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CITIES OF HOPE?

GOVERNANCE, ECONOMIC AND HUMAN CHALLENGES OF KENYA'S FIVE LARGEST CITIES

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PREFACE

The objective of this sector work is to fill existing gaps in the knowledge of Kenya's five largest cities, to provide data and analysis that will help inform the evolving urban agenda in Kenya, and to provide inputs into the preparation of the Kenya Municipal Program (KMP). This overview report is first report among a set of six reports comprising of the overview report and five city-specific reports for Nairobi, Mombasa, Kisumu, Nakuru and Eldoret. The study was undertaken by a team comprising of Balakrishnan Menon Parameswaran (Team Leader, World Bank); James Mutero (Consultant Team Leader), Simon Macharia, Margaret Ng'ayu, Makheti Barasa and Susan Kagondu (Consultants). Matthew Glasser, Sumila Gulyani, James Karuiru, Carolyn Winter, Zara Inga Sarzin and Judy Baker (World Bank) provided support and feedback during the entire course of work. The work was undertaken collaboratively with UN Habitat, represented by David Kithkaye and Kerstin Sommers in Nairobi. The team worked under the guidance of Colin Bruce (Country Director, Kenya) and Jamie Biderman (Sector Manager, AFTU1). The team also wishes to thank Abha Joshi-Ghani (Sector Manager, FEU-Urban), Junaid Kamal Ahmad (Sector Manager, SASDU), Mila Freire (Sr. Advisor, FEU), and William John Cobbett (Manager, Cities Alliance) for the valuable feedback as the peer reviewers.

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Abbreviations and Acronyms

ACEG	African Center for Economic Growth
AFD	Agence Française de Dévéloppement (French Development Agency)
CBD	Central Business District
CBO	Community Based Organization
CCNSF	City Council of Nairobi Stakeholder Forum
CDF	Constituency Development Fund
CKRC	Constitution of Kenya Review Commission
DHS	Demographic and Health Survey
ELDOWAS	Eldoret Water and Sanitation Company
ERS-WEC	Economic Recovery Strategy for Wealth and Employment Creation
FBO	Faith-Based Organization
FGD	Focus Group Discussion
GDP	Gross Domestic Product
GIS	Geographic Information System
GOK	Government of Kenya
GPT	Graduated Personal Tax
JB	Jamii Bora
KACC	Kenya Anti-Corruption Commission
KARA	Kenya Association of Residents Organization
KIHBS	Kenya Integrated and Household Budget Survey
KNAO	Kenya National Audit Office
KEPSA	Kenya Private Sector Alliance
KENSUP	Kenya Slum Upgrading Program
KCBDA	Kisumu Central Business District Association
KIPPRA	Kenya Institute of Public Policy Research and Analysis
KIWASCO	Kisumu Water and Sanitation Company
KLGRP	Kenya Local Government Reform Program
Ksh	Kenya Shilling
LA	Local Authority
LAIFOMS	Local Authority Integrated Financial Operations Management System
LASC	Local Authority Service Charge
LASDAP	Local authority Service Delivery Action Plan
LATF	Local Authority Transfer fund
LGA	Local government Act
LED	Local Economic Development
MMC	Mombasa Municipal Council
MP	Member of Parliament
NACHU	National Cooperative Housing Union
NCBDA	Nairobi Central Business District Association
NESC	National Economic and Social Council
NGO	Non-Governmental Organization
ODPM and MoLG	Office of the Deputy Prime Minister and Ministry of Local Government

PBM	Performance-Based Management
PC	Performance Contract
PLGO	Provincial Local Government Officer
PPA	Public Procurement Act
PPP	Public-Private Partnership
PSRP	Public Service Reform Programme
RA	Residents Association
RMLF	Roads Maintenance Levy Fund
RUSPS	Rapid Urban Sector Profiling for Sustainability
SACCO	Savings and Credit Cooperative
SBP	Single Business Permit
SC	Service Charter
SFC	Schedule of Fees and Charges
TI	Transparency International
Ufw	Unaccounted for Water
USD	United States Dollar
WMS	Welfare and Monitoring Survey
WSB	Water Service Board
WSRB	Water Services Regulatory Board

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Background

After many decades of stagnation, Kenyan economy started to grow from the early-2000s. A large share of this growth originated in urban areas, especially in its largest urban centers which account for the much of the country's physical, financial, intellectual and technological capital. The five largest cities of the country are Nairobi, Mombasa, Kisumu, Nakuru and Eldoret. Together, they accommodate a third of the country's urban population and generate around 70 percent of the gross domestic product (GDP). Nairobi alone accounts for more than 50 percent of the GDP. They contribute significantly to national economic growth by increasing productivity at the firm and industry levels via agglomeration economies, increasing household welfare through social mobility and human development, and promoting institutional change.

Yet, it has been argued that Kenyan cities, especially Nairobi and other large cities, are not realizing their full potential. Rapid urbanization has left them with huge backlogs in critical infrastructure and basic services, resulting in sprawling, overcrowded and impoverished informal settlements. The management of these cities has been dogged by fragmentation in responsibilities, lack of accountability at the local level, and weak capacities of key institutions. Within the next 20 years or so, the majority of the Kenyan population is expected be urban residents—posing even greater socio-economic, environmental and institutional challenges for Kenyan cities.

Despite the notable demographic and economic weights of Kenya's largest urban centers, there is no single study that gives a comprehensive overview of their urban landscape. The objective of this study is to fill that gap by documenting and analyzing the situation in Kenya's five largest urban centers. The study aims to provide data and analysis regarding the state of these cities to help inform the evolving urban agenda in Kenya and to provide inputs into the preparation of the Kenya Municipal Program.

Methodology and structure of the study

City profiling dealt with four themes: urban governance, local economic development, basic urban services, and shelter and slums. The information collected sought to provide insights into the governance, economic, and human dimensions of Kenya's five largest cities. Given the primacy of these cities in the urban system of the country, the issues faced by these cities somewhat reflect the broader challenges faced by Kenya's urban system.

Urban governance explored how the five cities are governed and financed and the implications of this on their performance. Of particular interest were how the existing systems of intergovernmental finance as well as local public administration supported or hindered efficient and accountable functioning of local authorities (LAs). The purpose of investigating local economic development (LED) was to assess the main economic issues facing each city, and to identify the factors that most affect local economic performance. The role of LAs and other stakeholders in LED was also examined. The investigation of basic urban services focused on a range of services that have traditionally been provided by LAs and public utilities: water and sanitation, solid waste management, and electricity. The main concerns were to delve into the broad institutional and financial issues surrounding service delivery, to examine access for the poor to services, and to explore the implications of service delivery for the local economy. Examining slums and shelter aimed to generate information on the living conditions of the poor with a focus on issues concerning access to land, services, and shelter. Of particular interest were questions related to security of tenure for the poor, public policies towards slums, and slum upgrading and finance.

To collect information on the five cities, the study employed the Rapid Urban Sector Profiling for Sustainability (RUSPS) approach developed by UN-HABITAT. The RUSPS process emphasizes stakeholder participation in the rapid profiling of cities. Information was collected from a wide range of interest groups--local public officials, service providers, civil society organizations, and the private sector through stakeholder interviews and focus group discussions. In most cases, these generated varied and interesting perspectives on city issues. The city profiling was complemented by an extensive literature survey on the political economy, institutional and social aspects of Kenya's urbanization and its local government institutions. This survey provided critical insights on the policy challenges at the national level that inhibit the efficient management of cities. The aim was to develop a better understanding of how the five cities have performed across the four study themes in the face of a poorly performing economy and a dysfunctional governance system.

The overall study is organized as a set of six reports: one overview report and five city-specific reports. This overview report pulls together the main findings of the RUSPS survey and sets out a short menu of policy recommendations that cut across all cities and, in fact, has a bearing on how the Government manages the urban transition in the coming years. The five companion reports provide city-specific profiles of the 5 cities. They provide detailed data and analysis on the state of each city in the study sample. These reports also carry city- and sector-specific recommendations.

Key findings and conclusions

The study finds that the five cities have performed poorly in many respects. On multiple fronts—in ensuring an accountable and responsive administration, in delivering efficient services to citizenry, in promoting local economic development, and in devising effective strategies for dealing with slums—the failures of the state have curbed the potential of these cities and impaired the lives of its residents.

A large share of the population in all these cities live in appalling conditions in slums—within Nairobi's administrative boundary, for example, it is conservatively estimated that at least 30 percent of the residents are slum dwellers, while in Kisumu those numbers may be as high as 60 percent or so. Kibera, a slum settlement outside Nairobi and among the largest informal settlements in all of Africa, exemplifies the enormity of human challenges facing Kenya's largest cities. Many of its residents live without title or tenure security, defecate in the open, walk through pools of mud and dirt, and face constant threats to their physical security and well being. In the absence of well defined policies, effective coalitions, and substantial investments to improve physical, social and human capital in these settlements, an increasingly marginalized future beckons large numbers of urban poor in these cities.

Many urban services are at a breaking point in these cities. Water supply is characterized by low levels of coverage, unreliable services, systems that have not been modernized or maintained, and UfW levels that range between 40 and 60 percent. In Nairobi and Mombasa only 52 and 42 percent households respectively are connected to electricity. These figures drop dramatically where urban poor reside. With the exception of Eldoret, collection of solid waste in all the cities range between 20 and 50 percent. None of the cities have an efficient public transport system, while accidents proliferate, and congestion and air pollution intensify. Local businesses are hampered by corruption, crime, infrastructure deficiencies, and problems in obtaining various permits.

The current levels of capital investments by local authorities in these cities are far short of what is required to maintain even existing standards of service let alone address the huge backlogs. For example, per capita expenditures on capital development in 2005-06 were as low as Ksh. 199 in Nairobi and Ksh. 62 in Kisumu. The share of capital spending in total expenditure ranged from 8 percent in Nakuru to 24 percent in Eldoret 2005/06. In Nairobi, which faces major backlogs, this number was a mere 13 percent. All the cities are deep in debt while their annual expenditures are dominated by salaries and wages.

These challenges are compounded by a leadership vacuum and a serious accountability deficit at all levels of urban polity. It is therefore no surprise that the city residents and businesses are highly unhappy. A recent study held that only 20-25 percent of respondents in Mombasa and Nakuru, 10 percent in Eldoret, and less than 5 percent in Nairobi and Kisumu believed that their urban authority was doing a good job **(cite)**. Similarly, a survey of 282 formal manufacturing firms in the five cities to rate the efficiency of the councils or the government in delivering services, elicited a "Very Inefficient" or "Inefficient" response from about 76 percent of firms **(cite)**. Other Local Authorities/Ministry of Local Government and Nairobi City Council were ranked second and third in the Kenya Bribery Index (2008) among a list of organizations in terms of likelihood of encountering bribery.

The main reason for this poor performance, the study argues, is the marginalization of LAs by the state as it sought to strengthen the powers of the chief executive, starting in the late 1960s. In those early years of the independent Kenyan state, this marginalization saw the central government take over several key functions that were hitherto the responsibility of local government: primary education, health and road maintenance. The shift of responsibilities to the center was accompanied by the dilution of fiscal transfers to local authorities and the emergence of parallel and competing funding channels. These and other measures undermined the financial health of local governments and their capacity to respond to important local needs and priorities. This neglect of city governments was later reinforced by cutbacks in social spending by the state on services such as health.

The marginalization of the local state from the top has been compounded by low levels of local capacities. Within cities, absence of effective institutional channels for citizens to communicate with their LAs has led to weak downward accountability. The constant flux of senior public officials like the Town Clerk and the limited powers that elected local officials can exercise over their bureaucracy diffuse management authority and dilute accountability further. The ranks of local bureaucracy are further demotivated by low salaries and limited career prospects. All of these have together left a trail of poorly managed cities.

While the above suggests a rather bleak scenario, it must also be noted that in recent years, the Government has become more aware of the ills that plague its urban centers. The Government's *Vision 2030* highlighted rapid urbanization as one of four key challenges for the country. Several encouraging initiatives, most of them rather ad hoc though, suggest that fixing its cities is now viewed as a priority by the Government. Thus, in a bid to make local administrations accountable and improve services, the Government has introduced Service Charters (SCs) and Performance Contracts (PCs) in these cities. It has also imposed conditions of good governance and financial management as part of its annual LATF transfers to the cities. Water supply in some cities has seen promising improvements following greater clarity in regulatory and institutional frameworks and the establishment of water utility companies; public participation is now mandated through the LASDAP process; and an integrated financial management system has been set up to improve financial controls and improve fiscal discipline in many LAs. Together these measures have ushered in some improvements in recent years.

Rebuilding cities of hope

Yet, much more than ad hoc actions are needed to revitalize the five largest cities that the lifelines of the nation's economy. The root causes of their current malaise are complex and multidimensional, and provide no easy answers or quick fixes. They demand comprehensive view and long term approaches—an especially arduous task considering the challenging political environment in which these cities operate. Yet, for this study to deliver something that can translate into a way forward, it is critical to find focus within this complex labyrinth—a priority list of themes around which discussions and debates can focus in the short to medium term, and a consensus set of actions can emerge, bringing together the Government, the development partners and the civil society in general.

With this in view, the study presents three key themes to improve conditions in the five largest cities: (i) reversing the marginalization of local governments and reforming local governance systems; (ii) addressing infrastructure backlogs and improving service delivery; and (iii) improving living conditions in slums and opportunities for slum residents.

Reforming and strengthening the LAs in the five cities, and in general all over the country, require recognizing their preeminent role over local governance and service delivery decisions, and taking measures to build an accountable and capable local state. The elements of such a reform would include:

- *rationalizing the assignment of service delivery sectors and functions, and according appropriate level of discretion to LAs to deliver the assigned functions*. In this regard, a policy of incremental and asymmetric decentralization that recognizes the differences in capabilities and resources of cities may be the right approach for Kenya at this point.

- *supporting functional assignments with efficient and transparent intergovernmental fiscal frameworks and sustainable local financing systems*. This would call for rationalizing the multiple and sometimes competing fund flow channels to cities, as well as, concurrently, enhancing direct transfers to them. The LAs need to improve their revenue mobilization capabilities and urgently address their substantial debt problem with central support. Appropriate institutional arrangements for intergovernmental fiscal relations, such as a Local Government Finance Commission, should underpin these reform measures;

- *strengthening local level political, administrative and fiscal accountability systems*. There is scope to build on recent initiatives such as the LASDAP process, the SCs and PCs, and the stakeholder forum in Nairobi, by developing a greater range of institutional avenues to make local public accountability an ongoing and systemic affair. Specific measures could include extending stakeholder forums to other four cities while strengthening the forum in Nairobi, having consultative mechanisms at the ward level, and giving LASDAP process more teeth by linking it to public expenditure process. There is also a case for bolstering public financial management system by boosting the annual audits through KNAO, accelerating the implementation of the integrated financial management system, and institutionalizing local M&E systems to better monitor and evaluate LA performance;

- *developing efficient and responsive local administration systems* by addressing staffing issues, both numbers and skill mix, within LAs in the context of a comprehensive human resource policy for LAs, and strengthening the role of local government associations. A pressing issue in this regard is ensuring a minimum tenure of at least 3 years for senior administrative and technical staff within LAs.

The real challenge lies in developing a roadmap for reform that has the broad buy in of key stakeholders and is congruent with the prevailing political economy.

Issues in infrastructure and services are closely tied with the reform of the local government system. A key aspect of that reform will be to bring greater clarity in the institutional arrangements for delivery of various urban services with a view of encouraging both accountability to citizens and efficiency in operations. That acknowledged, to address infrastructure backlogs and improve basic services, the five largest cities need to prepare and implement a capital investment plan (CIP). The Government also needs to encourage public private partnerships (PPPs) through enabling policy frameworks, and acknowledge and support the valuable role played by alternate service delivery modes, especially in reaching the poor.

The vast swathes of slum settlements that are ubiquitous in all the five cities warrant urgent attention of all levels of government. The benefits of upgrading efforts in Nairobi, even though they have been rather ad hoc and piecemeal, have been documented by an earlier study.[1] Even though the political, institutional and financial costs of a national level slum upgrading program are bound to be tremendous, these are likely to be far outweighed by the long term benefits welfare, environment and economy.

The success of large scale slum upgrading strategies will depend on three factors: developing reliable baseline information about slums and its residents; ensuring political will and long term commitment by building broad coalitions that can transcend short term political expediencies; developing effective strategies at the national, city and cluster level that can translate into viable programs that are supported with real resources. The success of course will be determined by the ability of these strategies and programs to be flexible to evolving conditions over time.

[1] Gulyani et al. (2008)

1. Introduction

1.1 Background

After many decades of stagnation, Kenyan economy started to grow from the early-2000s. Much of this growth has been attributed to Total Factor Productivity improvements in Kenyan economy arising out of many factors. A large share of this growth originated in urban areas--in the service and manufacturing sectors. These gains also paralleled reduction in poverty and higher enrolment in primary education.

In all of these, Kenya's largest urban centers had a vital role to play since they account for the lion's share of the country's physical, financial, intellectual and technological capital. They contribute significantly to national economic growth by increasing productivity at the firm and industry levels via agglomeration economies, increasing household welfare through social mobility and human development, and promoting institutional change.[2] The five largest cities of the country are Nairobi, Mombasa, Kisumu, Nakuru and Eldoret. These five cities play a central role in Kenya's urbanization and economy: together, they accommodate a third[3] of the country's urban population and generate around 70 percent of the gross domestic product (GDP). Nairobi alone accounts for more than 50 percent of GDP[4].

Yet, it has been argued that Kenyan cities, especially Nairobi, are not realizing their potential to contribute to economic growth and poverty reduction. Rapid urbanization has left Kenyan cities with huge backlogs in critical infrastructure and basic services, resulting in sprawling, overcrowded and impoverished informal settlements. The management of these cities has been dogged by fragmentation in responsibilities, lack of accountability at the local level, and weak capacities of key institutions. Within 20 years or so, the majority of the Kenyan population are expected be living in urban areas. This scale of urbanization will pose further socio-economic, environmental and institutional challenges for Kenyan cities. The Government's *Vision 2030* has highlighted rapid urbanization as one of four key challenges for the country alongside income inequality, unemployment and low savings.

Despite their notable demographic and economic weights of urban centers in Kenya, there is no single study that gives a comprehensive overview of the urban landscape in Kenya. The objective of this sector work is to fill that gap by documenting and analyzing the situation in Kenya's five largest urban centers. The study aims to provide data and analysis regarding the state of these cities to help inform the evolving urban agenda in Kenya and to provide inputs into the preparation of the Kenya Municipal Program (KMP).

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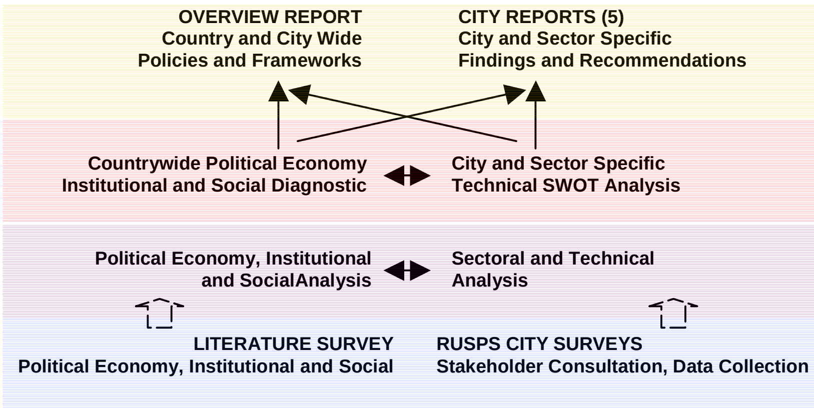
[2] Lall (2005), p. 2.
[3] 1999 Housing and Population Census
[4] Report from the National Urban Forum (2006)

1.2 Methodology and structure of the study

City profiling dealt with four themes: urban governance, local economic development, basic urban services, and shelter and slums. The information collected sought to provide insights into the governance, economic, and human dimensions of Kenya's urban sector.

Figure 1: Structure of the study



Urban governance enquired into a wide range of municipal governance and finance issues, seeking to understand how the five cities are governed and financed and the implications of this on their performance. Of particular interest were how the existing systems of intergovernmental finance as well as local public administration supported or hindered efficient and accountable functioning of local authorities (LAs).

The purpose of investigating local economic development was to gauge local economic dynamics, to assess the main economic issues facing each city, and to identify the factors that most affect local economic performance. The role of municipal governments and other stakeholders in local economic development was also examined.

The investigation of basic urban services focused on a range of services that have traditionally been provided by municipal authorities and public utilities: water and sanitation; solid waste management; and electricity. The main concerns were to delve into the broad institutional and financial issues surrounding service delivery, to examine access for the poor to services, and to explore the implications of service delivery for the local economy.

Examining slums and shelter aimed to generate information on the living conditions of the poor with a focus on issues concerning access to land, services, and shelter. Of particular interest were questions related to: (a) security of tenure for the poor; (b) public policies towards slums and whether or not municipal governments are able to respond to this challenge; and (c) slum upgrading and finance for the poor.

To collect data and information from the five cities, this study employed the Rapid Urban Sector Profiling for Sustainability (RUSPS) approach developed by UN-HABITAT. The RUSPS process emphasizes stakeholder participation in the rapid profiling of cities. Stakeholder interviews were conducted using questionnaires formulated by UN-HABITAT, customized for the Kenyan setting. Information was collected from a wide range of interest groups: municipal political leaders and officials; service providers; civil society organizations; and the private sector. Wherever possible, interviews took the form of focus group discussions (FGDs), drawing together small numbers of respondents to debate topics of interest. In most cases, FGDs generated varied and interesting perspectives on city issues.

The city profiling was complemented by an extensive literature survey on the political economy, institutional and social aspects of Kenya's urbanization and its local government institutions. This survey sheds light on the macroeconomic and political context within which these cities are managed. They provide critical insights on the policy challenges at the national level that inhibit the efficient management of these cities.

The aim is to develop a better understanding of how the five cities have performed across the four study themes in the face of a poorly performing economy and a rather dysfunctional governance system. An important feature of the study is the use of international experience to illustrate how cities in other countries have tackled common problems. The utility of such comparator information lies in the demonstration of what is feasible and not in providing examples to be applied without adaptation to local conditions.

The overall study is organized as a set of six reports: one overview report and five city-specific reports. This overview report pulls together the main findings of the RUSPS survey. The overview report is organized as follows: this chapter provides an introduction to the study, which includes a description of the study methodology, as well as a summary description of the macroeconomic and political setting of the country. Chapter 2 examines the general role of cities and urban economies in Kenya's development. It also describes the five cities in the sample. Chapter 3 looks at the political economy of local government in Kenya and the political forces that have shaped urban outcomes. Chapter 4 and 5 together examine the case study cities based on simple accountability framework linking policy makers, service providers and citizens. While Chapter 4 analyzes the governance and management issues, Chapter 5 covers the economic and human challenges confronting these cities. Chapter 6 sets out a short menu of policy recommendations that cut across all cities and, in fact, has a bearing on how the Government manages the urban transition in the coming years.

