Performance

b. Predictors: (Constant): Predictors: (Constant), County legal framework, Public participation, Tax diversification, Use of technology

According to Table 5, the ANOVA test results demonstrate that the regression model is very significant (p -value = 0.000). The model accounts for a significant percentage of the variance in OSR Performance (Sum of Squares



Regression = 40.100), and the F-statistic of 19.890 indicates that the model fits considerably better than one without predictors. This indicates that the determinants (County legal framework, Public engagement, Tax diversification, and Use of technology) combined play a significant role in elucidating the diversity in OSR Performance.

Furthermore, the outcomes of the regression tests are presented in Table 6.

Table 6
Coefficients of the Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig
		B	Std. Error	Beta		
1	Constant	13.290	2.218		5.992	0.000
	County Legal Framework, CLF	0.198	0.102	0.209	1.941	0.004
	Public Participation, PP	0.142	0.066	0.153	2.152	0.034
	Tax Diversification, TD	0.211	0.065	0.215	3.246	0.002
	Technology Adoption, TA	0.338	0.083	0.332	4.072	0.000

a. Dependent Variable: OSR Performance

Table 6 presents the regression coefficients of the model assessing the influence of county legal on Own Source Revenue (OSR) performance. The overall regression model was statistically significant, confirming that the determinants jointly explain a substantial proportion of the variation in OSR performance. The constant term (13.290, $p = 0.000$) represents the baseline level of OSR performance when all predictors are equal to zero.

The standardized coefficients allow for comparison of the relative strength of the predictors. Among the four determinants, use of technology ($\beta = 0.332$) had the strongest influence, followed by tax diversification ($\beta = 0.215$), county legal framework ($\beta = 0.209$), and public participation ($\beta = 0.153$). All predictors were statistically significant at the 5 percent level, meaning each variable contributed uniquely to explaining OSR performance.

The fitted multivariate regression model is

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4$$

$$Y = 13.290 + 0.198X_1 + 0.142X_2 + 0.211X_3 + 0.338X_4$$

The regression results indicate that county legal framework has a positive and significant effect on OSR performance ($\beta = 0.198$, $p = 0.004$). This implies that a one-unit improvement in the clarity, enforcement, or consistency of revenue-related by-laws leads to a 0.198 unit increase in OSR performance. The standardized beta of 0.209 further shows that the legal framework makes a meaningful contribution to explaining OSR outcomes. These findings are consistent with Oduor et al. (2021), who observed that clear and enforceable fiscal regulations reduce leakages and improve compliance.

4.4 Test of Moderating influence of GCP on Determinants.

The second objected aims to determine how Gross County Product (GCP) moderates the relationship between the Legal Framework and Own Source Revenue performance. To analyze the impact of this moderation, Frucot and Shearon (1991) developed a regression model that utilizes the absolute difference value of the independent variables. The results of this model, incorporating GCP as the moderating variable, are presented in Table 7.

Table 7
Moderated Regression Analysis

Indicators	B	Std Error	Beta	t	Sig
County Legal Framework, CLF	0.185	0.063	0.196	2.941	0.004
Public Participation, PP	0.132	0.061	0.142	2.152	0.034
Tax Diversification, TD	0.203	0.063	0.207	3.246	0.002
Technology Adoption, TA	0.300	0.074	0.294	4.072	0.000
Gross County Product, GCP	0.233	0.091	0.235	2.560	0.045
CLF_GCP	0.118	0.039	0.125	3.063	0.031
PP_GCP	0.091	0.036	0.098	2.529	0.013
TD_GCP	0.128	0.025	0.130	5.128	0.001
TA_GCP	0.232	0.036	0.228	6.370	0.002
Constant	13.290				
Prob F-Value	30.625				
Significant	0.000				
R square	0.591				
Adj R square	0.582				

The moderated regression analysis presented in Table 7 examined the influence of Gross County Product (GCP) on the relationship between determinants and Own Source Revenue (OSR) performance. The overall model was statistically significant ($F = 30.625$, $p = 0.000$) and explained 59.1 percent of the variance in OSR performance ($R^2 = 0.591$; Adjusted $R^2 = 0.582$). This finding confirms that economic prosperity not only contributes directly to OSR performance but also strengthens the influence of county legal framework, public participation, tax diversification and technology adoption

The interaction between county legal frameworks and GCP was positive and significant ($\beta = 0.125$, $p = 0.031$). This result suggests that improvements in legal frameworks contribute more strongly to OSR in counties with higher levels of economic activity.