The five companion reports provide city-specific profiles of the 5 cities in the sample. They provide detailed data and analysis on the state of each city in the study sample. These reports also carry city- and sector-specific recommendations. They were prepared as intermediate products of the study process, drawing on interviews of stakeholders in the five cities. The reports were also informed by stakeholder workshops conducted in 2007.

The study finds that the five cities and their municipal authorities have not performed well in many respects: in accountability, especially with regard to service delivery to their citizenry; in promoting local economic development; and in devising strategies for dealing with slums. The main reason for this poor performance, the study argues, is the marginalization of local authorities by the state as it sought to strengthen the powers of the chief executive, starting in the late 1960s. In those early years of the independent Kenyan state, this marginalization saw the central government take over several key functions that were hitherto the responsibility of local government: primary education, health and road maintenance. The shift of responsibilities to the center was accompanied by the reduction of fiscal transfers to local authorities (LAs), thus undermining the financial health of local government and its capacity to respond to some of the most important local needs and priorities. This neglect of city governments was later reinforced by cutbacks in social spending by the state on services such as health.

To shed light on the wider context of this marginalization, the study examines the political economy of local governance in Kenya. But the story is more nuanced since the cities in the study, as argued later, have been treated differently by the state, a treatment that has led to different outcomes. Moreover, outcomes have also been impacted by a host of other local factors: the extent to which municipal authorities have been able to manage their own resources, however limited; and the level of accountability and corruption within these organizations. In addition, outcomes have been influenced by the interventions of other service providers such as NGOs[5], CBOs[6] and private sector entities, all of which are active in the five cities. In the main, the entry of these providers has been spurred by the failure of LAs to provide services as well as by the onset of public policies that deliberately promote privatization and public-private partnerships. In spite of these other influences, investigations suggest that political and fiscal marginalization as well as poor urban management, are the most critical determinants of LA performance.

1.3 Economic and Political Setting

1.3.1 Macroeconomic Context[7]

At the time of its independence, Kenya was the most prosperous country in East Africa with its GDP per capita rising by 38 percent between 1960 and 1980. In the following two decades, up until the 2000s, however, the economy stagnated and sustained per capita income growth became an elusive target. Per capita output grew at a trend rate of only 0.6% annually during 1981-93, and in eleven out of thirteen years from 1991 to

[5] Non-Governmental Organizations

[6] Community-Based Organizations

[7] This section draws upon a number of recent World Bank reports among them Kenya: Accelerating and Sustaining Growth (2008a); Economic Impact of Political Crisis in Kenya: 2008 and Beyond (2008b); Kenya Social Analysis (2007); EIU country reports (2007, 2008), and various Oxford Analytica reports.

2003, there was zero or negative per capita income growth. In fact the per capita income in 2002, at US$360, was lower than in 1990, at $380. It is estimated that the proportion of Kenyans living in poverty rose during the 1990s from about 48.8 percent in 1990 to 55.4 percent in 2001 (World Bank 2003a).8 Paralleling its economic decline, Kenya's social indicators also deteriorated during this period: for example, infant mortality rose from 63 (per 1,000 births) in 1990 to 78.5 in 2004, while life expectancy declined from 57 to 48 years during the same period9 (CBS 2004 quoted in World Bank 2007).

1.3.2 Recent gains

Table 1: Key economic indicators

Indicator	**2000**	**2005**	**2006**
GDP (current US$)	12.7 billion	19.1 billion	22.8 billion
GDP growth (annual %)	0.6	5.7	6.1
Inflation, GDP deflator (annual %)	6.1	6.3	7.1
Agriculture, value added (% of GDP)	32.4	26.8	27.1
Industry, value added (% of GDP)	16.9	19.1	18.8
Services, etc., value added (% of GDP)	50.7	54.1	54.1
Exports of goods and services (% of GDP)	21.6	27.9	26.2
Imports of goods and services (% of GDP)	29.6	35.2	36.0
Gross capital formation (% of GDP)	17.4	16.6	19.4

Source: World Bank. World Development Indicators database, April 2007

After two decades of stagnation and decline, the economy finally started to grow after 2002. Political uncertainty that loomed before the December 2002 elections came with attendant uncertainty about economic outlook. Interest rates were high, investor confidence was low and the government's relations with its development partners were at an impasse. As noted by the World Bank (2008a), "the economy was moribund." The peaceful change in political leadership during the 2002 elections produced a notable economic dividend. Starting in 2003-04, with the implementation of the Economic Strategy for Wealth and Employment Creation, Kenya's economic outcomes began to change for the better. From 0.6 percent in 2002, the real GDP grew at a rate of 5.8 percent in 2005, 6.1 percent in 2006 and nearly 7 percent in 2007. The average growth rate from 2003 to 2006 was 4.9 percent per year. Many sectors of the economy grew at significant rates during the period: for example, between 2003 and 2007 growth rates rose from 1.3 percent to 5.4 percent in agriculture, 0.1 percent to 6.8 percent in manufacturing, 4.4 percent to 14.9 percent in hotel and restaurants, and -2.5 percent to 10.9 percent in wholesale and retail trade, respectively (GOK, 2008).

This economic turnaround resulted in significant reductions in rates of income poverty, higher flows of external assistance, declining interest rates, greater investor confidence, and improvement in growth and welfare prospects. The country made notable strides towards achieving its MDG goals—for example, KIHBS poverty data indicates that national absolute poverty declined from 52.3 percent in 1997 to 46.1 percent in 2005-06. The gains in urban areas were particularly notable—whereas in rural areas, overall

[8] Tracking Kenyan poverty trends in the 1990s and before is made difficult by the absence of comparable household data, hence these are estimates (World Bank, 2003a).
[9] In part due to the HIV/AIDS pandemic.

poverty declined from nearly 53 percent in 1997 to about 49 percent in 2005/6, in urban areas, it declined from around 49 percent to 33 percent. Primary school enrollment also went up from 6.1 million in 2003 to 7.8 million in 2007.[10] Kenya's success in improving business climate during this period has been documented in the Doing Business report (World Bank 2008c), which cited it as one of the top 10 reformers from around the world in the 2006/07 period. Spurred by the successes of the previous four years, in 2007 the government set out an ambitious target of 10 percent annual real growth for 20 years from 2011 onward to transform Kenya into a middle-income country by 2030.

Despite these impressive gains, poverty and inequity are still major challenges for Kenya. In absolute terms, 16.7 million of the 35.5 million 2005/6 population was projected to be poor. Inequality remains high. The distribution of income, measured by the Gini coefficient per adult equivalent, was estimated at 39 in rural areas and 49 for urban areas. Income disparities in the rural areas have gone down since 1997, while those in the urban areas have increased slightly. Serious bottlenecks to investment—and thus to growth—continue to persist. Infrastructure services remain costly and unreliable. Institutions at a microeconomic level are not efficient and do not deliver effectively. Corruption continues to be a major problem. Only if the benefits of recent economy improvements are more equitably shared can Kenya hope to reverse some of these bleak statistics.

1.3.3 The 2007 elections and aftermath

Following elections in December 2007, the country was rocked by allegations of irregularities in vote count and electoral fraud. This led to widespread rioting that left more than 600 people dead and 300,000 displaced. The ramifications of this on the economy have been staggering. The violent disruption to the free flow of goods, labor and money affected all sectors of the economy and resulted in damage to physical assets, displacement of large numbers of people; loss of confidence among investors and tourists; and loss of social capital. Inflation has continued to soar, reaching 26.6 percent year on year in April 2008—the highest rate since 1994. Potential damage to agriculture, a slowdown in the growth rate of private consumption, rising oil prices, and a looming global slowdown, all pose further risks to the Kenyan economy.

On the political front, a broad-based government of national unity is now in place with Mwai Kibaki as the president and his chief electoral rival Raila Odinga as the prime minister. This has also led to the beginning of an economic recovery process. The initial reaction of markets has been positive. The crisis had led to cuts in certain development expenditures. It also left a direct impact on poverty. Preliminary estimates point out that poverty headcount has increased by 22 percent and a measure of severe poverty has gone up by 38 percent—which means gains made over the past five years on this front have been reversed (World Bank 2008b). The new government faces significant challenges in the short run, starting with settlement of internal refugees and putting in place of an economic recovery package. In the medium term the policy focus is likely to increasingly shift to structural reforms such as privatization and deregulation, and the implementation of Kenya's "Vision 2030" strategy. Negotiations over fundamental issues such as land reform and a new constitution also pose a big challenge as does political feuding which

[10] This happened with the introduction of free primary education.

could complicate policy making. Assuming that the power-sharing arrangement holds and the country returns to normalcy, a base case economic growth rate of about 3 percent could be expected for 2008. A credible set of fiscal and economic management measures, and increased donor funding could potentially add 1-1.5 percentage points to the base case rate. On the other hand, more ethnic violence, political instability with policy paralysis, and weak donor support could result in zero or negative growth rates in 2008.

Notwithstanding this, a recent World Bank note on the Economic Impact of Political Crisis in Kenya: 2008 and Beyond (2008b) notes that high growth, even at pre-crisis levels, is difficult to achieve for two reasons: one, the two key underlying causes for the recent growth—prudent macroeconomic management and political stability—have weakened; and two, the five-year growth spurt had temporary components, such as improvement in capacity utilization after prolonged stagnation, low international interest rates and high growth rates in partner countries, which cannot be assumed in the future.

To put the Kenyan economy on a steeper trend growth rate much more would need to be done. Economists and policy planners point that attention should be paid to reducing the cost of transportation services including logistics and telecommunication services, and improving the reliability of energy supply; reducing the costs and risk that stem from inadequate security and corruption; and improving access to finance to small and rural entrepreneurs. These measures would improve productivity as well as enhance international competitiveness, and thereby hasten Kenya's integration into the global economy.

1.3.4 The Institutional Challenge[11]

Public policies, programs, and resources are translated into development outcomes at the individual or household level only through institutions, and political and social systems. To that extent, this short review of the political economy of public institutions in Kenya aims to provide a snapshot overview of the evolving institutional landscape shaped by various political and social factors in Kenya since its independence.

The coastal region of what is now modern Kenya has developed through more than five centuries of Indian Ocean trade. Kenya was declared a British protectorate in 1895, with a white settlement starting in the early 1900s. A nationalist movement led by Jomo Kenyatta, in which several thousands lost lives, led to Kenya's independence in December 1963. In the following year, the country was declared a republic.

In its early years, Kenya was a *de facto* one party state led by President Kenyatta. Following his death in 1978, the presidency passed to Daniel Arap Moi who was to lead the country for the next 24 years. This period was defined by increasing ascendancy of presidency and constitutional moves towards a single party state. A constitutional amendment in 1982 turned Kenya into a *de jure* one party state. Further amendments substantially increased the president's powers. In 1988 Moi was reelected for a third

[11] This section has drawn from various recent World Bank documents, among them Country Assistance Strategy for Kenya (200x); Kenya: A Governance Overview Note (2006); and EIU country reports for Kenya, Oxford Analytica

term. However, popular protests and strong donor pressure for ending the one party system soon ensued. In December 1991, the constitutional amendment making Kenya a one-party state was scrapped. Yet, Moi went on to win again in 1992 and 1997.

The 2002 election was a watershed in Kenyan political history. The constitution barred Moi from standing again in 2002. The opposition, led by Mwai Kibaki of the Democratic Party, formed the National Rainbow Coalition (NARC). Both Kibaki and NARC won convincing victories in the December 2002 presidential and parliamentary elections, thereby giving Kenya a new ruling party for the first time since independence.

Box 1: Regionalism in Kenyan politics

Regionalism is commonly known in Kenya as majoimboism. Calls for devolution of economic and political power to the provinces have been particularly emotive and important part of the political debate since independence. Regions are commonly used by politicians as a proxy for ethnicity. Despite a brief experiment with regional assemblies in 1963-64, Kenya has otherwise maintained a highly centralized form of government. Power rests with the executive branch and the most powerful force in local government is the provincial administration, an unelected prefectural body that answers to the executive. Opponents of various presidents have generally coalesced around the notion of devolution as a means to reduce the powers of presidency. However, ideas of what form that devolution should take vary greatly.

However, divisions over both power sharing and more consequential issues such as constitutional changes proved to be too deep, and NARC progressively fell apart in 2004 and 2005. The President formed a new government of national unity in July 2004. But the fragile unity was further eroded in 2005, largely because of splits over the proposed new constitution. Kibaki's camp rejected the draft constitution that emerged from the national constitutional conference at Bomas in March 2004, which called for the transfer of power from the president to parliament and from Parliament to the regions, and put forward an alternative version in mid-2005, called the "Wako" draft. The Wako draft was put for referendum in November 2005. In a striking result, the government lost the referendum. Many noted that these results were a likely indication that Kenyans favor critical changes in the Constitution, including rethinking of presidential powers. Yet, that change continues to be elusive, especially after the volatile December 2007 elections and the subsequent turn of events. With a coalition government in power, any agreement on major reforms to existing political and institutional structures appears unlikely at this point.

1.3.5 Politics of patronage and rents

Over the last several decades Kenya has developed into a patrimonial state where the structures of a modern nation state exist mostly in the formal sense, but actual power operates through a web of informal, clientilist networks based on personal ties between leaders and supporters at all levels of the political hierarchy. These informal networks have permeated public institutions and subverted formal rules. They have undermined systems of public accountability and created conditions where corruption could flourish. These patronage networks have a strong ethnic and gender element in their composition and operation. A key feature of patronage politics in Kenya is that the poor remain at the bottom end of patron-client networks.[12]

In the current set up, political parties offer only limited potential as a source of pressure for change. Since multi-party politics was restored in 1992, numerous political parties have been established. Many are, however, personalized enterprises principally formed along ethnic lines and serving as an instrument for elites to compete for power. Because of this political parties are largely absent from serious policy debates. Many of them lack an organizing vision and a coherent policy platform. Interestingly, no party commands a large national following.

The 2002 election was an important sign of growing political competition and a rejection of patronage-driven style of government. Yet that reform momentum appears to be hampered by the historical legacy of patronage and clientelistic networks, one which obviously does not disappear merely due a change in government. Paramount was in fact the constitutional review which was proposing measures to limit executive powers and to devolve some authorities to the local level, as well as dealing with corruption in the judiciary and the like. From a longer term perspective, the rejection of the draft Constitution by voters in 2005 implied that the fractious debate over the nature and scope of broad-based institutional and governance reforms will continue, at least for some time to come.

1.3.6 Progressive institutional decline

The Kenya government is structured as a representative republic. The country is led by an elected president who is both the head of state and head of government. The President is elected by popular vote, and must also be an elected member of parliament. The president chooses his cabinet from among the members of the legislative National Assembly. The President, Vice-president and the cabinet make up the executive branch of the Kenya government. The legislative branch is made up of a National Assembly consisting of both elected and nominated members. Below the central government, there are a number of smaller divisions of government for day-to-day management of political and administrative affairs. The 8 provinces are broken down into 69 districts, each led by an appointed commissioner. The districts are further divided into divisions.

Kenya gained independence from Britain on a constitution of detailed checks and balances. On the vertical axis, government authority was shared between national and regional governments on a loose federal scheme while on the horizontal axis powers were balanced out between the judiciary, the executive and the legislature. Key public institutions were insulated from political interference through special constitutional provisions. Parliament was bicameral, consisting of a House of Representatives and a Senate, and elections to both houses were managed by an independent Election Commission.

Over forty years and nearly thirty constitutional amendments later, much of the ensemble of institutions set up by the independence Constitution has been virtually dismantled.

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[12] World Bank (2006). Kenya: A Governance Overview Report

Regional governments were first weakened and then abolished; thresholds for constitutional amendments were lowered; checks on emergency powers were relaxed; the two-chamber Parliament was dismantled; and the security of tenure provisions for constitutional public agencies were scrapped. Although the country has maintained civilian rule since its independence and held elections every five years, major flaws with electoral processes continue to challenge the integrity of the system. But for a two five-year presidential term limit introduced in 2001, the powers of presidency were sharply increased in parallel during this period and the office of the President became the main conduit for government policy, especially in key areas. This long history of tinkering eroded the principles of constitutionalism embedded in the independence Constitution and resulted in progressive decline of key institutions of the state.[13]

[13] Op cit.

2. Role of Cities and Urban Economies in Kenya's Development

2.1 Background to urban development in Kenya

The first urban centers in Kenya, such as Mombasa on the Indian Ocean, are associated with the growth of maritime trade with the Middle East, dating as far back as the 11th century AD. In the hinterland, the main urban centers developed along the railway line and are interconnected by a road and communication system that was originally installed to facilitate effective exploitation of local resources by the colonial power. Founded at the end of the 19th century, Nairobi soon became the administrative capital of the colonial administration and a major distribution point for cargo destined for the farming outposts around the central Kenya highlands. Besides its role as the seat of government, it is the country's principal commercial and industrial center. Nakuru and Eldoret grew as service points for large scale farming interests of colonial elites that had close ties with the administrative and political class in Britain. Kisumu developed as a railway and inland port town providing transport links to Uganda and northern Tanzania. The most urbanized belt of the country, where more than 80 percent of the cities are located, has its origins in the spatial structure of the rail and communication network of the colonial administration.

The five cities, and others, are connected by the ongoing road infrastructure development program which links the East and Central Africa countries.[14] The Northern Transport Corridor, as it is called, connects the port of Mombasa to Nairobi, as well as to Uganda, Rwanda, Burundi and the Democratic Republic of Congo, countries which provide over 80 percent of the domestic and regional trade for Kenya[15]. The bulk of industrial production and employment creation by all sectors in the country also takes place in the same corridor. The pattern of industrial development has closely followed the spatial structure of urbanization in Kenya, convincing policy planners that cities are the engine of economic growth in the country.[16]

2.2 An increasingly urban future for Kenya

2.2.1 Urban-centered economic and social development

During the 1960s and 70s, Kenya, like most developing countries, adopted policies that favored rural development due to the predominance of the agricultural sector and because over 90 percent of the people were poor farmers on small-scale holdings. Cities were seen as parasitic, with terms of trade skewed in their favor at the expense of rural communities. Public investment in urban infrastructure, according to this school of thought, targeted a small elite and was subsidized by farmers who produced tradable

[14] The US$ 207 million Northern Corridor Transport Improvement Project (P082615) was appraised in May 2004 and has been under implementation in support of the GOK Economic Recovery Strategy (ERS) 2003-07.
[15] World Bank (2004)
[16] Government of Kenya Sessional Paper No. 2 of 1997
[5] See, for instance, Peterson et al. (1991).

goods such as coffee, tea, milk and fruits which generated scarce foreign exchange. The planners' fascination with rural development began to decline when it became clear that large numbers of young people were migrating to urban centers in search of jobs. Moreover, the need to develop urban areas became increasingly obvious, in view of their role as processing and marketing nodes for rural produce.

In time, international experience showed that rural areas were incapable of absorbing an increasing share of the labor force so that even where the green revolution had resulted in robust performance of agriculture, urbanization proceeded unchecked. Moreover, urban economies proved to be more dynamic than the rural sector and were able to absorb increasingly large numbers of workers. These outcomes helped to shift the attitude of policy makers towards urban development. The literature is replete with increasing discussion of rural-urban linkages as the new paradigm for planning for economic development in Africa[17].

The positive role that urbanization plays in economic development has been explained in terms of the productivity advantages that cities enjoy compared to rural areas. The basic economic model of urban growth postulates that the productivity advantages of cities arise from three sources: economies of scale, economies of agglomeration, and location-specific factors[18]. Economies of scale are associated with the size of urban populations and markets. The efficiency effect of the clustering of firms in an industry or related industries fosters the economies of agglomeration. But agglomeration economies do not guarantee productive and well-functioning cities. Kessides (2006) argues that "in many developing country cities, and particularly in Sub-Saharan Africa, what is often seen is agglomeration without the economies, i.e. a physical concentration of people and activities that do not constitute a well-working city because they do not benefit from the key "ingredients" of the urban economy that we have reasonably come to expect from both theory and experience of more effective cities." [19] Location factors relate to proximity and access to natural resources, water routes, communication systems, ports and sources of raw materials. But to exploit the advantages of location fully, a city must have the resources to invest in transport links and other infrastructure, as well as the capacity to manage its affairs.[20] Kenyan cities, because of their poor fiscal health, have found it difficult to keep pace with the demand for such investments; and they are poorly managed.

2.2.2 Importance of urban centers in the Kenyan economy

During the last forty years, the economic and demographic structure of Kenya has become increasingly urban. In the 1980s the urban population in the country grew at over 6.5 percent a year, more than double the rate for the rural population. This expansion has occurred even under the most adverse conditions of repressed urban investment, the case during the 1990s.[21] Presently, urban areas account for the predominant share of GDP

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[18] Bergsman J et al. (1975)*;* Kessides (2006)
[19] Kessides (2006), p. vi.
[20] Rakodi, C. (2006)
[21] USAID (1995)

besides accommodating an increasing share of the total population:[22] as already noted, the five largest Kenyan cities and urban centers generate more than 70 percent of the country's GDP.

The central role of cities in economic growth has been highlighted in the ongoing policy work, especially the Economic Recovery Strategy for Wealth and Employment Creation for the period 2003-07 (ERS-WEC) and the Vision 2030.[23] The contribution of industry and services is estimated at 88 percent of economic growth over the same period.[24] Policy acknowledges that development of urban areas is closely linked to the rural economy through the exchange of labor, capital, goods, services, information and technology that benefit residents in both settings.[25] Much of the economic success of the last 5 years, discussed in section 2, has been attributed to gains in Total Factor Productivity (TFP) in the economy, arising from a host of factors that are urban in nature. Given the urban-centric character of the emerging economy, efficient functioning of Kenya's urban centers, especially its largest cities, will be critical to sustain the economic momentum into future.

Due to a variety of reasons Kenyan cities are not realizing their full potential in contributing to economic growth and poverty reduction. Rapid urbanization that is fuelled by rural-urban migration as well as natural growth has strained the capacity of cities to provide the necessary infrastructure and basic urban services to residents. This has resulted in urban sprawl, as poor households seek cheap accommodation in distant city locations, and the rapid growth of overcrowded and impoverished informal settlements. Recent UN estimates suggest that Kenya's urban population will expand to 38 million by 2030 and account for 62.7 percent of the national population.[26] These projections indicate that the annual urban population growth rate will average 5.2 percent up to 2010, 4.2 percent over the period 2010-20 and 3.2 percent during the succeeding decade. At this rate of urbanization the majority of the Kenyan population will be living in urban areas within 20 years. The scale of future urbanization will pose further socio-economic, environmental and institutional challenges for Kenyan cities, especially in view of the high levels of urban poverty in the country.

2.2.3 Urban poverty

In the 1990s poverty increased much faster in urban areas than in rural communities. The proportion of the urban poor in 1992 was estimated at 29 percent compared to 46 percent in rural areas. By 1997, the urban figure had risen dramatically to 49 percent compared to 53 percent for rural areas.[27] However, the most recent estimates show that the level of urban poverty has receded substantially, standing at 33 percent in 2005-06 (Table 1). This fall is most pronounced for Nairobi and some of the other principal cities: in Nairobi, the population below the poverty line fell from 50 percent in 1997 to 21 percent in 2005-06

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[22] ACEG (2002)
[23] The PRSP has given way to Economic Recovery Strategy (ERS) which is being updated to inform the Vision 2030.
[24] Government of Kenya. "Economic Survey 2006"
[25] World Bank Urban (2000), p. 2.
[26] United Nations Secretariat (2006).
[27] Government of Kenya (2000a).

(Table 3) This relative improvement in welfare masks the appalling living conditions of the poor, most notably in Nairobi where the majority live in informal settlements with only rudimentary infrastructure services.[28] Table 1, a poverty league table, compares Kenya with its African peers. Whilst accurate comparisons are difficult to make, because of the different methods used to measure poverty and the different timelines, the data suggest that Kenya is not an outlier.

Table 2: Poverty comparisons among peer countries

	National poverty line							
Country	Population below the poverty line				Population below the poverty line			
	Survey year	Rural %	Urban %	National %	Survey year	Rural %	Urban %	National %
Burundi	1998	61	22	55	2003	52	19	46
Cameroon	1996	60	41	53	2001	50	22	40
Ethiopia	1995-96	47	33	46	1999-2000	45	37	44
Kenya	1997	53	49	52	2005-2006	50	33	46
Nigeria	1985	50	32	43	1992-93	36	30	34
Tanzania	1991	41	31	39	2000-01	39	30	36
Uganda	1999-2000	37	10	34	2002-03	42	12	38
Zambia	1996	83	46	69	1998	83	56	73

Source: Kenya National Bureau of Statistics (2007)

The lack of jobs and other livelihood opportunities have contributed to the growth in numbers of those living in poverty. Urban unemployment rose from 7 percent in 1978 to 16 percent in 1986 and 25 percent in 1999, compared to 9.4 percent in rural communities and 14.6 percent nationally.[29] Wage employment, which is largely concentrated in urban areas, absorbs only 33.4 percent of the working population; and the manufacturing sector employs an estimated 500,000 people, with 44 percent in formal employment and the rest in the informal sector. Although manufacturing has the potential to generate substantial employment in urban areas and thus contribute to poverty reduction,[30] the services sector continues to account for the bulk of economic output (Table 1).

3.2.3 Urban governance and economic development.

The extent to which cities contribute to national economic growth and poverty reduction depends on how well they are managed and on the policy framework in which they operate. Capable leadership, institutional capacity, sound financial management, effective coordination and strong urban governance are essential ingredients of a well functioning city. Outcomes in Kenya have so far been disappointing, as discussed in Chapter 5. Evidence shows that city residents are dissatisfied with the performance of local authorities, and allegations of corruption in municipal councils are rife. A 2004

[28] Gulyani, S. et al. (2006).
[29] Government of Kenya (2004).
[30] World Bank (2005).

study revealed that only 25-30 percent of respondents in Mombasa and Nakuru believed that their urban authority was doing a good job—and only 10 percent of respondents in Eldoret and less than 5 percent of those in Nairobi and Kisumu were satisfied with the performance of their local authority.[31] A 2002/03 survey of 282 formal manufacturing firms in Kenya's five largest cities asked firms to rate the efficiency of government or councils in delivering services. Overall, 76 percent of firms responded "Very Inefficient" or "Inefficient". The firms cited corruption, crime, theft and disorder[32], and access/cost of finance as the most significant impediments to investment in Kenya.

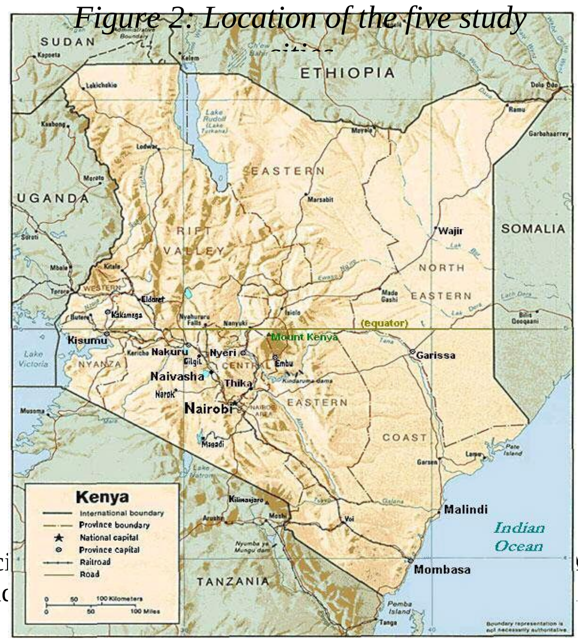
Whilst local authorities are key to promoting urban governance and accountability, their well-being and ability to address these problems have been threatened by centralization of the Kenyan state. In Chapter 4, therefore, we examine the political economy of local authorities in Kenya, the better to understand the constrained political and fiscal setting in which they operate.

3.3 Introducing the five largest cities of Kenya

As already noted, the five cities in the sample are Nairobi, Mombasa, Kisumu, Nakuru and Eldoret (see map overleaf). Nairobi, Kenya's capital city was founded in 1899. It is the principal financial, commercial and industrial center, and also the most populous town, with an estimated 2.9 million people[33] in 2006. Besides serving as a regional commercial center for the wider east African and Great Lakes region, its strategic location makes it an important air transport node, with connections to many continental and international destinations. It is home to a large number of international and regional organizations, including two headquarters offices of the United Nations.

Mombasa, the second largest city, has a population of over 830,000[34] people and a long history of maritime trade. It is the headquarters of Mombasa District as well as the provincial headquarters of Coast Province. Besides being Kenya's principal port, it serves as a gateway to eastern and central Africa. Its economy is dominated by tourism, international port facilities, commerce, long distance inland transport, and international communications.

Figure 2: Location of the five study



Kisumu is the third largest city and the administrative headquarters of Kisumu District and Nyanza Province. It started

[31] Transparency International (2004)
[32] The impact of crime, theft and disorder on ci… …T publication, "Crime in Nairobi: Results of a Citywi… …es Programs.
[33] Projected from 1999 census
[34] Projected from 1999 census

as a railway terminus and inland port in 1901, growing into the leading commercial, industrial and administrative center in the Lake Victoria Basin. Besides this role, the city serves as a communications and trading hub for countries in the Great Lakes region. Its population was about 500,000 people[35] in 2006.

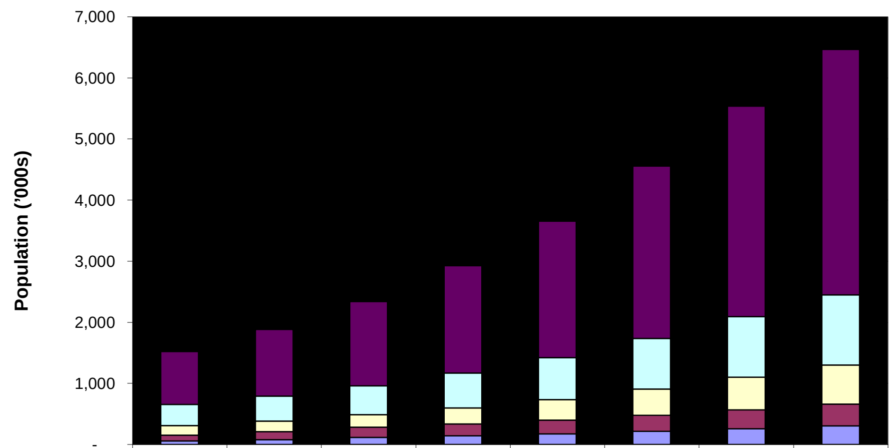
Nakuru, the fourth largest city in Kenya, is the administrative headquarters of Nakuru District and the Rift Valley Province. The city was founded in 1904 as a railway outpost, and is located along the east-west transport corridor which links the Kenyan Coast with the Lake Victoria region and Uganda. It is an important agro-industrial center and the adjacent Lake Nakuru National Park is a tourist attraction of great economic value for the country. It had a population of nearly 300,000 people36 in 2006.

Eldoret, with a population of 241,000 people[37] in 2006, is the fifth largest city. It is located in western Kenya in a rich agricultural region and is the administrative headquarters of Uasin Gishu District in Rift Valley Province. Founded in 1910, the town is an important commercial and agro-processing center, with good transport connections to other cities and Uganda. It boasts a modern airport, a university and a polytechnic, besides hosting an athletics training center of international repute.

The key social and economic statistics for the five cities and for Kenya as a whole, are summarized in Table 3 and set out in detail in Annex 2, while their population growth trends over years are depicted in Figure 3.

Figure 3: Population in the study cities[38]

[35] Projected from 1999 census
[36] Projected from 1999 census
[37] Projected from 1999 census
[38] World Population Prospects: The 2002Revision and World Urbanization Prospects: The 2003 Revision. These population figures may not match with those cited on the previous page due to difference in sources.



	1980	1985	1990	1995	2000	2005	2010	2015
Nairobi	862	1,090	1,380	1,755	2,233	2,818	3,443	4,016
Mombasa	350	407	476	572	686	828	988	1,148
Kisumu	156	175	201	261	337	433	537	635
Nakuru	97	129	168	194	225	264	311	361
Eldoret	54	80	116	141	173	212	256	301

Table 3: City indicators

Indicator/Source	Kenya	Nairobi	Mombasa	Kisumu	Eldoret	Nakuru
1. Population (1999 census reports and projections)						
• Total population						
1999	28,686,607	2,143,254	665,018	322734	197449	231,262
2006	34,045,843	2,845,353	828,513	359,056	241,106	282,773
• Inter-censal population growth rates						
1979	3.4					
1989	3.4					
1999	4.2	4.8	3.6			
2. Poverty						
• % below poverty line						
WMS 1997	49	50.2	38.3	63.7	43.5	40.6
KIHBS 2005/06	40.5	21.3	37.6	43.4	42.3	50.2
• Average household size						
Census 1999	4.4					
KIHBS 2005/06	5.1	3.8	4.5	4.8	3.5	3.6
3. Access to amenities (KIHBS,DHS)						
• % of households with water piped into the dwelling						
KIHBS 2005/06	7.82	28.6	11.1	6.4	14.4	3.1
• %of households with water piped into plot yards						
KIHBS 2005/06	14.3	39.7	11.4	0.3	1.6	
• % of households with a flush toilet as the main toilet facility						
KIHBS 2005/06	11.0	61.8	31.9	25.4	19.2	
• %of households with access to a VIP latrine as the main toilet						
KIHBS 2005/06	5.6	0.4	14.1			
• % of households with pit latrines						
KIHBS 2005/06	67.4	32.1	53.4			
• %of households with access to electricity						
1999 Census	42	52	41.6			
KIHBS 2005/06	51	68.2	47.9			
4. Employment (Statistical Abstract)						
• Earnings by industry (Ksh. Millions)						
2005 Agriculture and forestry	46,116.4	1,893.2	160.3	19.1	6.8	182.5
Mining and quarrying	1,040.8	79.5	39.8	0.7	0.0	49.1
Manufacturing	62,632.8	31,321.6	5,701.4	3,958.2	2,251.1	1,918.8
Electricity and water	9,606.6	14,242.8	1,339.8	29.5	133.4	17.3
Construction	24,126.7	2,398.7	2,013.2	478.7	645.2	708.0
Wholesale & Retail trade, Restaurants and Hotels	84,714.4	12,067.4	5,957.6	1,098.7	1,695.4	1,970.3
Transport and Communication	46,565.3	18,244.8	14,517.7	1,101.5	455.6	601.3
Finance, Insurance, Real estate and Business services	59,858.7	42,526.1	7,042.0	1,105.0	2,611.2	963.5
Community, Social and Personal Services	262,213.4	58,586.1	14,184.1	3,791.2	1,869.7	3,415.9

DHS: Demographic and Health Survey; KIHBS: Kenya Integrated Household Budget Survey – 2005/06; WMS: Welfare Monitoring survey

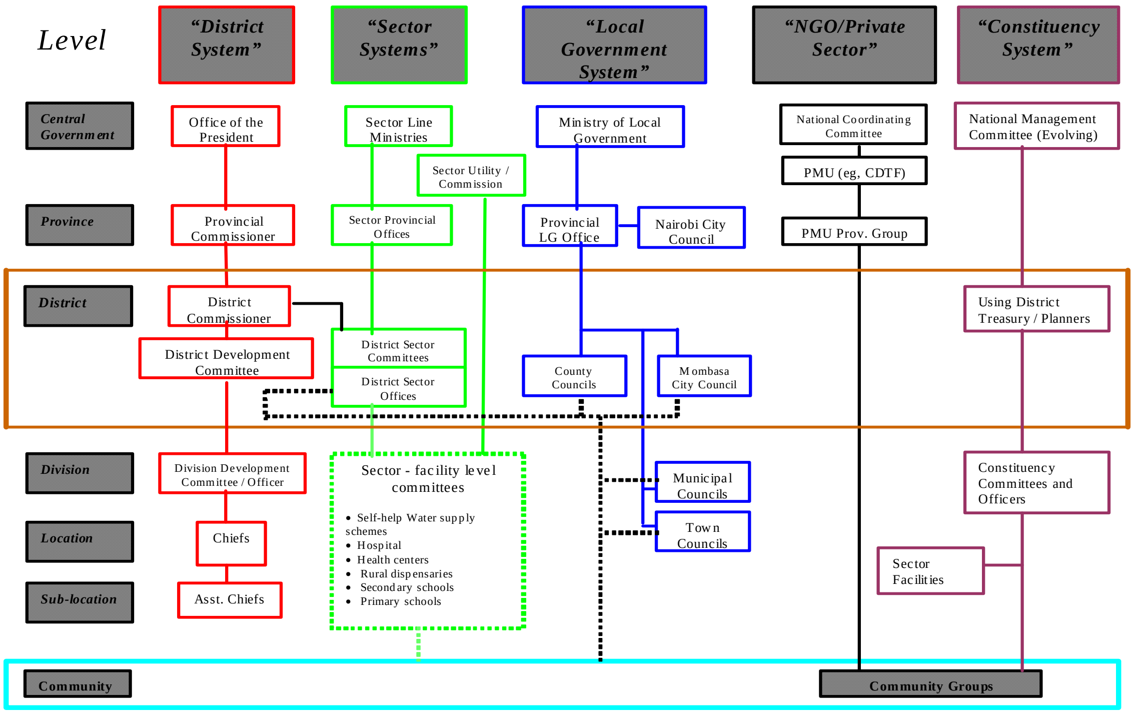
3. Governance and Management of Kenyan Cities

3.1 Urban management and service delivery in the five cities

Kenyan cities, including the five cities covered under this study, are managed by a multitude of local and central agencies. At the center, the Office of the Deputy Prime Minister and the Ministry of Local Government (ODPM/MOLG) is the nodal ministry while a number of other ministries, among them the Ministry of Finance and several sectoral ministries, are directly or indirectly involved in the affairs of cities. Sectoral ministries are involved in the planning, financing, monitoring and delivery of various services in areas such as land and housing, education, health services, and infrastructure. Within cities, elected city councils (CCs) headed by a Mayor operate under ODPM/MOLG and represent public interests at the local level. They are also involved in planning, financing and delivery of services. Figure 4 below outlines the institutional landscape for service delivery in Kenya.

Figure 4: Public service delivery channels in Kenya[39]

[39] It is worth noting that Mombasa is the only urban municipality which is a district without a rural LA (county council) and this is why it is shown separately within the district level. Other municipalities fall within a district administrative area that also has a rural LA with the exception of Nairobi whose spatial jurisdiction is coterminous with the administrative province of Nairobi. Town councils are smaller in size than municipal councils in terms of budget, staff, number of electoral wards, and urban population. The city is a title that is conferred by statute and the City of Nairobi was granted a charter in 1950. The title "city" has been applied loosely to the top five large municipal councils in the country. The dotted lines in the chart refer to the informal linkages between the different LAs, and the district offices of sectoral line Ministries, with some having offices at the sub-district level (division and location).



Source: World Bank (2002)

The above institutional complexity has led to several less than optimal outcomes: poor systems of planning, lack of ownership and accountability in city management and service delivery, and weak citizen involvement. Further, in a larger sense, a key casualty of the decline of key institutions and the centralization of power since independence has been effective and accountable local governance. Thus the origins of the current failures in city management lie farther than the city itself. Below, we attempt to trace that story.

3.2 Political economy of local governance in Kenya

3.2.1 Introduction

It is widely acknowledged that urban local authorities play a critical role in city development and management. For this reason, it is important to understand the political and fiscal constraints that these authorities face. At the core of this analysis is the marginalization of local government by the Kenyan state through administrative and legal controls as well as limited fiscal support for most of the years since independence in 1963, leading to virtual collapse in the 1990s. Even after a new government came into power in 2002, the marginalization of LAs continued in spite of efforts to reform the local government system. This marginalization is most evident in the creation of several channels for local funding which compete and overlap with local authority mandates. Investigations of the four study themes yielded substantial evidence of marginalization, typically accompanied by the lack of accountability and the absence of adequate systems and controls, as well as the limited voice of the citizenry.

Whilst marginalization is the subtext in the discussion of central-local relations, it is important to point out that the five cities in the study have not been treated uniformly by the state, a factor that has influenced outcomes in performance. In Nairobi, for instance, the domination of the Nairobi City Council by politicians from the opposition, after the introduction of a multiparty system in 1992, was resented by the central administration. As the relationship between the state and the Council became increasingly adversarial, fiscal support to the city declined sharply and the operations of the Council deteriorated. Only in recent years, following a change of government, has state support to the city been restored. Commenting on the marginalization of the city government, Lee-Smith and Lamba (1998) observe:

"The operations of the city government were virtually paralysed by central government in the period 1993-1997 through a combination of coercion and manipulation. This was evident in the way the recommendations of the Nairobi Action Plan of 1993 were prevented from being implemented. The plan emerged from a participatory process at the Nairobi City Convention, a public forum that involved residents and professionals working with city councilors and officials to set targets and priorities for the city in areas including land use, transport, housing, the informal sector ,the environment, public utilities, finance and management. This bold innovation of an opposition-dominated council was headed off by political pressure on individuals and groups of councilors"

In Kisumu, interviews strongly pointed to the marginalization of the town by different administrations over the years. Respondents argued that this neglect by the center explained the serious infrastructure deficits in the town and the resulting negative impact on local economic development. In contrast, Eldoret enjoyed highly favourable treatment from the central government over a period of two decades (1980s and 1990s), benefiting from substantial public investments in infrastructure. As a result, infrastructure deficits are less serious than in the other cities, a point evident in the findings presented in Chapter 5.

Box 2: Interview with Kisumu Central Business District Association (KCBDA)

KCBDA argued that Kisumu had seen systematic marginalization during the last century in nearly all areas of social economic development:

- neglect of the railway / lake steam boats as major means of connecting the East African peoples through trade;
- collapse of the national road network connecting the city to other parts of the region through lack of maintenance;
- complete lack of government-led large-scale infrastructure investment in a modern airport, inland port, urban water supply, urban sewerage, highways, urban roads and drainage;
- lack of major industries and employment creating ventures, and divestiture by the few that had branches in Kisumu e.g. breweries, textile and clothing, rice milling, cotton growing and ginning, and fresh water lake fishing.

KCBDA added that the majority of the local middle-class who are well educated and employed in national and international agencies have not invested in business or property in Kisumu. They invest in other parts of the country -- Nairobi, Mombasa, Eldoret and Nakuru -- which seem to be more attractive and have higher returns on investment. They have literally been lured to urban areas that have historically enjoyed government-led infrastructure development and are therefore able to offer a better quality of urban life.

In addition, there are no tourists visiting Kisumu due to lack of high quality hotels, poor water supply and sanitation facilities and of course the poor state of roads maintenance …. “it takes 8-10 hours to travel from Kisumu to Nairobi in a good four-wheel drive vehicle, a trip that used to take 3-4 hours when the roads were well maintained”. Those who can afford travel by air, which is expensive, are a small proportion of travelers to Nairobi and Mombasa.

3.2.2 Centralization of the Kenyan state

The steady decline in institutional environment over the last few decades has been noted earlier. The two highlights of this have been the increasing centralization of power and the gradual dismantling of constitutional structures and systems that were the bedrock of an accountable state.

Independence in 1963 signaled the assumption of power by the Kenyan state, ending colonial rule and triggering the consolidation of local governance through an administrative structure consisting of LAs and central government administrative units which make up the provincial administration. This dual system is the basic framework for local governance and public service delivery in the country even today. In the years after independence, LAs performed reasonably well, supported by a robust revenue base and grants from the Central Government. The law required them to provide only a few basic services although it allowed them to undertake other programs which they considered essential for improving services to their residents. Up to the end of the 1960s, LAs were able to effectively deliver a range of services, for instance road maintenance, primary education, public health, and agricultural extension.

In 1969, following the enactment of the Transfer of Functions Act, the central government took over the responsibilities for primary education, health and road maintenance. Government also took over key revenue sources from LAs ostensibly to fund the new services. Since then, local authorities have been systematically weakened through the measures listed in Box 3.