Summarily, the results demonstrate that GCP significantly moderates the relationship between all four determinants and OSR performance, with varying degrees of influence. The relative strength of the interaction influences shows that economic prosperity most strongly amplifies the benefits of technology adoption and tax diversification, followed by legal frameworks, and lastly public participation. These results are in line with Bird (2015) and Nguyen et al. (2021), who established that stronger economic contexts enhance fiscal capacity and magnify the effectiveness of institutional and technological reforms. The fitted moderation model is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 GCP + \beta_6 X_1 * GCP + \beta_7 X_2 * GCP + \beta_8 X_3 * GCP + \beta_9 X_4 * GCP$$

$$Y = 13.290 + 0.185 X_1 + 0.132 X_2 + 0.203 X_3 + 0.300 X_4 + 0.233 GCP + 0.118 X_1 * GCP + 0.091 X_2 * GCP + 0.128 X_3 * GCP + 0.232 X_4 * GCP$$

The main-effect coefficients show the direct influence of each determinant of OSR performance when GCP is held at zero. Specifically, a one-unit increase in the county legal framework (X_1) increases OSR performance by 0.185 units. The coefficient for GCP shows that a one-unit increase in county economic prosperity independently improves OSR performance by 0.233 units. This indicates that counties with stronger economies are, on average, better able to generate their own revenues.

The interaction terms are particularly important, as they show how GCP moderates the effect of each determinant. The positive coefficient of 0.118 for $CLF \times GCP$ indicates that the contribution of the legal framework to OSR increases by 0.118 units for every additional unit of GCP. In other words, legal reforms are more effective in wealthier counties.

In conclusion, this equation demonstrates that Gross County Product has a moderating influence on the four determinants to the OSR Performance. While legal frameworks, public participation, tax diversification, and technology all improve OSR independently, their influences become stronger in counties with higher levels of economic prosperity.

4.5 Hypothesis Testing

The multiple regression model testing the determinants of Own Source Revenue (OSR) performance was statistically significant ($F = 19.890$, $p = 0.000$) and explained 59.8% of the variance in OSR performance ($R^2 = 0.598$), as presented in Table 5. The regression coefficients (Table 6) and moderated regression results (Table 7) were used to test the hypotheses. Figures 3 and 4 illustrate the fitted models. The results are interpreted below.

H0₁: County Legal Framework has no significant influence on OSR performance

The regression results indicated that the legal framework had a positive and significant effect on OSR performance ($\beta = 0.198$, $p = 0.004$). The null hypothesis was rejected. This means that strengthening county by-laws, compliance mechanisms, and enforcement significantly improves OSR. These findings are consistent with Oduor et al. (2021), who found that clearer county by-laws reduce leakages by 20%, and Njoroge & Omweri (2019), who demonstrated that inconsistencies in laws weaken enforcement and reduce compliance.

H0₂: Gross County Product does not moderate the relationship between determinants and OSR performance

The moderated regression model was significant ($F = 30.625$, $p = 0.000$; $R^2 = 0.591$). Interaction terms showed that GCP significantly moderated the effects of legal framework ($p = 0.031$). Thus, the null hypothesis was rejected. These results are consistent with Bird (2015), who argued that stronger economic bases expand the tax net and reduce fiscal crises, and Nguyen et al. (2021), who showed that economic growth enhances fiscal capacity in developed economies.

V. CONCLUSION & RECOMMENDATIONS

5.1 Conclusion

The study findings demonstrate that effective legal frameworks are indispensable for strengthening revenue collection. Counties that invest in robust and enforceable fiscal laws are able to minimize leakages, improve compliance, and build stronger financial foundations.

The moderating role of GCP underscores that reforms are not equally effective across all counties. Economic prosperity amplifies the benefits of legal, participatory, fiscal, and technological reforms. This insight contributes to the understanding that counties must not only pursue governance and fiscal reforms but also foster local economic growth to maximize revenue outcomes.

5.2 Recommendations

Based on the study findings, the following recommendations are proposed: At the policy level, county governments should review and harmonize their revenue-related laws to ensure clarity, fairness, and enforceability, supported by strong compliance mechanisms. National government agencies, particularly the Commission on Revenue Allocation (CRA), should provide oversight and technical guidance to counties in developing standardized fiscal frameworks and revenue policies. In addition, county governments should deliberate policies that stimulate local economic growth and attract investment, given that stronger Gross County Product (GCP) amplifies the effectiveness of fiscal and governance reforms.

At the theoretical level, the study recommends that future research to further develop sequential theory of decentralization theory by explicitly incorporating moderating factors such as economic prosperity into models of subnational revenue performance

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