Box 3: A chronology of measures that have weakened local authorities: 1969-2007

- 1969: Transfer of Functions Act which saw government take over key responsibilities from local authorities;
- 1974: abolition of Graduated Personal Tax (GPT) took away a major source of revenue
- 1983: creation of the District Development Committees chaired by the Provincial Administration to coordinate development planning and budgeting further eroded the functions of LAs;
- 1980s and 1990s: political expediency led to the continued subdivision of Local Authorities, creating unviable entities on a shrinking resource base;
- 1990s: the Ministry of Local Government (MLG) tightly controlled LAs through the Public Service Commission, with delegated powers to appoint, promote and deploy LA senior staff thus weakening the autonomy of LAs;
- 2000: MLG started to micro-manage LAs through power delegated by the Exchequer to approve budgets, supervise the use of devolved funds (LATF[40]/ RMLF[41]/ Education Bursary Fund) and approve major procurements under new rules. These measures further centralized the fiscal management regime of LAs;
- 2003: the National Assembly (Parliament) passed the Constituency Development Fund Act (CDF) which initiated the mechanism for financing community projects at constituency level in competition with LAs thus further weakening the focus on councils as the primary channel for service delivery at the local level;
- 2007: amendment to the Constituency Development Fund Act allowing the hiring of 210 CDF program managers at the constituency level. This has initiated the creation of a local bureaucracy in competition with LAs instead of rationalizing the management of CDF within the local government framework.
- 2007: creation of more than 20 new administrative districts in Kenya, a clear indication that the efforts of the state are going to be geared towards consolidating the provincial administrative system possibly at the expense of local government reform. An equal number of county councils will automatically be created, as required by the current Local Government Act (LGA), thus increasing the number of resource weak LA units. This will most likely not help local government reform in the country.

The measures listed above have strengthened central government ministries at the expense of LAs. Indeed, the line ministries have become some of the major public service providers, working through provincial administration offices at the province, district, divisional and locational levels. For the country as a whole Table 4 shows the decline, in relative terms, of the resources available to local authorities, setting out the quantitative evidence of marginalization up to 2000. In particular, local government revenues as a proportion of GDP fell from 3.26 percent in 1969-70 to 1.22 percent in 1999-00.

[40] Local Authority Transfer Fund
[41] Roads Maintenance Levy Fund

Table 4: Trends in local government recurrent revenues in Kenya

Year	Key Milestone	Local Government Recurrent Revenues *(in Ksh million)*					Total Central Government Revenues to GDP (%)
		City and municipal councils	Town and county councils	Total	As a share of total government recurrent revenues (%)	LG revenues to GDP (% in current prices)	
1969-70	Transfer of functions Act	259	133	392	17.10	3.26	15.80
1970-71	Abolition of GPT in rural county councils	266	57	323	11.30	2.38	18.70
1974-75	Abolition of GPT in municipal councils	278	83	361	7.50	1.60	19.70
1988-89	Introduction of LASC	1,971	907	2,879	7.00	1.81	23.90
1995-96		4,027	1,658	5,685	3.80	1.14	29.30
1999-00	Introduction of transfers under the LATF	6,471	2,240	8,712	5.10	1.22	22.80

Source: World Bank (2002)

3.2.3 Clamour for change

During the 1990s governance structures broke down and local service delivery by LAs virtually collapsed. In the resulting public clamor for change, the new administration, starting in 2003, embarked upon an ambitious program of policy reform to improve service delivery. The new government adopted and issued the Economic Recovery Strategy (ERS) for Wealth and Employment Creation 2003-07 as its ‘economic manifesto’ aimed at jump-starting the economy and the structures of governance. By treating economic recovery as the vehicle for improved provision of health, employment, education and infrastructural services, the ERS became in effect the blueprint for empowerment and governance. It also formed the basis for setting targets of the recently published Vision 2030, which is the long term development strategy for Kenya’s economic take-off.

The ERS spelt out the government’s commitment towards improved local governance and service delivery besides anticipating a new constitution and the concomitant devolution of resources. It also observed that business enterprises operate in settings in which local authorities are responsible for essential services; and that enterprise growth would raise the demand for services and also boost the tax revenue needed to finance such services. These were strong reasons for the new administration’s commitment to local government reforms.

The last decade has seen the Kenya Local Government Reform Program (KLGRP) introduce a variety of reform initiatives that have led to some improvements in the management of LA programs and service delivery. These initiatives include:

- the Local Authorities Transfer Fund (LATF),[42] a performance and budget support grant generated from national income tax revenues aimed at improving service delivery, financial management and debts reduction;
- the Local Authorities Service Delivery Action Plan (LASDAP),[43] the output of a participatory planning process in which the LA and its residents set priorities for LATF funding and implementation;
- the Local Authority Integrated Financial Operations Management System (LAIFOMS)[44] a computerized system that aims at improving and harmonizing the process of budget preparation and execution;
- introduction of the Single Business Permit (SBP) within LAs;
- the introduction of Results Based Management (RBM)[45] and Performance Contracting (PC) in LAs, tools for assessing LA performance in line with the requirements of the Public Service Reform Programme (PSRP) that is under implementation by the Office of the President;
- the linkage of LA budget preparation to the switch by the Ministry of Finance from project-specific to programme budgeting through the Medium Term Expenditure Framework and the Ministerial Public Expenditure Reviews.

The pace of reform is now entering a consolidation phase during which current reforms will be accelerated and strengthened. Reforms implemented so far include the rationalisation of local business licences; and other measures that are linked to LATF have started to improve the capacity of local authorities to manage their finances and service delivery. Another ongoing initiative is the Local Authority Integrated Financial Operations Management System (LAIFOMS), which is being rolled out in the municipalities after being piloted in eight local authorities.

The ERS anticipated that the consolidation phase would include the following measures:

- Reviewing of local authorities to ensure that only those that are viable are retained;
- Accelerating the ongoing Kenya Local Government Reform Program (KLGRP) including expanding the coverage of LAIFOMS;
- Rationalizing and rightsizing staffing in all local authorities with a view to reducing the wage bill, which is considered excessively high;
- Reviewing the Local Government Act in line with Constitutional Review proposals, with a view to giving local authorities more autonomy, improving their capacity to perform their roles, and removing conflicts with the Central Government;
- Introducing information technology in personnel management which, in conjunction with LAIFOMS, would lead to improvement in performance;

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[42] Local Authorities Transfer Fund was established by legislation i.e. LATF Act No. 8 / 98 and came into effect during the 1999 fiscal year.

[43] Local Authorities Service Delivery Action Plan is a basic requirement of the LATF legislation that seeks to promote participatory planning and hold the LA accountable for the execution of projects.

[44] Local Authority Integrated Financial Operations Management System.

[45] The Public Service Reform and Development Secretariat of the Office of the President has introduced the globally-acclaimed results-based management in the public sector, including LAs, and Performance Contracts are a key part of it.

- Implementing the recommendations of the Constitutional Review Commission if enacted.

3.2.4 Competing funding channels at local level

In recent years some changes have been instituted in the structure of the inter-governmental fiscal system by creating new mechanisms for channelling funds for public service delivery to communities. These funding mechanisms, which include LATF, CDF, the Road Maintenance Fund, the Education Bursary Fund, and the HIV/AIDS Fund, are managed at the national level either by line ministry departments directly or through agencies that are controlled by line ministries. In particular, the CDF is managed by a national committee of the Parliament, an arrangement that is thought to violate the principle of the separation of powers, as the legislature is directly involved in the execution of programs for which it has allocated resources.

The different mechanisms operate in parallel with the LA system and often in competition with it, with obvious duplication of effort and likely wastage of resources. The respective funding channels are also not coordinated. A taxonomy of the funding systems, including the central government, is given below and depicted in Figure 4. It includes:

- Central Government system consisting of the district and sector line ministries, funded by the national budget;
- Local Government system, funded by local revenues, LATF, and the Road Fund;
- Private sector/NGO system funded by partners channelling resources directly to local communities, bypassing the planning and budgeting system of Government and LAs; and
- Constituency system consisting of various funds, including the HIV/AIDS fund, the Bursary Fund, and the Constituency Development Fund (CDF) since 2003/04.

The growth in number of funding channels stems from a number of factors:

- lack of local government policy to guide decentralised service delivery;
- poor performance by the traditional formal institutions especially the local authorities;
- growing demand for effective service delivery and greater participation of citizens in decision-making on matters affecting their lives.

The multiplicity of institutional structures that are competing to reach the community at the local level has marginalised the fiscal role and accountability to citizens of local authorities. As Table 5 shows, LATF, the only fund that is channelled directly through LAs, accounts for only about 13 percent of the total funds allocated to the districts, and is indeed smaller than CDF.

Table 5: Resource allocation to districts, 2004/05 – 2005/06 (Ksh million)

	Program Fund	**2004/05**	**%**	**2005/06**	**%**
1	Constituency Development Fund (CDF)	5,600	18.8	7,246	16.9
2	Local Authority Transfer Fund (LATF)	4,000	13.4	5,584	13.1

3	Kenya Roads Board (Constituencies & districts)	3,720	12.4	8,900	20.8
4	National Aids Control Council	2,280	7.6	3,786	8.9
5	Constituency Bursary Fund	770	2.6	800	1.9
6	Community Development Trust Fund (CDTF)	228	0.8	583	1.4
7	Central Government (Recurrent & Development)	13,210	44.4	15,852	37.0
	TOTAL	29,808	100.0	42,751	100.0

Source: 2004/05 and 05/06 Report of Task force on Harmonisation and Strengthening of the District and Constituency Development, 2005.

3.2.5 Real reforms for devolution has been delayed

Previous sections have underscored the marginalization of local authorities, strongly pointing to the lack of an effective decentralization framework. The dynamic for devolution was captured by the Constitution of Kenya Review Commission (CKRC) when it summed up the findings of its consultations with the Kenyan public as follows: "*The whole nation feels alienated from the government and [its] structures of authority ….they consider they have no control over their destiny and, outside the general elections, participation is almost non–existent.*[46]*"* It added:

"We have tried to place the people at the center of the constitution, constantly emphasising people's participation, bringing power closer to them and giving them greater control over their everyday lives.[47]

The draft Constitution, published by the Attorney General in August 2005, provided for:

- ③ a government structure with two tiers, i.e. national and district levels, based on the principles of subsidiarity and a devolved government;
- ③ the district as the principal level of devolution and the point of fiscal management responsibility;
- ③ a list of activities to be exclusively mandated to each level of government; and
- ③ fiscal decentralization, with each devolved government entitled to an equitable share of revenues raised nationally and, on top of that, equalization grants and other allocations, either conditional or unconditional.

Box 4: Constitutional review and consolidation of local government reforms

Devolution of state power has been a sensitive topic in Kenya. During preparations for the 2007 general elections, over 30 new districts were created by converting administrative divisions, which usually cover the area of a parliamentary constituency, into full fledged districts headed by District Commissioners. The creation of a new district translates automatically into the reduction of the area of an existing county council whose spatial jurisdiction normally coincides with that of the host administrative district. The existence of a new district implies the creation of a new county council as a rural local authority under the current Local Government Act (LGA). The boundaries of the new districts have not been gazetted and their population has not been determined, as there tends to a lot of negotiation over the location of the district headquarters and appointments to key positions in the new administrative arrangements.

Short of amending the Constitution, or the Minister for Local Government issuing specific decrees under

[46] Report of the Constitution of Kenya Review Commission (CKRC), September 2002
[47] Ibid CKRC.

the LGA, the process outlined above is the preferred route to the creation of new local authorities in Kenya. The jurisdictions of the five cities have also been affected by the creation of new districts, with Nairobi province having three new districts. In November 2005 a national referendum decisively rejected the proposed new Constitution which was derived mainly from the popular version which is widely referred to as the "Bomas Draft". The proposed Constitution contained provisions for devolution of state power to elected district councils which were to be constituted through the merging of the current county councils with district administrative cadre. The district executive would be popularly elected and have executive power to manage and direct the affairs of the district council including fiscal and human resource management.

The 2007 general elections results polarized Kenyan society leading to post election violence which negatively affected the business and management environment in the cities of Nakuru, Eldoret and Kisumu to a greater degree than in Nairobi and Mombasa. The grand coalition government that was formed by the three major political parties to avert state failure has promised the adoption of a new constitution within one year. The existing constitution was amended to provide for the coalition government, and draft laws have been proposed for passage by the National Assembly to lay the groundwork for a new constitution. In the meantime, the five cities will continue to be managed in ways that most Kenyans consider unsatisfactory.

The rejection of the draft constitution, in a referendum conducted in 2005, stalled the introduction of a devolved local government system. Otherwise, a new constitution would have anchored the local government system within the country's legal framework, reversing the marginalization of previous years.

International experience will prove useful as the country embarks upon the reform of central-local relations as well as providing a constitutional anchor for such reforms. The institutional framework for intergovernmental relations varies from country to country in response to different policy objectives and distinct institutional arrangements. Box 5 gives an overview of experiences and practices in nine countries—Australia, Germany, Indonesia, the Netherlands, Nigeria, South Africa, Uganda, Ukraine and the United States. Together these countries represent a wide spectrum of policy options on how to develop institutional mechanisms to oversee and coordinate intergovernmental fiscal relations.

Box 5: International practices in coordinating central-local finances

Five dimensions of the institutional system that are considered in the table below include:

1. What type of intergovernmental fiscal system does the country have? Is the system of intergovernmental fiscal relations mostly unconditional (UNCON) in nature, are relations highly conditional (CON), or does the country take a mixed approach?
2. What are the main roles or functions of the local government commission or the intergovernmental coordinating unit? The roles of the agency could include monitoring or overseeing subnational government finances (M), implementation responsibilities (I), facilitating dialogue among stakeholders (D), and/or providing policy analysis and recommendations (P).
3. What is the source of authority for the intergovernmental coordinating agency or the Local Government Finance Commission? Is its role defined in the Constitution (CONST), is its mandate based on relevant legislation (LEG), or is such a commission or unit created or appointed by parliament, presidential decree or government decision?
4. What is the predominant institutional affiliation of the commission or the intergovernmental coordinating unit? For instance, who chairs the commission—Ministry of Local Government (MLG) or Ministry of Finance (MOF)? What is the composition of its membership? Within what organization is the unit or the secretariat of the commission located?
5. Who does the local government finance commission or the intergovernmental coordinating unit formally reports to? Does it report to the President (PRES) or Parliament (PARL)? Does it report to the MLG or MOF, or does it report to the government as a whole?

Country	Institution	Type of IGF system	Roles and functions	Source of Authority	Leadership and Composition	Reporting
Australia	CGC	MIXED	D - P	LEG	INDEP	MOF/PARL
Germany	FPR	UNCON	D - P	LEG	MOF	GOV
Indonesia	DPOD	UNCON	P	LEG	MLG	PRES/ PARL
Netherlands	VNG (BANS)	CON	D - P	Covenant	INDEP	PUBLIC
Nigeria	NRMAFC	UNCON	M - I - P	CONST	MOF	GOV
South Africa	FFC	UNCON	D - P	CONST - LEG	MOF	MOF/ GOV
Uganda	LGFC	CON	M – D - P	CONST	MLG	MLG/ PRES
Ukraine	FAO	UNCON	M - P	PARL	PARL	PARL
United States	ACIR (pre-1996)	MIXED	M - D - P	LEG	INDEP	GOV

Source: Boex, Jamie and Jorge Matinez-Vasquez. Developing the institutional framework for intergovernmental fiscal relations in Tanzania, 2007.

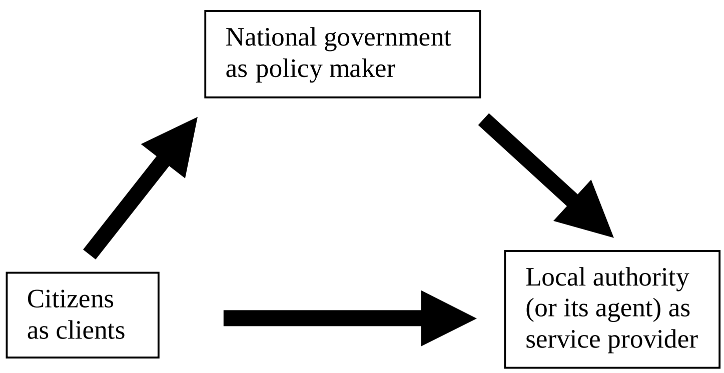
4. Governance and Management Challenges in Five Cities

4.1 Analytic frameworks for analyzing accountability in Kenya's cities

Increased responsiveness and greater accountability in the delivery of services are often advanced as the two greatest advantages of decentralization. As local governments around the world assume an increasing role in service delivery, discussions on strengthening accountability relationships of local governments with their constituents have taken increasing visibility in good governance debates. Local governments typically engage in two types of accountability relationships: (a) upward accountability to other tiers of government; and (b) downward accountability to the citizens they serve. For decentralization to deliver its desired outcomes, both forms of accountability need to be part of an integrated accountability framework, and central and local government leaders should proactively promote them.

This simple model can be extended to depict accountability in the form of principal-agent relationships between three sets of actors: citizens as clients of LAs; LAs (or their agents) as service providers; and government as policy maker. Schematically, following World Bank (2004), this relationship could be illustrated as follows:

Figure 5: Accountability framework for service delivery



In a highly centralized system, the citizens have limited direct influence over the service provider, relying mostly on government (policy maker) to direct the service provider through compacts and other agreements. This arrangement does not work well, especially in terms of allocative efficiency, as Government does not have the information to determine the mix of services that best addresses local preferences. Yet these services, many of which have public goods characteristics, are not mediated by the market. A decentralized system, on the other hand, enables the citizens to act as principals, with the mandate to direct the service provider (agent) to provide the bundle of services that best addresses local priorities. In principle, this institutional arrangement has the potential to increase the power of the citizenry *viz.* the service provider, thus improve accountability. But for this arrangement to work well, the citizens must have adequate information to monitor the behavior and performance of the service provider. In other words, asymmetric information, the standard agency problem, is assumed away.

In the model, accountability is defined by five features: delegation, finance, performance, information (about performance), and enforceability. In the context of this study, delegation connotes the devolution of appropriate functions and finance to local government to deliver local services. Performance, which can only be monitored if the citizenry have adequate information, refers to the delivery of services by local government or its agents (e.g. water utilities). Enforceability refers to the ability of the citizens or the policy makers to hold accountable the service provider through political and legal means, or through other sanctions. This stylized approach to accountability provides a broad basis for organizing and analyzing our findings from the four study themes. Specific evidence from the five cities will be adduced, largely structured around the main features of accountability, to support the argument that there is a serious accountability deficit in Kenyan cities and this has led to these cities not rising to their potential.

4.2 Local governance and local governments in Kenya

In the previous section, evidence was presented to show that local authorities have been marginalized by the state. This aspect will be revisited in the next subsection which examines the fiscal relationship between the state and the five cities. This chapter pulls together the main findings, drawing on investigations in the five cities and secondary sources, as a way of assessing accountability of the local state to its citizens.

4.2.1 Structural problems in local governance

The five cities face severe structural problems in governance. Foremost in this regard is the failure to develop an effective vision and strategy for dealing with urban poverty, for stakeholder engagement, and for consolidating accountability and transparency to improve service delivery. Councils are also vulnerable to corruption and nepotism, weaknesses that undermine service delivery. Moreover, as already noted, city governance is complicated by fragmented and overlapping responsibilities among service providers: the municipal council, the water utility, sector ministries, and the devolved funds that fall outside the remit of municipal councils, such as the CDF and the Road Fund.

4.2.2 The tenuous link between local authorities and the citizenry

Because of their marginalization by the center, local authorities have limited capacity to manage devolved funds and have also found it difficult to insulate these resources from local politics. In 2006 the Kenya Institute of Public Policy Research and Analysis (KIPPRA) conducted a survey[48] to assess the level of public awareness and the extent of public participation in decision-making in the administration of decentralized funds. The survey also sought suggestions on how the coordination and effectiveness of the funds could be improved. From a sample of 35 constituencies in eight districts, findings showed that the various funds scored poorly on public participation and accountability (Box 6).

Box 6: Decentralized funds have scored poorly on participation and downward accountability

On participation respondents indicated the following:

- only 32.8 percent received information or listened to *barazas*[49]*;*
- less than 10 percent attended meetings to discuss specific issues;
- less than 5 percent felt that they were involved in decision-making;

[48] KIPPRA (2006).
[49] Public meetings that are traditionally convened by the provincial administration.

- over 90 percent were not involved in setting the development agendas of their areas.

On accountability and performance respondents were asked to "agree" or "disagree" with the statement that decisions are taken within the respective fund's mandate (i.e. whether fund managers are using the funds for the intended purpose). Responses were as follows:

- awareness of the funds' mandates is relatively low, with most respondents stating that they had no knowledge of these mandates. This is consistent with the generally low level of awareness about the funds;
- 53 percent indicated "agree" that free primary education funds decisions were made within the fund mandate;
- 15 percent of respondents rated accountability as good amongst all the other funds.
- more than 30 percent of respondents indicated lack of accountability within fund management—which confirms the generally high levels of distrust in fund managers;
- except for free primary education funds, few respondents agreed that decisions taken are well justified;
- less than 10 percent of respondents agreed that decisions were justified for the Rural Electrification Fund, Local Authority Transfer Fund, and the Road Maintenance funds.
- around 15 percent of respondents agreed that decisions were justified for CDF, HIV/AIDS and the Secondary School Bursary funds;
- over 50 percent agreed that fund decisions are sufficiently justified for the Free Primary Education Fund;
- 46 percent of respondents indicated that fund decisions are not sufficiently justified for CDF.

The data show wide dissatisfaction in the probity of decision-making regarding all the funds but CDF drew the strongest opinions. The report further observed that "poor awareness by community members and fund managers of their roles and responsibilities in the governance of funds has contributed to poor performance and in some cases a complete failure of the funds. Poor participation, particularly for marginalized groups, results in poor prioritization of projects and exclusion". These sentiments were echoed by the various stakeholders interviewed by the RUSPS study team in the five cities and municipalities.

Our study provided additional evidence of the lack of downward accountability. With specific reference to the Local Authority Service Delivery Action Plan (LASDAP), designed to promote local ownership through participation and thus enhance the sustainability of LATF-funded projects, questions were raised on the way the process is conducted in nearly all the five cities. Interviews with stakeholders indicated that there is always local political pressure on the management of the LASDAP process to apportion funds equally among the electoral wards to achieve short-term political gain for the elected councilors. This spreads scarce resources too thinly across many local competing needs, and opens the process to abuse by civic leaders to gain political mileage. In effect, the process of setting expenditure priorities is overly politicized which undermines public participation. Moreover, there is a high turnover of the residents who take part in the LASDAP planning process from year to year, eroding the capacity of communities to engage with city authorities. In Kisumu, for instance, our respondents strongly argued that the LASDAP process is not participatory, as it typically draws its information from "gatekeepers" whose views reflect those of officialdom.

Box 7: The Local Authorities Service Delivery Action Plan

LASDAP, as already noted, is a basic requirement of the LATF legislation that is aimed at enhancing the interaction of residents and the LAs thereby according citizens the opportunity to hold the council accountable for the execution of the projects identified each financial year. Representatives of residents groups, businesses and civil society work with the council to scrutinize alternative projects that can be funded to meet local priorities. They do this through well advertised consultative meetings where expressed needs are tabled for consideration and proposed for funding through LATF. The priorities that emerge from these consultations are costed and included in the annual budget. The participatory planning process is designed to promote transparency in the budgeting process of the LA and to enhance local governance.

The 2005 MLG Guidelines for the Preparation, Implementation and Monitoring of the LASDAP process provide for residents and civic officials to participate in the planning of projects and activities and to regularly monitor implementation through teams appointed to manage the process. LASDAP monitoring takes place at the following different levels:

- local neighborhood level by the residents organized LASDAP monitoring team of one man and one woman from each ward of the LA;
- the Council level through a technical advisory team consisting of LA heads of department, professionals and local stakeholders working with the LA, NGOs, CBOs, businesses and financial institutions;
- the national level through regular monitoring visits to LAs by the Central Planning and Monitoring Unit of the MLG.

Evidence from this study corroborates the findings of three other studies. The first of these concluded that:

"In a nutshell, the LASDAP process has been constrained by: politicization of the process; ineffective planning; reallocation of funds; weak administration and managerial systems; inadequate and selective involvement of stakeholders; weak human resource capacity at the local level; and the poor relation between the council and the district administration[50]"

The second study, reporting on a LASDAP meeting in one neighborhood (Lanet) in Nakuru, provides a serious indictment of the process:

"Again, the experience with the participatory budgeting exercise in Lanet is telling. The most important officials arrived two hours late, which demonstrates disrespect towards citizens, and suggests at least that they do not take the LASDAP process seriously. The session was organized during office hours, e.g. at a time convenient for the officers, but probably not to most inhabitants. The residents were poorly informed about the procedure leading to a sheer endless list of projects without giving due consideration to issues of feasibility. Finally, it was obvious that the local councilor and some well-established local groups dominated the debate. They succeeded in getting their ideas on top of the list, and in having their representatives sit in the consultative meeting where final priorities would be set. Many others present in the meeting – including women and youth – were able to speak their minds, but their views were easily put aside. Although it is perhaps too early to judge the process harshly, it is evident that a great gap still exists between the

[50] Oyugi, L. N. and Kibua, T. N. (2006).

rhetoric of participatory planning and the reality of selective and marginal involvement of citizens"[51].

The third study, an impact assessment that was commissioned by the KLGRP in 2007, provides further evidence that LASDAP has failed in promoting downward accountability. The assessment sought to examine the extent to which the implementation of LASDAP, as a participatory planning tool at the local level, had achieved the objectives of enhancing local governance and setting project priorities for funding through LATF. The study observed that LASDAP reports at council level point to weak involvement of the resident communities in monitoring LA activities. The same sentiments were shared by community members during interviews and FGDs that were conducted as part of the study. It showed that a lot of information collected in monitoring exercises at the LA level is not analyzed locally. It is usually transmitted to central government offices and to program sponsors for review with little use of the information at the local level to support effective management decision-making.

Other means of involving communities in city management in the five towns are the Strategic Plan and the Service Charter, introduced recently as a part of reforms. The five city authorities have recently prepared Strategic Plans and, in so doing, consulted widely with their stakeholders. They have also published Service Charters that set out performance benchmarks for service delivery. The members of the public are expected to monitor the implementation of these Charters. But the lack of a formal stakeholder forum, except in Nairobi, constrains the ability of stakeholders to conduct structured monitoring of the implementation of the Strategic Plan and the Service Charter. Even in Nairobi, where a stakeholder forum has been formed, its activities have not been fully operationalized. The lack of effective public participation demonstrates that decentralization is not a sufficient condition for accountability, a point made in the literature.[52]

Box 8: City Council of Nairobi Stakeholder Forum

The formation of the City Council of Nairobi Stakeholder Forum (CCNSF) has its roots in the creation of the National Economic and Social Council (NESC). Pursuant to the Kenya Gazette Notice No 7699 of September 2004 by which it was created, one of the functions of NESC was to create a forum in which the Government, private sector and the labour unions would identify, discuss and make recommendations on policy issues. NESC was further directed to 'utilize private sector and civil society capacities and synergies through collaboration, engagement and networking.'

Afterwards, Ministerial Stakeholder Forums were created in all ministries as organs of Public Sector Stakeholder Partnerships (PSSP). A decision was subsequently made by the Head of Public Service to create similar partnerships on all levels of Government. Following this decision the Minister for Local Government launched the Local Government Ministerial Stakeholders Forum in 2005. Individual local authorities were then in turn to form their own stakeholder forums to advise on policy formulation and implementation. CCNSF was formally launched on 3rd March 2006.

Membership of the Forum is drawn from all legally constituted organizations and social groups operating in Nairobi including representatives of neighbourhood groups, slum dwellers associations and the up-market

[51] Post, J. and Mwangi S. W. (2006).
[52] See, for instance, Smoke, P. (2000).

residents associations such as Karengata and Muthaiga. Management of the Forum is vested in its Board whose members are drawn from the City Council of Nairobi, the Kenya Private Sector Alliance (KEPSA), the Kenya Civil Society Alliance and ex-officio representatives from the ODPM/MOLG. Interviews suggest that while the Forum is still operational it has not enjoyed the full support of all its constituent members and may require to be revitalized.

Interviews conducted suggest that while the Forum is still operational it has not enjoyed the continued support of its constituent members and requires revitalizing

These council-led mechanisms aside, there are sector-specific stakeholder forums that operate outside council facilitation in the five cities: Transport (*Matatu*[53] Operators Association); Trade (Hawkers/Street Traders); the Central Business District Association (CBDA); faith-based organizations (FBOs); and Residents Associations (RAs). Together with their apex organization, the Kenya Alliance of Resident Associations (KARA), RAs have grown into a powerful voice of civil society, partnering with councils to improve service delivery. All these initiatives are part of the new partnerships for urban development that are being implemented in all the five cities in varying degrees. This trend has raised hopes that the ownership of local development programs might progressively shift away from city hall to the residents, thus improving accountability. But it must be borne in mind that in all towns there is a long standing hostility between the municipal authorities and private sector stakeholders. Municipal authorities are seen as corrupt and inefficient, and the resultant siege mentality on the part of the councils has suppressed collaboration.

Box 9: Kenya Alliance of Residents Associations

The urban-based Residents Associations (RA) have become well organized with most of them joining the umbrella organization Kenya Alliance of Residents Associations (KARA). The RAs sprung up as community self-help initiatives of residents concerned over serious insecurity and the failure of the LAs to provide local services such as garbage collection, cleaning of streets, and maintenance of gardens in residential areas.

The members of the RAs were mainly property owners who were also concerned about the likely collective loss of property values in their neighbourhoods due to the decline in the quality of services provided by LAs. The RAs were thus formed as welfare associations of property owners who would meet regularly to review and discuss local issues of mutual concern. The first generation of RAs in Nairobi started in the more cosmopolitan up-market neighbourhoods of Karen, Langata and Muthaiga where the descendants of the colonial settler community at one time used to be the majority of property owners.

During the early 1990s, the Karen – Langata Association (KARENGATA), together with the “WE CAN DO IT” lobby group associated with Muthaiga residents, had vocal and articulate spokespersons who actively engaged with the City Council Nairobi and government, especially on accountability in the utilization of local taxes. These bodies initiated the formation of the Kenya Alliance of Residents Associations. By the time of the general elections in 2000, KARA had become a powerful lobby, with member associations in nearly all the major urban centers in the country. It is a clear local voice seeking improved LA accountability and promoting good governance at the local level.

KARA has developed a strong national network of urban policy advocacy, hosting monthly meetings where

[53] 14-seater minibus, the common form of public transport in Kenyan cities

prominent professionals make presentations on key policy issues. It also hosts an electronic newsletter that enjoys global subscription and with clear focus on topics touching on governance and urban environmental matters of the day. Moreover, it contributes to public debates on the constitution, legal reforms, decentralization and devolution of state power, LA elections and democratic governance.

4.2.3 Accountability of elected local officials is fragmented

Elections of councilors, committee chair persons, mayors and deputy mayors are conducted in accordance with the Local Government Act (Cap 265). The majority of councilors are elected through the popular vote, whilst a third are nominated by the political parties that win seats in council. Interviews suggested that elected councilors are mainly accountable to their voters (downward accountability), while their nominated counterparts are accountable to political parties (upward accountability).

At its inaugural meeting the full council elects the mayor by secret ballot after constituting the mayoral electoral college. Election of the mayor is characterized by “horse trading” and intense lobbying within and among the parties. Vote buying to secure support has been reported in many instances. Election of chairs of different committees is usually dominated by the political party with majority seats in the council.

The mayor is accountable to the electoral college of councilors and also to the Minister for Local Government who has supervisory responsibility over local authorities. The political economy of the country has a profound effect on city management, with the civic administration working closely with the dominant political party in each jurisdiction to fashion a *modus operandi* for engaging with the central government. In areas where the central government has little support, for instance in Kisumu, Eldoret and Mombasa, the council leans towards the opposition. But in areas where government has wide support, councils tend to cooperate well with government ministries and departments. In all the cities, capture by powerful economic and political interests make introduction of institutional reforms that are key to reducing nepotism and corruption, and to improving service delivery difficult.

4.2.4 Human resource management is an area of concern

Data collected under this study showed that councils are overstaffed especially in the lower cadres and this inflates recurrent expenditures unnecessarily. In senior management, staff transfers by the ODPM/MOLG are unplanned and uncoordinated, seriously disrupting continuity and undermining staff morale. In all the cities in the sample, staff motivation was characterized as low with poor remuneration, uncertainty over transfers, and lack of transparency in promotions cited as the principal causes.

Box 10: Intra-Council relations

Mayor - Town Clerk Relations: The Town Clerk is the chief executive of the council and he/she is the head of its executive arm. He/she is appointed by the national Public Service Commission which oversees appointments to senior positions in the public service. He/she is deployed and supervised by the ODPM/MOLG whose senior officials also recommend his promotion when it is due. In principle, he/she is under the day-to-day supervision of the council in the implementation of the legislative, policy and service delivery program of the local authority. He/she can make the work of the Mayor easy and exciting by facilitating necessary support to his political agenda and aligning council programmes with the mayor's promises. If he/she is not efficient he can frustrate even the best of mayors and there is not much they can do about it because he/she is an employee of the central government who happens to be paid a salary by the council. He/she can be transferred from the council to another council.

The Mayor as the titular head of the council oversees the execution of council programmes by the executive, essentially through the Town Clerk. He/she maintains good relations with him and the council's heads of department so as to motivate them to work hard towards delivering services to the city residents. If the relations between the Mayor and Town Clerk are strained, the councilors usually take the side of the Mayor and often make it difficult for the chief executive to carry out his management tasks. In some cases, councilors have overstepped their authority to reject a Town Clerk or a Treasurer. In such circumstances, the intervention of the ODPM/MOLG to reinstate a rejected official does not lead to good working relations. The two officials, therefore, make every effort to work well together.

Town Clerk – Council Relations: The functions of the senior executives (Town Clerk & Treasurer) are carefully outlined in the Local Government Act (Cap 265) and this has helped to avoid arbitrariness in determining whether they are acting within their power. The Town Clerk is the accounting officer of the council and has the responsibility of translating policies and laws into projects that support service delivery. He/she prepares the agenda for deliberation by council, records council decisions, oversees activity implementation and reports progress to council. He/she prepares budgets, oversees expenditure, manages procurements and prepares financial reports for scrutiny by the council and central government agencies and auditors. In all the above he/she acts on behalf of the council, reporting to it and responding to all its enquiries. He is obliged to act strictly within the provisions of the law and to follow guidelines that the central government issues from time to time.

LAs are responsible for paying the salaries and allowances of their staff regardless of whether the staff are internally hired or recruited externally through the ODPM/MOLG and the Public Service Commission (PSC). The PSC is established under the Constitution and given the responsibility for appointments, promotions, transfers, and performance appraisals and disciplinary matters of public officials including LA officers. It has delegated its powers to LAs to manage lower cadres (salary scales 10-20) while it directly handles the human resource affairs of senior and middle management staff (salary scales 1-9).

In practice, in spite of the powers of PSC, ODPM/MOLG plays a direct role in LA staff management and is involved in decisions regarding transfers and appointments of senior staff such as town clerks, treasurers and engineers. As the approving authority, it is able to influence the establishment of additional cadre of staff as the need arises. The respective roles of PSC, ODPM/MOLG and LAs are shown in the table below.

Table 6: Human resource management responsibility in LAs

Functions	Salary Scales 1-9	Salary Scales 10-20
Personnel Management		
Recruitment	PSC	LAs, but controlled by ODPM/MOLG through budget guidelines and approval process
Employment	LAs	LAs
Appointment	PSC	LAs
Transfers	PSC & ODPM/MOLG	ODPM/MOLG

Promotions	PSC	LAs
Disciplinary action	PSC and ODPM/MOLG	Town Clerk and LA
Staff Development		
Performance Appraisal and Contracts	PSC, ODPM/MOLG and immediate supervisor e.g. Town Clerk, PLGO[54].	Town Clerk and immediate supervisor
Training and staff development	ODPM/MOLG and LAs	LAs

4.2.5 Women's influence in politics is limited

The contribution of women to local policy making is considered to be an important governance indicator. Prior to the dissolution of Councils in November 2007, in preparation for elections, Eldoret, Kisumu and Nakuru had the largest proportion of women councilors, by far outperforming the other two cities (Nairobi and Mombasa) (Table 7). In Kisumu women were considered to have the greatest influence on council policies while in Eldoret and Nakuru women were seen as more aggressive, often playing the role of power broker within the council. Interviews also showed that over 40 percent of the people who attended LASDAP consultative meetings were women from local CBOs.

Table 7: Women councilors in the five cities

City	Elected	Nominated	Women	Men	Total	% Women
Nairobi	1	4	5	69	74	7.0
Mombasa	1	0	1	34	35	3.0
Kisumu	2	3	5	19	24	21.0
Nakuru	1	2	3	17	20	15.0
Eldoret	3	3	6	13	19	32.0

4.2.6 Corruption is a major issue

In general, interviews suggested that corruption is an important issue among public service providers in all the five cities. Its incidence was described as moderately high by the councilors and other internal stakeholders while external stakeholders described its incidence as high. This difference is not surprising as councils and their staff would see little advantage in declaring their councils corrupt. Operational areas most prone to corruption are procurement, revenue administration in single business permits/licensing, business centers such as motor vehicle parking, markets, housing, enforcement, construction works, land allocation, employment, and promotions. Council officials indicated that disciplinary action had been taken against corrupt officers, including suspension, prosecution in a court of law and dismissal from office.

[54] Provincial Local Government Officer

More systematic and objective information on corruption is available from Transparency International (TI) which has conducted regular annual surveys to inform the fight against corruption. These surveys define corruption in terms of bribery, viewing it from the perspective of ordinary citizens as they interact with officials of public and private organizations. The survey observations are used to construct a composite index which reflects the incidence, prevalence, severity, frequency, cost and size of bribes. The index has a range of 0-100 such that the higher the value the worse the performance of the organization.

TI's latest Bribery Index (2008) ranks LAs/Ministry of Local Government second after the Police Department. The Nairobi and Mombasa City Councils are ranked 7th and 9th on the same aggregate index, while water companies make an entry in the rankings. Most of the TI findings are confirmed by the Kenya Anti-Corruption Commission (KACC).[55] Survey respondents cited corruption as the third most serious problem facing Kenya after poverty, famine and unemployment, followed by poor leadership and inadequate healthcare.

Selected summary findings of the KACC survey show that:

- 87 percent of respondents agreed that corruption is major problem in the country;
- 23 percent understood corruption mainly in terms of giving and taking of bribes, dishonestly acquiring property (12 percent), misappropriation of resources (10 percent), engaging in illegal activities (10 percent), and fraud, embezzlement and land grabbing (9 percent);
- 14 percent cited local authorities among the public places where corruption occurs;
- 41 percent cited the ODPM/MOLG among the most corrupt government ministries after the Ministries of Health and Lands;
- 41 percent cited LAs as the second most corrupt public institution after the police, followed by the provincial administration;
- 53 percent cited civic leaders as the most corrupt professionals after the police, lawyers and revenue collectors, followed by MPs and judicial officers;
- 67 percent identified the cause of corruption to be greed and selfishness, poverty (65 percent) and poor remuneration (54 percent);
- The four most effective ways to combat corruption were identified as: enforce anti-corruption laws; enhance system of accountability; establish clear reporting channels; and conduct public education.

The cost of corruption was said to be higher in urban areas than in rural communities. All the five cities have ongoing risk assessment activities which were initiated with the assistance of KACC, targeting officers, councilors and their stakeholders. The typical program consists of preliminary risk assessment, sensitization and awareness creation, establishment of integrity officers, staff training, and review of basic council functions, policies and programs that are most prone to corruption. In the prevention of corruption,

[55] Kenya Anti-Corruption Commission (2006) " National Corruption Perception Citizen Survey"

the internal capacity of councils has been strained and collaboration with specialized arms of the central government has been sought.

4.2.7 Citizens' attitudes towards local authorities are complex and generally unfavorable

Information from a recent investigation of a low-income neighborhood in Nakuru points to the complexity of citizens' attitudes towards local authorities, strongly suggesting that municipal accountability is in doubt (Box 11). That investigation reports that the ability of the Nakuru Municipal Council to deliver services is unsatisfactory, a view that is consistent with experience from the other towns in our study. In spite of this underperformance, citizens in Nakuru do not seem convinced that privatization of service delivery is a good option. This apparent contradiction stems from the fear that privatization comes with high prices. Citizens also do not think that CBOs are a viable institutional alternative for delivering neighbourhood services such as garbage collection.

Box 11: Nakuru: Questioning the accountability of the Municipal Council in service delivery

Recent research in Nakuru by Post et al. (2006) argues that although local democracy in Kenya is recent, residents consider councilors to be an important avenue for exercising their citizenship. Attitudes towards the municipal government, however, were much less favorable. More than half of the residents interviewed felt the municipal council was not responsive to their interests, and that it had performed badly in delivering services. Sixty five percent of residents had also complained about the lack of opportunities to voice their needs to the council, a view held in spite of participatory budgeting processes of the Council. Nevertheless, most residents continued to put their trust in the Council.

In view of the poor reputation of local government one would expect high levels of sympathy for privatization. However, the (partial) privatization of the municipal water supply was met with more hesitation than sympathy, while privatization of garbage collection was widely (83 percent) held to be retrogressive. The commonly held view was that residents would be financially worse off post-privatization. Furthermore, residents did not seem to consider neighborhood organizations a viable alternative to the Council in service delivery, presumably because these organizations did not have a solid track record in this respect.

Adapted from Post, J. and Mwangi S. W. (2006)

4.2.8 Performance contracts are expected to improve enforceability

The five councils have Service Charters that were introduced in 2005 by government as a key part of Performance Based Management (PBM). PBM is expected to help the public monitor service delivery by councils, amongst other public institutions. The SC and PBM have made use of Performance Contracts (PC) to try and jumpstart improvements in performance and service delivery by councils. Work plans, service level targets and measurable indicators of performance are key elements of this aspect of public sector reform. The councils are establishing new offices that are charged with the implementation of reforms and ensuring that the public and stakeholders are properly informed. In Nairobi, for instance, one of the Deputy Town Clerks is in charge of reforms. In all cases, the cities tend to adhere to performance targets that are agreed with the central government on financial accountability, planning guidelines, service delivery, infrastructure development, public service reforms, and measures to fight corruption. As reforms are fairly recent their impact has yet to be felt.

Performance monitoring and enhancement of productivity in LAs has been made part of the wider public service reforms, spearheaded by the Public Service Reform and Development Programme Secretariat (PSRDPS) in the Office of the President. The Performance Contract (PC) that is signed between government -- through ODPM/MOLG -- and the LAs was first drawn up by the PSRDPS and introduced in the line ministries and state corporations before its use in the top ten municipalities during 2006. PCs are drawn and promoted by the PSRDPS, implemented by LAs and monitored by ODPM/MOLG. The incentives for the LAs to comply with PCs are few and the quality of performance reports is also low. The standard structure of a PC is given in Annex 3.

The performance criteria/targets matrix in the PC contains the financial and non-financial indicators of institutional performance. The data in the PC are put together during the initial adaptation of the contract to set the performance benchmarks. There are regular updates to track the changes that take place as service delivery plans and budgets are implemented. Individual LA departments set their own targets within the context of the vision that is spelt out in their Service Charter and the LA Strategic Plan.

LA quarterly and annual performance reports are filled out manually and submitted to ODPM/MOLG for review and analysis. The Central Planning and Monitoring Unit (CPMU) of ODPM/MOLG processes the performance reports, a daunting task given the fact that the system is manually operated and not electronic. Storage space for hard copies will soon be a problem as all the 175 LAs are obliged to submit one annual report and four quarterly reports to ODPM/MOLG. There is merit in making the preparation of these reports electronic and then linking their administration to the wider M&E system of public sector performance.

International experience on service charters at the municipal level offers a useful reference for the five cities in the study (Box 12).

Box 12: Citizen's Charter: Hyderabad, India

As a part of its effort to improve the quality and promptness in the delivery of services to the citizens of Hyderabad and Secunderabad, the Greater Hyderabad Municipal Corporation (GHMC) offers a Citizens' Charter to achieve the twin objectives of streamlining public services and informing the citizens regarding their rights and responsibilities. The Charter elaborates its commitment in 6 areas of public services, namely health and sanitation, civic infrastructure, property tax, green city, town planning, and urban community development and services. Under each of these heads, the Charter aims to:

- provide key information to the citizens about the functions and services being delivered by GHMC and its concerned departments;

- spell out the response time for delivering various services related to the functions and the contact persons associated with the services;
- create a network of service centers which are close to the people and can receive and act upon public grievances promptly;
- generate public awareness regarding the rights and responsibilities of the citizens with regard to the functions discharged; and
- solicit the cooperation of the people to maintain a clean, green and healthy city in the spirit of self-help, mutual help, partnership and togetherness.

The last section of the Charter is a Public Grievances Redressal System, called *Parishkruthi*, that offers citizens direct access to concerned officers. The system provides the citizens a registration number at the time of complaint and updates them regarding the status of their complaint at each stage through email. *Parishkruthi* enables the top GHMC administration to watch the status of grievance redressal at any place and at anytime making it an important management tool for providing quick service to the citizens.

Citizen Charter of GHMC is available at http://www.ourmch.com/citizencharter/cc.asp

4.3 Financing of Kenyan local governments

The financial base of municipal authorities consists of locally generated revenues and transfers from the central government. Together, these sources finance the functions assigned to municipalities by the central government. For the five cities, this subsection examines: (a) the nature and magnitude of both types of finance; (b) municipal expenditures; (c) budgeting processes; (d) municipal debt; and (e) financial accountability. The common strand in our investigation is an assessment of municipal accountability, with a focus on the adequacy of resources and how transparently they are used.

4.3.1 Municipal revenue sources and management

The basic revenue sources for municipalities are defined in several statutes56. These laws give local authorities the right to raise revenue from a wide variety of sources upon receiving the approval of the Minister for Local Government57. The municipal revenue base, therefore, is influenced a great deal by the central government through the granting or withholding of fiscal authority over potential sources. The main sources include:

- Property taxes collected in the form of land rates[58];
- Business tax referred to as the Single Business Permit (SBP);

[56] These include the Local Government Act CAP. 265 of 1977 as amended in 1988, the Rating Act, the Valuation for Rating Act, the Agriculture Act, the Water Act, Road Maintenance Levy Fund Act and the Local Authority Transfers Fund Act of 1998.

[57] Smoke P. (1994) p. 78

[58] Land taxes are made up of rates that are levied on the beneficiaries of public land at the local level. Land rates are property taxes levied as a proportion of the unimproved site value of plots owned by individuals within a municipality. User-charges are made up of fees paid by consumers to use a specific service and are levied on a “pay as you use basis”. They include vehicle parking fees, market fees, house rents, water/sanitation charges levied by councils or their companies formed to render a given service.

- Motor vehicle parking fees;
- Market fees (for stalls and use of space in council markets);
- Rents from council buildings, housing estates and community facilities;
- Fees for municipal services, including: building plan approval; sanitation services; slaughter houses; fire brigade services; mortuary and burial services; and property registration and surveying.

The sections below examine the key factors that determine the revenue generation potential of municipalities, namely, the tax base, tax rates, enforcement, and the capacity of staff working in revenue administration. The discussion shows that there is considerable room for improvement.

Internal revenues, consisting of the taxes listed above, are the main sources of funds in the five cities accounting, on average, for about 70 percent of total revenues in 2006 (Table 8).

Table 8: Own revenues 2001- 06

City / Municipality	Own revenues as a % of total revenues in 2006[1]	Growth per annum over 2001-06 (%)[1]
Nairobi	73	12.6
Mombasa	70	9.1
Kisumu	71	3.8
Eldoret	68	- 6.0
Nakuru	70	15.1

Source: LATF Annual Reports
[1]/In nominal terms

A close examination of municipal revenues of the five cities for the year 2005/06, presented in Table 10, reveals that own-source revenue as a proportion of total revenue is quite high. In absolute terms, however, the own revenue per capita is quite modest: US$20 for Nairobi, US$14 for Mombasa, US$8 for Kisumu, US$13 for Nakuru and US$17 for Eldoret. When external revenue sources are included, the municipal revenue per capita is highest for Nairobi (US$ 27) and lowest for Kisumu (US$ 11). Nairobi is the best performer in both cases and Kisumu the worst. The average annual per capita revenue collected by the five cities is US$ 17 (own revenues) and US$ 24 when external revenue sources are included. The level of own revenue collection is not much higher than the average for African municipalities, which is US$15 per capita (Table 9),[59] and it is far lower than the amount for cities in other regions.

Table 9: Municipal incomes: a cross-regional comparison (US$ per capita, per year)

City/Region	**Average per capita income per year (own revenue; US$)**

[59] These are rough and ready comparisons as the figures are for different years. Figures for other regions are cited in World Bank (2001), and are based on UN-Habitat Urban Indicator Reports for 1998 and 2001. The Kenyan figures are for 2005/06.

Nairobi	20
Eldoret	17
Mombasa	14
Nakuru	13
Kisumu	8
Ethiopia (Highest value)	7
Africa	15
Asia Pacific	249
Industrialized	2,763
LAC	252
Transitional	237

Sources: Kenyan municipal councils and LATF Annual Reports; World Bank (2001).
LAC = Latin American countries; Transitional = Countries in transition

Table 10 shows that the three most important sources of municipal revenue in 2005-06 were property taxes, business taxes and user charges. However, the amounts collected from these sources vary substantially, in relative terms, across municipalities. For example, property taxes were the most important sources of revenue in Nairobi and Mombasa, accounting for 42 percent and 50 percent of own-source revenues in the two cities, respectively. In contrast, they accounted for a mere 17 and 27 percent of own-source revenues in Nakuru and Kisumu, respectively.

The main reason for these differences in performance appears to lie in tax administration. Nairobi and Mombasa have been more rigorous than the other towns in tax administration and have even sought the assistance of the Kenya Revenue Authority (KRA), the national tax agency. The two cities have revised their property tax rates at least once since 2000 and won the support of tax payers who have qualified for early payment discounts and an interest waiver on rates due. Further, although the cadastres are quite poor and out of date in almost all municipalities in Kenya, in Nairobi and Mombasa they are computerized and better managed, unlike in the other cities in the sample. Whilst the property valuation roll is partly linked to a geographic information system (GIS) in four of the five cities, this innovation is only working satisfactorily in Mombasa.

There are variations, too, for the other two sources. Revenues from SBP (business tax) accounted for 24 percent of own revenues in Nakuru, 18 percent in Mombasa, 16 percent in Kisumu, 15 percent in Nairobi and 13 percent in Eldoret. The contribution of user charges (to own-revenues) was 36 percent in Nairobi, 37 percent in Nakuru, and 44 percent in Kisumu and Eldoret. User charges have declined over time due to the divestiture of council rental housing estates and the hiving off of water and sanitation upon commercialization.

4.3.2 Tariffs and fees for services are outdated

The review and approval of tariffs and fees for services do not take into account the effect of inflation on city budgets and revenue outturn. In general, the costs of providing services have tended to rise more steeply than the growth of real revenues, a problem that stems from unrealistic tariffs in the schedule of fees and charges (SFC)[60]. For instance, the rent for a two bedroom apartment in council estates (e.g. Madaraka and Nairobi West) is Ksh.5,000 per month while the rent charged by those who have recently bought similar apartments in the same estate is around Ksh.20,000 per month. The current level of fees for motor vehicles in the inner city council parking lots is Ksh.70 per day while for private parking charges are between Ksh.200 and 300 per day.

Although the five cities revise their tax rates and tariffs from time to time, they have not done so systematically or expeditiously. In the case of property taxes, an important revenue source as already noted, valuation rolls are not revised every 10 years as provided for in the law (Valuation for Rating Act). This reduces the revenues from property taxes. In other cases, the cost of tax collection is quite high relative to the revenue due. For example, it is not unusual for house and market stall rents to generate less revenue than the cost of maintaining these facilities. Similarly, especially in the CBDs of Nairobi and Mombasa, parking charges are relatively low (not more than Ksh 70 per day), yet congestion is quite serious leading to substantial efficiency losses.

It is apparent that there is potential for increasing the revenues generated from tariffs and fees, adjusting them to reflect current costs and incomes and/or consolidating some fees to simplify administration.

4.3.3 Problems in revenue collection are numerous

The municipalities have weak administrative and legal mechanisms to support enforcement of revenue collection which leads to defaulting and accumulation of arrears. With the exception of property tax, municipal authorities can only impose a late payment surcharge for delinquent tax payers. Even for property tax, the process of recovering arrears through the courts is problematic and time consuming. There is clearly a need to develop legal and administrative mechanisms that can help municipalities improve revenue collection.

The budgeting of revenues has tended to be over-optimistic as only about 70 percent of the budgeted revenues are actually realized. As a result, LAs have found it difficult to meet their development objectives, and to service their debt. To reverse this trend, ODPM/MOLG has introduced firmer ceilings on revenue budgeting for the various sources. The aim is to ensure more realistic budgets and stronger budget constraints.

[60] The SFC is the list of all the revenue items that are administered by the city and is approved together with the city budget to which it is annexed.

Table 10: Municipal revenues 2005-06 Ksh. Million)

	Nairobi		Mombasa		Kisumu		Nakuru		Eldoret	
Own Revenue		%		%		%		%		%
A. Property tax / CILOR[61]	1,598	42	372	50	72	27	44	17	94	36
B. User Charges	1,375	36	0.2[62]	0.1	117	44	96	37	116	44
C. Business tax / SBP	598	15	132	18	43	16	62	24	34	13
D. Other levies / fees	280	7	242	32	34	13	57	22	20	7
E. Rent/sales of property	-	-	-	-	-	-	-	-	-	-
Total Own Source	**3,851**	**100**	**746**	**100**	**266**	**100**	**259**	**100**	**264**	**100**
External Finance Sources										
LATF	401	31	274	80	96	83	94	84	74	87
RMLF	533	42	53	16	9	8	16	14	11	13
School Bursaries Grant	52	4	-	-	-	-	-	-	-	-
Health Grant / HIV AIDS	80	6	-	-	-	-	-	-	-	-
Donor / Partner Grants	-	-	15	4	11	9	2	2	-	-
Other Transfers	217	17	-	-	-	-	-	-	-	-
Total External Revenue	**1,283**	**100**	**342**	**100**	**116**	**100**	**112**	**100**	**85**	**100**
Summary										
Total revenue (Ksh. Mln)	**5,134**		**1,088**		**382**		**371**		**349**	
Own source as % of total[63]	75		69		70		70		76	
External as % of total	25		31		30		30		24	
Population 2006 (million)	2.9		0.83		0.50		0.30		0.24	
Own-source rev. **per capita** Ksh (USD)	1,328 (20)		899 (14)		532 (8)		863 (13)		1,100 (17)	

[61] Contribution in lieu of rates. This amount is paid over to the local authority by government for the land occupied or owned by governmental institutions.
[62] Fieldwork data indicated an understatement/different classification of user charges in Mombasa, in addition to poor revenue returns from parking spaces, currently managed by a private entity under a PPP.
[63] Due to the use of different data sources the percentages in this row do not match those in the previous table.

Total rev. **per capita** Ksh (USD)	1,770 (27)	1,310 (20)	714 (11)	1,233 (19)	1,454 (22)

Sources: Municipal Councils, LATF Annual Reports and Municipal LATF returns to ODPM/MOLG. 1USD = Ksh 65

Collection systems and procedures are slow and inconvenient for taxpayers. Measures to simplify these procedures have helped to improve compliance in the case of trade licenses, for which a one-stop-shop has been established to issue a Single Business Permit (SBP). It used to take 3-4 weeks (and 14 steps) to secure a trade license but this has been drastically reduced to a few hours as a result of reform. Collection of land rent by the Ministry of Lands (MOL) has also been reformed, doubling revenue collection.

In all cases, revenue collection has been undermined by limited institutional capacity. This problem is particularly acute in the departments responsible for revenue administration which are characterized by a high turnover of senior staff, limited staffing (except in Nairobi), and very low salaries. In the five cities, over 80 percent of the revenue departments are neither computerized nor properly networked to support revenue collection.

The revenue staff are competent in nearly all cases, but are demotivated by low salaries. The city of Nairobi was cited as having a very large complement of qualified accountants (32 no.) but they are not strategically deployed within the Council.

In general, revenue administration in the five cities faces six major constraints:

- The tax base for important sources, such as the property tax and the business tax, is artificially small because the cities have not been updating their records, and informal businesses and properties are not included in the base;
- Fees and tax rates tend to be out of date and are often difficult to administer;
- Collection rates are poor in many municipalities with wide variations year-on-year. The default rate and cumulative arrears are especially high in the case of property taxes;
- Payment procedures are slow and inconvenient for taxpayers;
- Enforcement mechanisms are poor and the legal basis to support enforcement is very weak, thus encouraging defaulting; and
- Weak human resource capacity, low computerization and poor incentives for enhancing performance.

4.3.4 Transfers from central government

The main transfers from the central government, already noted, are:

- Road Maintenance Levy Fund (RMLF);
- School bursaries from the universal free education fund;
- National HIV AIDS control fund; and
- Local Authority Transfer Fund (LATF).

The main transfers that are reliable in terms of timing and amount are LATF and RMLF. The annual growth of all transfers between 2001 and 2006 ranged from 5.6 percent for Kisumu to 25.5 percent for Nairobi (in nominal terms). These transfers have become an important part of local authority finance in Kenya since the late 1990s. LATF is an "unconditional block grant" that is not earmarked for any specific local expenditure (LAR 2007:4) unlike RMLF which is earmarked for roads development, rehabilitation and routine maintenance. The annual budget process allows the LA to rationalize the actual deployment of the funds and enables ODPM/MOLG to review the work plans pertaining to the proposed expenditure priorities for each financial year

Both LATF and RMLF are generally predictable. While RMLF is earmarked for specific use, LATF comes with conditionalities and, therefore, constrain local authority autonomy in setting local budget priorities[64]. Moreover, city authorities have argued that their share of income tax, through LATF, is fairly small, amounting to only five percent of national tax revenue during 2008/09. In nominal terms, the total amount of LATF funds allocated to LAs has risen from Ksh.1.0 billion in 1999/00, to Ksh.5.0 billion in 2005/06, and to Ksh.8.0 billion in 2007/08.

LATF allocations are based on an objective formula. It includes the overall population size of the LA (weighted at 60 percent), the urban population of the LA (weighted at 31 percent) and a basic minimum guaranteed lump sum allocation of Ksh.1.5 million roughly equal to 9 percent. Criteria for allocating RMLF resources include the length of classified roads and existing road conditions.

Yet another source of revenue is CILOR (Contribution In Lieu of Rates)—the tax that central government pays to LAs in respect of properties located within its tax jurisdiction. A key issue is that CILOR funds are inadequate and unpredictable, making it difficult for cities to plan for their utilization. Because of their poor financial health, cities are also not in a position to access funds from the market directly through either direct borrowing or through intermediaries.

4.3.5 Municipal Expenditures

Table 11 shows that in 2005-06 total expenditure in all the five cities exceeded own revenues, with Eldoret and Nakuru exceeding their revenues by the largest proportion. Expenditure was below total revenues (i.e. with external receipts included) in three of the five cities but Nakuru was able to just cover expenditure from total revenues while expenditure by Eldoret exceeded total revenues.

Table 11: Relationship between expenditures and revenues in 2005-06 (Ksh. Million)

	Nairobi	Mombasa	Kisumu	Nakuru	Eldoret
Expenditure	4,470	969	342	371	370
Own-revenue	3,851	746	266	259	264
Total revenue (own+external)	5,134	1,088	357	370	349
Expenditure/own-revenue (%)	116	130	129	143	158
Expenditure/total revenue (%)	87	90	96	100	106

Source: Municipal records

In all five cities recurrent expenditures accounted for an extremely high proportion of total expenditures – 92 percent for Nakuru, falling to 76 percent for Eldoret (Table 12). Not surprisingly, the capital expenditures per capita are very low, a mere Ksh 199 for Nairobi and Ksh 371 in Eldoret, the best case. Kisumu is the worst performer at Ksh 62.

[64] Smoke, P. (1994)

As these figures are for one year, they present only a snapshot, and not too many generalizations can be drawn from them. Still, these low levels of investment are consistent with poor service delivery, and the perception by citizens that the performance of municipal authorities is not satisfactory.

Elsewhere, we have pointed out that low salaries demotivate staff yet there is not much room for raising salaries as wages and pensions already account for a very high proportion of own revenues. The cities would have more room for maneuver if they right-sized their staffing and mobilized more revenue, locally and from the center. Indeed, the budget process, discussed next, is gradually having an impact on restraining the growth in the wage bill through selective recruitment to fill vacancies in the professional cadre and managing the excess staffing in the lower cadres.

Table 12: Expenditure patterns: recurrent vs. capital and the wage bill 2005-06 (Ksh. Million)

	Nairobi	Mombasa	Kisumu	Nakuru	Eldoret
Capital expenditure (a)	578	141	31	31	89
Recurrent expenditure[65] (b)	3,892	808	312	340	280
Wages & pension contributions	2,805	505	173	193	174
Total (a+b)	4,470	949	343	371	369
Capital exp. as a % of total expenditure	13	15	9	8	24
Recurrent exp. as a % of total expenditure	87	85	91	92	76
Own-revenue	3,851	746	266	259	264
Wages & pensions as a % recurrent expenditure	72	63	55	57	62
Wages & pensions as a % total expenditure	63	53	50	52	47
Wages & pensions as a % of own-revenue	73	68	65	75	66
Total population in 2006 (million)	2.90	0.83	0.50	0.30	0.24
Capital expenditure per capita (Ksh)	199	170	62	103	371
Recurrent expenditure per capita (Ksh)	1,342	973	624	1,133	1167

Source: Municipal records

4.3.6 Municipal budgeting

The basic responsibilities for budget preparation lie with the cities but under the oversight of ODPM/MOLG through published guidelines and resource ceilings. The budgeting process begins with a determination of expected revenues which are then matched with

[65] The main items in this are operations and maintenance, and wages and pension contributions. Debt service excluded but the amounts are minor.

estimated expenditure proposals. Each Council department prepares a budget request that is submitted to the City Treasurer who facilitates internal review and negotiations in consultation with the head of administration. The process also involves mandatory community review through the LASDAP process. A recent innovation is the requirement that the budget be presented to the public. Eventually, the budget is reviewed by the management committee of the council before it is forwarded to the Provincial Local Government Officer (PLGO) of ODPM/MOLG for review, amendments and approval.

The final budget envelope is limited by own revenues and the transfers from the central government. LAs are required to prepare a balanced budget and ODPM/MOLG approval is based on this condition. In practice, however, there is inadequate enforcement of the condition with the result that the budget deficit easily translates into unpaid commitments for salaries, statutory deductions and settlement of utility bills. Treasury is often forced to rescue imprudent LAs when they are not able to fully meet their annual liabilities through the budget.

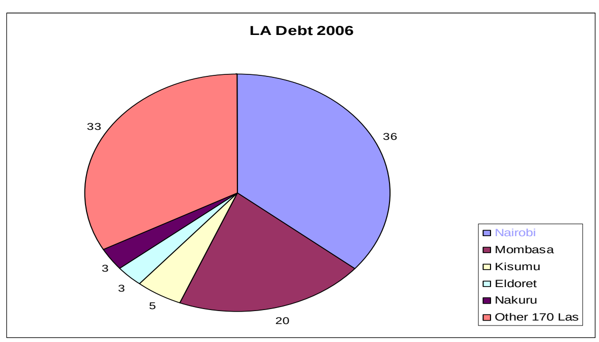
The five cities have standardized their budget formats in compliance with guidelines from ODPM/MOLG. These guidelines require, among other things, that a proportion of funds be set aside for pro-poor interventions, salaries/wages, operation and maintenance as well as capital development projects. Investments in major development projects are difficult to accommodate within most city budgets and such projects are typically funded by means of capital funds mobilized through ODPM/MOLG.

4.3.7 Managing municipal debt

As the five cities have many outstanding liabilities a key part of LATF reforms is the gradual reduction of municipal debt with a view to eliminating it by June 2010. The main liabilities include staff salary arrears, and statutory deductions from staff salaries not remitted to pension funds, labour unions, Kenya Revenue Authority (KRA), National Social Security Fund (NSSF), National Hospital Insurance Fund (NHIF), Superannuation Fund and Provident Fund.Other liabilities include long-term non-performing loans owed to the Local Government Loans Authority, the National Housing Corporation and commercial banks. The debt position of the five municipal authorities is shown in Table 13.

Table 13: Local Authority debt as of June 2006 (Ksh. Million)

City	Outstanding Debt
Nairobi[66]	3,756.56
Mombasa	2,104.46
Kisumu	560.12
Eldoret	298.57
Nakuru	272.51
Subtotal 5 Las	**6,992.22**



[66] Nairobi was in addition to this amount reported to be holding a long term loan portfolio of Ksh.15 billion.

Other 170 Las	3,564.52
Total LA Debt	**10,556.73**

Source: LATF Annual Report 2005/06:16.

The five largest LAs held 67 percent of the total LA debt in the country, led by Nairobi and Mombasa with 36 percent and 20 percent, respectively, and the other three LA with 11 percent. The rest of the 170 LAs in the country held 33 percent of the debt.

4.3.8 Financial accountability within cities

Financial accountability is enforced through procurement, financial reporting and audit. Procurement of goods and services is governed by the Public Procurement Act of 2003 (PPA 2003) and its regulations and guidelines as published by the Ministry of Finance. PPA 2003 procedures call for competitive tendering and public invitation of bids from competent firms. To procure goods and services worth more than sh.500,000 tenders are advertised in the national daily newspapers. Procurements below that value are made through 3-5 local quotations from approved suppliers. The opening of tenders is open to the public and is usually witnessed by bidding firms.

In respect of financial reporting, the municipal authorities are required to publish their summary budgets in the national daily newspapers in compliance with the LATF Act. LA budget estimates for 2007/08 were read to the public at the end of June 2007 as required by a Ministerial directive issued specifically for the purpose of enhancing public accountability. Annual Abstracts of Accounts have not been published or made public but the Nairobi City Council published its Audited Accounts for the first time in December 2006.

The Kenya National Audit Office (KNAO) is the external auditor for the cities. It carries out audit inspections, audits LA books of accounts, and issues audit certification on an annual basis. KNAO Audit reports and certificates are addressed to Town Clerks and copied directly to the Permanent Secretary of ODPM/MOLG, the PLGO, and the regional KNAO office. For the very first time in the country, LAs' Audit reports were expected to be tabled to the Public Accounts Committee of the National Assembly for scrutiny during 2007 but this may have to wait for the reconvening of Parliament in 2008.

The KNAO Audit reports would generally recommend that some of the following measures be taken:

- Establish and maintain primary records e.g. bank reconciliation statements and debtor / creditor ledgers.
- Strengthen internal financial controls systems and related discipline.
- Establish and maintain asset registers and related valuations.
- Establish and maintain renewals funds for key equipment.
- Ensure that the procurement law and its regulations are followed.

Forty percent of LATF money is normally released upon evidence that the LA has met the five performance conditions outlined below. Compliance with each condition triggers the release of twenty percent of the performance component of the grant.

(a) Summary statement of actual receipts, expenditures, cash and bank balances, ready to be certified by an auditor as being a true record;
(b) Statement of debtors and creditors, together with a brief statement showing the authority's compliance in implementing the previous year's plans for paying its own debts and certification of the actual debt payments made in the current year;
(c) Abstract of Accounts for the previous fiscal year;
(d) Revenue enhancement plan for the current year and measures to improve revenue collection;
(e) Local Authority Annual Service Delivery Plan (LASDAP).

It is conceivable that completion of LA audits and submission of an audit certificate will be included in performance condition (a) above for accessing LATF funds. At the moment, audited accounts are a requirement of the LGA but are not a condition for accessing LATF funds. The clamour for improved accountability by civil society and private sector lobby groups has resulted in significant compliance with the audit condition, with Nairobi leading the pack in publishing its audited accounts towards the end of 2006.

5. Economic and Human Challenges of the Five Cities

This chapter surveys the performance of the municipal councils and their agents in three areas: local economic development (LED), basic urban services, and shelter and slums. The chapter builds on the previous two chapters which presented the existing frameworks for local governance at the national level and diagnosed the challenges in building effective systems of urban governance in the study cities. This chapter offers evidence of how those weak governance and poor accountability systems both at national and local levels have hindered the local economic potential of the cities, resulted in large gaps in service delivery, and led to proliferation of informal settlements.

The study examines a number of services that are critical to livelihoods and economic activities in the five towns: water and sanitation; solid waste management; transportation; and electricity. This subsection looks at the institutional and financial aspects of provision, as well as overall service coverage and access for the poor. Particular attention is given to the link between the poor and the service provider so as to gain insight into aspects of accountability.

5.1 Local Economic Development

5.1.1 Centralization has undermined locally-owned strategies for LED

The argument was made in the previous chapter about the centralization of the state and the resulting marginalization of local authorities. The consequences of this centralization are apparent in local economic development (LED) as in other sectors. Yet LED in the five cities is of paramount importance to the country as a whole, especially in view of the economic dominance of these cities and the critical role they play in public finance, as pointed out in Chapter 3.

At the national level, the ERS[67] provides a well articulated framework for economic development. In spite of this, field investigations showed that none of the five towns has a policy or strategy for local economic development. This points to a disconnect between national and local-level strategies for economic development, accentuated by centralization and the lack of local capacity for economic planning. In the terms of our accountability framework, the link between the center and the local level is not strong.

At the local level, with the possible exception of Nairobi, many players do not fully appreciate their role in LED. Primary among these are the Councils, which largely see themselves as service provision and regulatory bodies rather than as drivers of local economic growth. The preoccupation of the Councils with their own internal concerns (such as Council insolvency) has left little room for strategizing on the wider LED concerns. For their part, private sector players also do not seem to appreciate their role in LED outside the strict confines of their core business.

There are exceptions, however, particularly in Nairobi where private-public partnerships (PPPs) are much better organized and developed. As already noted, Nairobi has a formal

[67] Economic Recovery Strategy for Wealth and Employment Creation

stakeholder forum, established in 2006. Although not fully operational, this forum enabled stakeholders to take part in the review of Council by-laws, thus affording them an opportunity not just to react to changes in policy but to be involved in shaping it.

5.1.2 There is a marked differentiation in the economic roles of the five cities

The five cities, as already noted (Chapter 2), show marked differences in their economic roles. Nairobi is the capital city and the principal financial, commercial and industrial center. Besides its role as a regional commercial center for the wider east African and Great Lakes region, the city's strategic location makes it an important air transport node, with connections to many continental and international destinations.

Nairobi serves a much wider metropolitan region which depends on the city for a range of services: employment; transportation services; social services, especially health and education; and financial and banking services. This wider region has an estimated population of 4.73 million[68]. The new Ministry of Nairobi Metropolitan Development has recently issued a draft report which sets out a vision for the metro region[69]. The vision envisages a region comprising 13 local authorities[70], and lays emphasis on the integration of this region so that it becomes an efficient driver of social and economic development. Detailed strategies of how this vision will be realized are yet to be formulated.

Mombasa, with a trading history that is centuries old, is Kenya's principal port. It serves as a gateway to eastern and central Africa and its economy is dominated by tourism and international port trade. Kisumu is a railway terminus and inland port and is the leading commercial, industrial and administrative center in the Lake Victoria Basin. Besides this role, the city serves as a communications and trading hub for countries in the Great Lakes region. Nakuru started as a railway outpost, and is located along the east-west transport corridor which links the Kenyan Coast with the Lake Victoria region and Uganda. It is an important agro-industrial center and is the site of tourist attractions of great economic value. Eldoret lies in a rich agricultural region and is the administrative headquarters of Uasin Gishu District in Rift Valley Province. Founded in 1910, the town is an important commercial and agro-processing center, with good transport connections to other cities and Uganda. It boasts a modern airport and an athletics training center of international repute.

5.1.3 There is no regulatory framework to promote LED

In all towns the absence of a regulatory framework to promote LED was cited as a major obstacle. Most common among the concerns expressed was the licensing regime (which includes the issuing of business licenses and building plan approvals) which was deemed to be lengthy, costly and overly burdensome.

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[68] Ministry of Nairobi Metropolitan Development (2008)
[69] Ibid
[70] These are the City Council of Nairobi, Thika Municipal Council, Machakos Municipal Council, Mavoko Municipal Council, Kiambu Municipal Council, Karuri Municipal Council, Tala/Kangundo Town Council, Kikuyu Town Council, Ole Kejuado County Council, Ruiru Municipal Council, and Limuru Municipal Council

Efforts have been made to streamline licensing procedures, and the introduction of a Single Business Permit (SBP) and the elimination of over 700 licenses have all helped to reduce the cost and complexity of conducting business.[71] Efforts have been made to streamline licensing procedures, and the introduction of a Single Business Permit (SBP) and the elimination of over 700 licenses have all helped to reduce the cost and complexity of conducting business.[72] In particular, important gains have been made in the approval of building plans. In Nairobi, waiting periods used to be as long as six months but this duration has been shortened to 60 days. In other towns, the approval time is down to 30 days. In spite of these reforms, allegations of corruption persist and in Nairobi, waiting periods of up to six months are not uncommon.[73]

The absence of a clear policy to guide private-public partnerships was cited as an important constraint on the formulation of a regulatory framework for LED. Yet in all the towns some efforts at PPP had been undertaken, demonstrating the demand for a PPP policy. Notably, municipal authorities had collaborated with private sector partners in ventures such as the provision of street lighting (an idea pioneered in Nairobi with the 'Adopt-A-Light' model and subsequently replicated in Nakuru and Eldoret), beautification of the city with individual corporate sponsors, city center parking with individual businesses, application of GIS – with a private firm -- to the generation of land-based revenues, and policing of the towns. While many of these partnerships have been fruitful and have resulted in better service provision for residents, the absence of a clear legal framework to guide these partnerships has resulted in some friction between the councils and the private partners. In particular, council officials view some PPP agreements as lopsided, placing councils at a disadvantage.

5.1.4 The informal sector is large and growing... and there is no policy towards it

In all the cities surveyed, the informal sector was stated to be large and growing but since data on the sector are patchy, it is difficult to estimate its actual size. Rough estimates by respondents suggested that it accounts for over 50 percent of employment. Growth of the sector was attributed to retrenchment in the public service, the collapse of industries, and the resulting contraction of formal sector employment opportunities.

In all five towns informal economic activities cut across all sectors of local economies. Those engaged in these activities include transport operators, craftsmen, food/fruit vendors, street traders/hawkers and providers of personal care services. In Nairobi, interviews indicated that informal jobs account for 60 percent of overall employment, 70 percent of motor vehicle repairs/servicing, and 80 percent of garbage collection services. Because of the difficulties of defining exactly what the informal sector is comprised of, comparisons with estimates from other sources cannot be straightforward. But it is instructive to note that Gulyani et al. (2006) show that for Nairobi slums, those engaged in casual employment and own business/own account consist of 44 percent of people aged 15 years and above. This is probably a lower bound of those in the informal sector.

[71] World Bank (2008)
[72] World Bank (2008)
[73] Interviews in the 5 cities.

The lack of information on informal sector activities has been noted in a cross-country study of street vending which observes:

"Even the Local Authorities who collect substantial revenue from the sector do not maintain records of the numbers and the contribution of the sector to urban economy. This implies that the Local Authorities cannot adequately plan since they have no representative statistics of the sector. There has also been minimal research in the area of street vending".[74]

The informal sector has greatly increased its visibility in the five cities through organized lobbying and coalition building but this has yet to yield substantial gains for informal traders. In Nairobi, however, concrete efforts to address the concerns of the sector and integrate them into formal policy making processes have been made. This has occurred as a result of greater organization of informal traders associations and through their collaboration with organizations such as the Nairobi Central Business District Association (NCBDA) and the Kenya Private Sector Alliance (KEPSA). Such a coalition of hitherto antagonistic groups appears to have emerged as a result of the informal sector being accepted as a crucial part of the economy. This collaboration has given the informal sector greater access to policy makers. It has also facilitated the allocation of ten new markets and the upgrading of existing ones in the Nairobi CBD and the surrounding localities. While it is not clear how sustainable these efforts will prove to be, the Nairobi experience provides an example of how stakeholder voice and concerns might be coordinated, and accountability improved.

In spite of the growth of the informal sector, none of the towns profiled had a comprehensive strategy to engage with it, suppressing opportunities for promoting local economic development. In the absence of a clear strategy, the informal sector has often been addressed in an *ad hoc* manner. With the exception of Nairobi, informal sector activities had invaded formal business spaces in the CBD, with traders displaying their wares outside formal business premises. This encroachment had impeded access to these premises as well as pedestrian use of street pavements.

Box 13: Interview with the Chairman of the Nairobi CBD Association

More than a decade old, the Nairobi Central Business District Association (NCBDA) was formed at a time when the capacity of the City Council to provide such basic services as garbage collection and the maintenance of parks and gardens had really deteriorated. There had also been an upsurge of insecurity in the Central Business District (CBD). Although its formation was driven by the key members of the business community who operate from the city center, NCBDA brings together a range of stakeholders: the City Council, civil society, the chamber of commerce, the tourism lobby and the manufacturers association. The founding chief executive was able to quickly generate interest in the restoration of the CBD even among donor partners. Top on the priority agenda of the association was rehabilitation of street families to enhance security in the inner city areas, followed by more efficient transport management focused on improved pedestrian access. NCBDA also supported the greening of city streets.

The association is bullish about the city's economy following many years of decline. It attributed the expected upturn in the city economy to the overall economic growth in the country during the last five

[74] Mitullah, W. V. (2003), p3

years, improved access to credit, increased investor confidence and improved security, particularly within the CBD. The association has collaborated well with the Nairobi City Council and the other stakeholders who are now eager to see the city evolve into a twenty-four hour working zone. There are many examples of partnerships that have been formed with the active participation of the NCBDA: establishment of the City Council of Nairobi Stakeholder Forum; relocation of street families in collaboration with the City Council; improved street lighting; rehabilitation of public toilets; restoration of parks and gardens; and private sector involvement in water supply and garbage collection.

The association acknowledges that the city continues to face significant challenges to sustained economic development including the following:

- An unsupportive Local Economic Development (LED) environment, including the lack of a legal framework to promote LED;
- Failure by the City Council to appreciate fully its role in LED, seeing itself primarily as a service provider and not much more.
- Inadequate investment in civic infrastructure: transport, water and sewerage, sanitation, and electricity;
- Poor spatial planning and limited attention to strategic planning;
- Low levels of involvement by stakeholders in key decisions.

In the absence of clear "rules of engagement", local authority behavior towards informal sector activities, such as street trading, has often become highly politicized. There has been tension between the political and technical wings of municipal authorities over the regulation of informal trading activities, particularly in the relocation of hawkers. These battles also play out on the national political scene with members of parliament (MPs) often being labeled either pro-hawker or anti-hawker. The fate of the hawkers will, therefore, often be determined by the clout of the MP in question.[75]

In Eldoret there have been attempts to regulate street trading. A by-law passed by the council in 2002 provides for a system of registration of hawkers and the designation of specific trading zones. However, interviews suggested that few of these regulations had been implemented due to interference by local politicians. In Mombasa, the licensing of informal sector activities is illustrated in Box 14.

Box 14: Mombasa: Licensing of informal sector activities

The licensing of informal trading activities is regulated by the Mombasa Municipal Council (MMC). Under Section 148 of the Local Government Act, MMC is empowered to determine the amount to be charged on any business licences issued. Traders are not consulted on the fee structure and the imposition of fees is left largely to the discretion of the Council and is rarely based on reasonable criteria, such as profitability levels. Under Section 165 of the Act MMC, like other Councils, is also permitted to cancel or refuse to grant business licenses. Stakeholders are not involved in this process and the discretionary nature of this provision means that the Council licensing procedures are not predictable.[76]

Street trading is authorized by the town's by-laws. However, another by-law, the general nuisance by-law, allows members of the council inspectorate (i.e. council *askaris*, as they are commonly known) to harass traders on the basis that they are creating a 'general nuisance' in public spaces.[77] Thus even if traders have paid the licensing fee (payable either daily or annually), reports indicated that, in practice, they were still

[75] Kamunyori, S. W. (2007).
[76] Moyi, E. and Njirani, P. (2005).
[77] Kamunyori op. cit.

subject to harassment by council *askaris* in the form of forced relocations, confiscation of property (which is invariably not recovered by the traders) and imposition of fines. Traders also claimed to be subject to extortion by the Council *askaris* in the form of bribes to allow them to continue to trade.

5.1.5 Access to credit has improved, encouraging outcomes in local growth

Since 2003 financial institutions in the country, such as Equity Bank, have generally relaxed the condition that borrowers offer real estate as collateral for their loans. In particular, micro-finance institutions now widely accept proxy collateral such as chattels, shares, stocks, guarantors and purchase references. They have also carried out customer orientation to their products and conditions so as to socialize low income customers into basic banking and business practices. A wide range of incentives is being offered by banks to potential customers, including the waiver of collateral for employed persons seeking credit.

In spite of these efforts, in all the cities in the sample, some of the poor reported serious constraints in accessing credit including a persistent fear of big banks, the high cost of borrowing, low borrower education, lack of a licence to prove that they are operating a business, and lack of the basic documentation required by banks such as an identity card and a postal address

All municipalities reported growth in most sectors of the economy with tourism, the banking and financial sector, retail trade, transport and communications, and construction all noted as experiencing particularly robust performance. This performance was linked to growth in the national economy, the creation of an enabling investment environment by central government policies, and increasing access to credit through the rapid growth of micro-finance institutions. A stable political climate was also reported as contributing to growth.

5.1.6 However, insecurity and crime are continuing concerns for businesses

In Eldoret and Kisumu it was reported that the incidence of crime was not an issue of significant concern. Those interviewed attributed the low crime rate to community policing and the view that the towns, although growing rapidly, still retained a strong sense of community ties and social networks that discouraged the proliferation of crime.

In Nakuru, it was reported that the incidence of crime had increased, both in terms of scope and severity with attacks ranging from mugging and petty theft to physical assaults and car-jacking. The municipal council stated that they had attempted to address security concerns through more effective policing as well as security measures such as street lighting. However, stakeholders faulted the council for not being more involved and cited, as evidence, the council’s lack of participation in a public-private partnership on security initiated by the Nakuru Central Business District Association.

In Mombasa, crime continued to be a major concern. The town was particularly vulnerable due to its status as a major tourist destination. As a result of political unrest during the 1997 general elections the Mombasa hotel industry had experienced a sharp decline in business leading to the closure of many large-scale establishments. Whilst tourism had recovered by 2007, the violence that followed the general elections at the end of that year might reverse some of the gains already made.

Cognizant of the effect that crime (or the perception of it) has on the local economy, local stakeholders in Mombasa have combined to forge partnerships to address the issue. One such partnership is the North Coast Security Meeting which brings together the private sector (in the form of hoteliers), the police and a private security firm. However, members noted that while the municipal council had been invited to be a member of the partnership it had yet to attend a single meeting. This apparent lack of interest probably arises from a limited understanding of the importance of LED and the lack of a policy framework for it.

In Nairobi, the perception of the city as a dangerous place has had severe setbacks for the local economy. The threat of crime has led to shorter working hours in parts of the CBD. Similarly, the relocation of firms from the CBD to areas that were hitherto residential, such as Westlands and Lavington, has in recent years been spurred by the perceived insecurity. Moreover, additional security installations, such as burglar proofing and alarm systems, have raised house construction costs; and middle and high income households have seen their running costs go up as a result of high expenditures on security.

Several local stakeholders have taken measures to address insecurity. The formation of the Nairobi Central Business District Association in 1987 was, in part, driven by insecurity and its consequent adverse impact on the performance of businesses. The growth of residents associations in the city during the 1990s was also attributed to concerns over insecurity.

In 2004, the Nairobi City Council joined other stakeholders to formulate a crime prevention strategy with the support of UN-Habitat. This strategy has contributed to closer collaboration among the Council, the provincial administration, the police and business/residents associations, in the maintenance of law and order. The council has contributed to crime prevention by flood lighting selected high density slum areas, street lighting, opening up of roads, removing street families from the central business area and involving urban communities in the implementation of the crime prevention strategy. It is collaborating with the private sector in all these security initiatives, especially through the Adopt-A-Light program of outdoor advertising, and is deploying its *askaris* in regular vigilance patrols. Some of these efforts have borne fruit as evidenced by the return of businesses to the Central Business District and the resurgence of city nightlife.

Formal policing is the responsibility of the central government but the Ministry of Nairobi Metropolitan Development has proposed the formation of a metropolitan police force.

5.2 Delivery of basic urban services

The study examined a number of services that are critical to livelihoods and economic activities in the five towns: water and sanitation; solid waste management; transportation; and electricity. This subsection looks at the institutional and financial aspects of provision, as well as overall service coverage and access for the poor. Particular attention is given to the link between the poor and the service provider so as to gain insight into aspects of accountability.

5.3 Water supply

Kenya made large investments in water production and treatment capacities in the 1980s and 90s. However these investments did not lead to efficient and sustainable services due to the lack of commensurate expansion of the distribution system as well as inadequate management and maintenance. At the start of the new millennium there was widespread collapse of infrastructure due to under-investment in O&M. Further, institutional responsibilities for the delivery of WSS services were fragmented among different organizations leading to lack of coordination and overlap of mandates, resulting in a confused sector situation with weak accountability.

These sectoral problems disproportionately impacted poor households in informal settlements who had to rely on alternative water supply sources (mainly kiosks and private vendors) bought at a much higher cost compared to piped water. Nowhere was this more evident than in Nairobi.

5.3.1 Recent institutional reforms have brought notable success

Recognizing the urgency of the situation, the government commenced comprehensive sector reform program in early 2003. The main reform vehicle was the revised Water Act of 2002. The Water Act as a sector reform tool represents one of the most far reaching and comprehensive sector reform undertaken by any country. The Act called for a complete change of the sector landscape to create a comprehensively new institutional setup, aimed at harmonizing and streamlining the management o f water resources and water supply and sewerage services. A central tenet of the new service delivery framework was the separation of functions between each aspect of service delivery - policy making, regulation, asset ownership / control and service delivery operations.

To operationalize the Water Act, government established the Water Services Regulatory Board (WRSB) in March 2003 as an independent regulator and divided the country into 7 Water Service Board (WSB) areas. All WSBs have been established and licensed by the Regulator (WSRB) as Licensees in their areas of jurisdiction. They are required to contract out service provision to Water Service Providers (WSPs), which could be either local authority owned companies, private companies, NGOs and Community Based Organizations. The Ministry of Water and Irrigation retains the policy function. Hitherto, policy and regulation were vested in the Ministry of Water, and asset ownership and service provision in local authorities which acted as water undertakers[78]. As part of reforms, water operations within municipalities were commercialized via the creation of new companies wholly-owned by the local authorities.

The government also instituted a number of measures to combat corruption and improve transparency in the sector. The service delivery institutions are now subject to specific

[78] In Mombasa, the exception among the five towns, the water undertaker was the National Water Conservation and Pipeline Corporation.

contracts and transparent audits. WBSs are required to adhere to a monitoring regime stipulated by WRSB. The data collected (which includes financial, commercial and technical indicators) is analyzed and disseminated to thee public by the regulator. The WRSB also has the power to penalize non-performance. Each WSB has to agree on a set of performance targets annually through formal PCs which are subject to oversight by the Performance Contract Secretariat of the Office of the President. Further, in keeping with the norms of corporate governance, the management of WSBs is appointed by and answerable to a Board of Directors. The directors, officers and staff of WSBs are covered by the Public Officers Ethics Act (2003). They are required to provide annual declaration of incomes, assets and liabilities of themselves, their spouses and dependents.

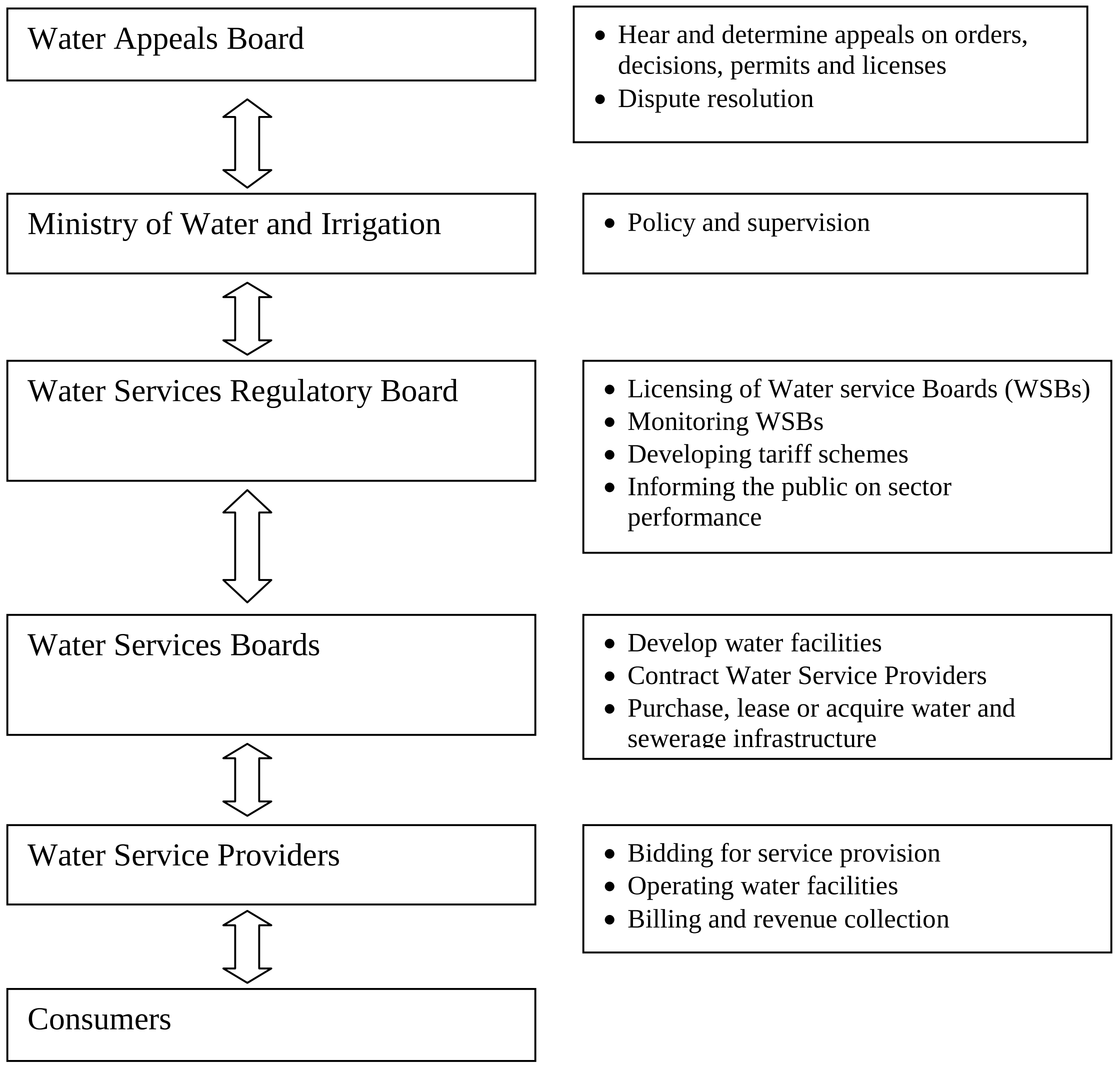
These changes though are not without some detractors. During interviews, municipal officials, especially councillors, criticised this institutional change, primarily on the grounds that councils had lost an important source of revenue. Some councillors in that town argued that commercialisation had been undertaken without adequate consultation.[79] These officials appeared unconvinced that commercialization would lead to improved service provision, in spite of performance data confirming this, for instance in Eldoret or Nairobi. For example, in Nairobi, public perception of water service provision has improved. A customer satisfaction survey, as part of the Nairobi Water and Sewerage Institutional Restructuring Project (NWSIRP) carried out in 2007 showed that 83 percent felt water services delivery had improved, 89 percent expressed satisfaction with the quality of water supplied, and 87 percent reported uninterrupted water supply. These figures are substantially up from surveys done a few years back. Similar success has been reported in Eldoret. Annex 3 provides further details on this.

Box 15: The Nairobi Water & Sewerage Institutional Restructuring Project

The World Bank supported NWSIRP, which concluded in 2007, directly supported GOK's reform strategy in the WS&S sector. In fact, the project represented one of the first actions by the government in implementing the Water Act. The project aimed to operationalize and strengthen new autonomous and ring-fenced service provision utilities with clear roles, responsibilities and contractual arrangements. The project had three notable outcomes: (1) it helped move the sector towards a corporate governance framework where the role and accountability of each sector player were clear and enforceable; (2 it helped drive sector institutions towards a customers/beneficiaries oriented culture; and finally, (3) it helped build consensus and cooperation amongst development partners towards common support to sector institutional development.

[79] In the typical case, the water operation was hived off by the Council to a limited liability company wholly owned by the Council, but with directors drawn from both the council and outside interests. Council directors are usually the office of the Town Clerk and the Town Treasurer.

Figure 6: Main institutional features of the water sector in urban areas



5.3.2 Despite recent successes, all cities, except Eldoret, face severe deficits in water supply

Despite the success of institutional reforms in cities like Nairobi over the last few years, in general, water supply in Kenyan towns is characterised by low coverage, unreliable service, and poor operation and maintenance.[80] One source describes water systems in the country as follows:

"Most water facilities are 20 to 40 years old, and lack of maintenance and few new investments has ensured that the facilities can no longer meet their design capacities or cater for demand from the increased populations. Most urban schemes are characterised by low water charges, low metering, underestimated consumption for unmetered connections or those with faulty meters, and widespread wastage of the scarce resource.

[80] Water and Sanitation Program (2005a).

In addition, billing is irregular and revenue collection is inadequate, resulting in poor cost recovery".[81]

All the five towns, with the exception of Eldoret, generally fit this description.

Table 14: Water coverage in the study cities

Service Coverage	*Nairobi*	*Mombasa*	*Kisumu*	*Nakuru*	*Eldoret*
Water					
City area covered*	80%	n.a.	n.a.	n.a.	n.a.
Proportion of demand met*[82]	n.a.	30%	33%	58%	100%
Piped into dwelling**	28.6%	11.1%	6.4%	3.1%	14.4%
Yard taps**	39.7%	11.4%	0.3%	n.a.	1.6%
Proportion of the poor who depend on water kiosks as the primary source***	36%	73%	63%	n.a.	n.a.

* Estimate by service provider
** 2005/06 Kenya Integrated Household Budget Survey
*** Citizen Report Card

Nairobi: In Nairobi, whose reservoirs provide about 440,000 m^3 of water per day, there are serious shortages in the western region of the city which experiences a deficit of 80,000m^3 per day. The water system covers only about 80 percent of the city area. In the informal settlements, which accommodate up to 60 percent of the city population, the residents depend primarily on water kiosks. Unaccounted for water (Ufw) is presently about 42 percent, evenly made up of technical and commercial losses.

Mombasa: In Mombasa, there is a serious water supply problem as only 54,000m^3 of water are supplied daily against a demand of 160,000m^3 i.e. only about 30 percent of demand is met. Because of the substantial shortfall in supply, water is rationed. Maintenance is also inadequate especially of the main water pipelines (more than 300mm in diameter). Ufw in 2006 averaged 38 percent, relatively low in comparison to other secondary towns. Losses are mainly attributed to old and dilapidated infrastructure, illegal connections and faulty meters.

Kisumu: Kisumu faces a serious water supply problem as the water utility is able to meet only a third of the demand i.e. slightly under 20,000m^3 of water against a demand of 60,000m^3 per day.
Lake Victoria is the main source, accounting for 90 percent of supply or some 18,000m^3 per day. Overall, the water system covers only 43 percent of the population. Peri-urban areas are poorly served.

[81] African Development Bank (2004).
[82] Amount of water supplied as a percentage of demand, based on figures from the water service provider. There are variations across cities regarding per capita demand, making inter-city comparisons problematic. These numbers should therefore be taken as rough estimates.

Ufw is presently over 60 percent, and it is estimated that commercial losses are higher than technical losses. Commercial losses stem from inadequate metering and pilferage through illegal connections. The water company plans to reduce Ufw progressively to 40 percent by 2011. The billing system was reported by the company to be working well and able to produce the necessary financial reports. But a recent survey, in which most of the respondents were big commercial customers, showed that billing accuracy required improvement.

Nakuru: The city faces a serious water supply problem as it is able to deliver only 35,000 m^3 of water per day against a demand of 60,000 m^3 i.e. somewhat less than 60 percent of demand. The water system covers only about 60 percent of the settled areas of the town. The south-western and eastern zones, outlying areas that are growing fast, are not well-served and there have been no recent extensions of the system.

Ufw is presently about 60 percent down from 85 percent in 2004. As technical losses from leaking pipes are estimated to be modest, the bulk of losses stems from inadequate metering and pilferage through illegal connections.

Eldoret: Unlike other large towns, Eldoret is able to meet its water requirements -- the town treats and distributes about 32,000m^3 of water per day, adequate to meet current demand. Demand is expected to grow to 60,000m^3 per day by the year 2020, comprising both domestic and industrial needs. Ufw is presently over 40 percent but water services are considered to have improved over the last five years. A survey conducted by ELDOWAS[83], covering nearly 1,000 customers, showed that water delivery had improved upon the establishment of the water company (Annex 3).

It is clear that in our sample of cities levels of Ufw are unacceptably high pointing to substantial room for improvement in operations and maintenance[84].

5.3.3 Water shortages have discouraged industrial investments

Besides adversely impacting household access to water for domestic consumption, non-temporary water shortages have also influenced industrial location, reflecting the important role infrastructure plays in location decisions. In Nakuru, for instance, some industries had closed down in the past or relocated to other areas.[85] According to the press a soft drinks bottling plant relocated a few years ago. Indeed, in spite of Nakuru having a bigger labour pool, some investors are reported to have relocated to Eldoret, the smaller town, because of its more reliable water supply[86]. Many firms that do not relocate from water-deficit towns fall back on their own water systems and a 2004 Investment Climate Assessment found that a third of the firms surveyed had built their own wells.[87]

[83] Eldoret Water and Sanitation Company
[84] In developed country cities Ufw is as low as 12 percent for US cities, 15 percent for Tokyo and 6 percent for Singapore. See Noll, R. G. et al. (2000).
[85] African Development Bank (2004).
[86] Daily Nation, 28 December 2007.
[87] Africa Private Sector Group (2004)

5.3.4 Tariffs and cost recovery remain problematic

Water tariffs are by and large historic as they have not been revised recently[88], and are largely meant to recover operation and maintenance costs, and not capital costs. In 2005, it was reported that the average tariff charged on water was Ksh 25 per cubic meter compared to a production cost of Ksh 40 to 100 per cubic meter[89]. There was mounting pressure for tariff reform with service providers rightly arguing that they could not service their loans based on the water tariffs in use then.

Not surprisingly, Nairobi and Eldoret, which operate gravity systems, have the lowest tariffs – Ksh 10-12 per m^3 – for lifeline consumption of up to $10m^3$. The charges in Nakuru and Kisumu, where pumped, and therefore more expensive, systems predominate, tariffs are far higher at Ksh 20 and Ksh 33 per m^3, respectively.

In all towns the poor in informal settlements depend on water kiosks and pay far higher prices for water than those with house connections. In Nairobi, for instance, the price per m^3 at water kiosks is higher than Ksh 100[90]. These higher prices do not reflect actual costs given that water kiosks buy water from utilities at much lower prices, typically lower than the lifeline tariffs[91]. High water prices in settlements where the majority live below the poverty line bring about substantial externalities because of the likely outbreak of water-borne diseases arising from the limited use of water by the poor. In the slums of Nairobi, Gulyani *et al.* (2006) point out that water use is about 23 litres per capita per day, emphasizing that this is low compared to both previous use levels in Kenya and to current levels in other developing countries.

5.4 Sanitation

5.4.1 Coverage in general is very low, and abysmally so for the poor

Sanitation is a major issue in all five cities with serious implications for health. In the slum areas of Nairobi, 25 percent of households use individual toilets, comprising improved or ordinary pit latrines or standard WCs[92]. But the majority (68 percent) use shared or public toilets. Pit latrines are the most common form of excreta disposal, used by 64 percent of households; and 6 percent of households either have no toilet facility or use “flying” toilets. In Mombasa, private pit latrines are the main source of sanitation for 51 percent of the entire population and for 58 percent of the poor. Only 14 percent of the poor have access to private flush toilets at home.[93] In Kisumu, a substantial proportion of residents (40 percent) use pit latrines whilst only 25 percent have access to flush toilets[94].

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[88] In Eldoret, the tariffs date back to 1997, and in Mombasa to 1999.

[89] KISIMA, Issue 2, July 2005 (a newsletter that provides a forum for analysis and debate on water and sanitation issues in Kenya).

[90] Gulyani, S. et al. op. cit.

[91] In Eldoret, for instance, water kiosks retail water at KSh 100 per m^3, far above the purchase price of Ksh 10 per m^3 offered by the utility; and in Nakuru, water kiosks buy their water from the company at Ksh 15 per m^3 but retail at around Ksh 150 per m^3.

[92] Gulyani et al. op. cit.

[93] Kenya Alliance of Resident Associations et al. (2007).

[94] Ibid

Specific figures for Nakuru and Eldoret are not available but pit latrines were reported to be in common use by the poor in slums.

Table 15: Sewerage coverage in the study cities

Service Coverage	*Nairobi*	*Mombasa*	*Kisumu*	*Nakuru*	*Eldoret*
Sewerage/sanitation					
City area covered by sewerage system*	40%	n.a.	n.a.	19%	n.a.[95]
Proportion of population served by sewerage system*	n.a.	15%	10%	22%	n.a.
Proportion using pit latrines (private or shared) as main source of sanitation for the poor	64%****	74%***	67%***	n.a.	n.a.
Proportion whose garbage is collected by local authority**	0.4%	14%	n.a.	n.a.	n.a.

* Estimate by service provider
** 2005/06 Kenya Integrated Household Budget Survey
*** Citizen Report Card
**** Gulyani et al. (2006)

It is clear that sanitation is accompanied by substantial externalities, especially the risk of disease. In Kibera, manual emptying of pit latrines is the common method for 28 percent of households[96]. In Mombasa, in particular, where water wells are common in high density slum areas, pit latrines were reported to be a major health hazard. This is also true for the peri-urban areas of Kisumu where most residents use shallow wells often located close to pit latrines[97]. The lack of a formal approach to pit latrines—the method of excreta disposal for the majority—means that there are no by-laws for technical standards for effluent disposal[98].

Box 16: The manual pit emptiers' burden

Few manual emptiers can afford basic protective gear such as gloves and boots for their work. Lack of equipment exposes them to infections and diseases, especially when working directly in the pit, which they commonly refer to as the "kitchen." Here, the manual pit emptiers are in direct contact with excreta, broken glass and other discarded waste and, as a result, are likely to suffer from many health problems.

In addition to being difficult and unhealthy, the work has a very negative social image and they are often obliged to work at night. Frequently excluded and stigmatized, these workers express frustration and would like the importance of their work to be recognized. Moreover, manual emptiers are ignored by public authorities, despite the role they play in the domestic pit emptying market. They are often harassed by youth groups who use violence and extort bribes from them. There is a mistaken perception that manual emptying is illegal.

Manual emptying will remain a necessary method for exhausting pit latrines as long as vehicle access is limited in Kibera.

Source: Water and Sanitation Program (2005b)

[95] But sewerage covers only CBD and some high income areas.
[96] Water and Sanitation Program (2005)
[97] Kisumu City Development Strategy 2004-2009
[98] Kenya Alliance of Resident Associations et al. op. cit.

The five cities, through their water utilities, operate sewerage systems that cover only a small proportion of the town area, a common situation in developing country cities[99]. Because of little maintenance over the years, sewerage systems tend to be in a poor state of repair to the point of not working at all. In Mombasa, the sewerage treatment plant on the island has not been operational for a period in excess of 16 years and raw sewage is discharged directly into the sea, thus acting as a major source of pollution. Kisumu has two sewage treatment plants, presently under rehabilitation, that stopped working in 1996. The sewerage system serves only about 10 percent of the population and most of the untreated sewage is discharged into Lake Victoria, polluting the lake. The system in Nakuru serves a mere 20 percent of the town area and in Eldoret only the CBD and a few residential areas are covered.

5.4.2 The poor have limited information on water and sanitation

It has been reported that clients have limited information on water and sanitation services but that out of the three largest cities (Nairobi, Mombasa and Kisumu) the water utility in Kisumu is the most successful at interacting with its customers. Clients were also generally not satisfied with the services offered by water kiosks. Moreover, the majority of users are unaware of policy changes in the water sector.[100]

5.4.3 Utilities face many problems

The water and sanitation utilities in the sample inherited (from local authorities[101]) old water and sanitation facilities which require rehabilitation and extension at great cost. Another challenge is how to provide water and sanitation services to the poor on a cost-recovering basis. To avoid the high costs of individual water and sewerage connections, the water utility in Nairobi, in partnership with NGOs, is piloting affordable sanitation in slum areas, consisting of community-managed sanitation blocks. These facilities will offer a range of services, comprising toilet facilities connected to the sewer, bathrooms and water points. Yet another challenge is the staff inherited from local authorities, some of whom continue to require re-training so that they can fit into the commercial environment of these utilities.

In Kisumu, some of the financial problems reported include late payment of salaries, a low rate of debt collection, poor cash flow, poor stock management, and non-payment of internal and external liabilities[102]. The utility made an operational loss in 2005 and a modest pre-tax profit in 2006[103]. In Mombasa, the utility's revenue collection efficiency (collected amount as a percentage of billing) averaged 88 percent during 2006, enabling the company to meet its operational expenditures from its revenues.

[99] See for instance Noll, R. G. et al. op. cit.
[100] Kenya Alliance of Resident Associations et al. op. cit.
[101] With the exception of Mombasa, where the water undertaker was a government corporation.
[102] Kayaga, S. M. and Smout L. K. (n.d.)
[103] KIWASCO (2006)

The problems listed here, of transitioning from a local authority setting to a commercial environment, have been noted in the literature[104].

5.5 Solid *W*aste Management

In general none of the cities has the capacity to collect solid waste except in the CBD and a few other sites. All the cities in the sample have a serious solid waste management (SWM) problem arising from a multiplicity of causes: inadequate collection capacity by the municipal council; antiquated equipment; complexity of administering cost recovery; difficulties of serving slum areas; absence of frameworks to guide partnerships with private firms and community groups; and lack of proper landfills.

5.5.1 Waste collection capacity is limited

There is very little reliable data regarding the amount of waste generated in each city, the share of waste that is collected and disposed, and the actual costs of collection and disposal. Most studies are rather limited and/or date back several years. The data presented here therefore represents only best estimates available based on the limited sources available.

Nairobi is estimated to generate more than 2,400 tones of waste daily,105 but only about a half of this is collected with the balance dumped in illegal dumpsites along roadsides, backyards of residential houses and commercial premises. The city faces several constraints in providing efficient SW services. The City Council has only a fleet of 3 old and poorly maintained waste collection vehicles for the entire city. It has no transfer stations. It has 3 dumpsites, of which two are private and one is owned by the City Council. The private dumpsites are currently in terrible state from an operational and environmental perspective. Dandora, the only major dump site owned by the City Council, is also considered to be a serious environmental hazard to the neighboring residential areas.106 The working conditions at the site have been termed as extremely unhealthy and reclaimers, which include children as young as 5 years, are exposed to hazardous working conditions.[107] Reports suggest that efficiency of waste collection in Nairobi can be increased by 100 percent by simply improving operations at the waste disposal sites.[108]

Mombasa faces no less serious a problem. The city generates around 600-700 tones of waste per day but only about 30 percent is collected. The municipal council’s collection service is concentrated in the central business district and it is therefore not surprising that only a few people are satisfied with the Council’s collection service: a mere 6 percent of the poor and 18 percent of the non-poor.[109] As communities are poorly sensitized about their role in SWM and municipal coverage is limited, indiscriminate dumping is common. In Kisumu, only about 20 percent of the waste generated is

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[104] See for instance Njiru, C. et al. (2005)
[105] ITDG (2004)
[106] Nairobi Environment Outlook Report 2007
[107] World Bank, Kenya Solid Waste Inception Report (2007)
[108] Ibid.
[109] Kenya Alliance of Resident Associations et al. op. cit.

collected, with the municipal collection service confined to the CBD and Council's own establishments, such as markets. Some of the large private companies also collect their waste and transfer it to the dumpsite.

In Nakuru about 35-40 percent of the 180 tones of waste generated daily is collected.110 The current dumping site, in London-Menengai area is located in close proximity to the town centre, within a residential area and next to a prison. In Eldoret it has been estimated that around 70 percent of 220 tones generated daily is collected. The municipality renders a reasonable service considering the limited resources available. It provides a collection service from the municipal markets and transfer area in the CBD (6 days/week), residential estates (once/twice a week), institutions (once a week), industries (once a week), commercial service points (thrice a week), and containers placed in open spaces (when full).

5.5.2 Waste collection in slum areas is a major challenge

In most slum areas, the Councils do not offer a collection service. Instead, there are informal collection arrangements between the Council and youth groups. Typically, such groups are supposed to transport refuse to designated points along roads for the Council to collect and transport to the dumpsite. This arrangement does not appear to be working well in most cases, partly because there is no formal regulatory framework to guide it but also because some locations are difficult to reach as roads are rudimentary.

Gulyani *et al.* (2006) report that in Nairobi's slums less than one in a hundred households (0.9 percent) is served by a publicly-provided garbage collection system. As a result, most households (78 percent) dispose of solid waste by dumping it in their own neighborhood. Another 10 percent burn or bury their waste in their own compound. Only about 10 percent employ an organized private collection system. In Kisumu, among the poor, only 14 percent of respondents had a private collection service; and 48 percent reported that they burn their rubbish whilst 51 percent dump in open areas and drains.[111]

5.5.3 Institutional responsibilities for SWM are similar across the cities

In all the cities SWM operations are overseen by the respective city councils in all the cities. The laws governing SWM operations are both national and local. The main Act that governs SWM at the national level is the Environmental Management and Co-ordination Act (EMCA) of 1999. The National Environment Management Authority has also made progress in drafting the Environmental Management and Co-ordination (Waste Management) Regulations 2006. Other supporting Acts are largely non-specific and tend to overlap in some areas. They include the Public Health Act (Cap 242), the Local Government Act (Cap 265), the Physical Planning Act, Land Control Act (Cap 406), SWM bylaws (by municipal councils), among others. In line with the above, most cities have promulgated their own bylaws related to SWM. For example, SWM operations in Eldoret are guided by Solid Waste Management Bylaws in 2002 while those in Nakuru are covered by the MCN Public Health By-laws, 1994.

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[110] MOLG. Feasibility Study on Solid Waste Management Project in Nakuru and Mombasa Final Report Vol. 3 - Nakuru (2004).
[111] Ibid

5.5.4 Cost recovery is problematic

Cost recovery became a particularly major challenge after the commercialization of water in Nairobi, Kisumu, Nakuru and Eldoret[112]. Hitherto, charges for refuse collection were billed together with water, making collection straightforward. In principle, the water utility could still collect on behalf of the Council but where this has been tried, for instance in Kisumu, the results have been disappointing. In most cases, utility companies argue that their reputation would be at stake if they billed for waste collection on behalf of the Council and the latter failed to provide the service. At any rate, the proportion of those with water connections in any one town is quite small, and the revenue from this source would hardly be enough to support SWM operations.

In Nakuru, prior to the year 2001 the Council used to collect the charges for SWM services through the water bill. However, this is no longer done. Businesses pay through the Single Business Permit. Residential premises do not pay anything at the moment. In Eldoret, rates paid for waste collection services have not been amended for many years. Residents currently pay KShs 40 per service point per month compared to an average of KShs 200 paid in other municipalities. Small commercial stands pay KShs 960/year, large stands pay KShs 1200/year and industries and private hospitals pay KShs 6000/year. Indications are that the revenue base remains the same while the population and hence the number of service points increase. Rates are collected through the Water Company supplying water to stands, resulting in only those stands being billed for water receiving a waste collection bill.

5.5.5 Private sector is involved in SWM operations, albeit without a guiding framework

In all the towns, the lack of an efficient collection service with wide coverage has spurred the entry of private providers, comprising private firms in upscale areas and organized community groups in low-income settlements. These organizations derive their revenue from charges levied on their clients. As there is no coherent framework for solid waste management by private firms, privatization has been difficult to manage, and has occurred by default in some localities.

To facilitate collection by private firms, Nairobi and Nakuru councils assign collection zones to different firms through a bidding process. Due to limited resources of the City Council, waste management services are predominantly rendered by the private sector in Nairobi. Private operators have to be permitted by the City Council to undertake any waste management activity and it has laid down very strict requirements in terms of allowing services to be rendered in any particular area. Although some services are currently rendered under contract to the Council, e.g. removal of waste informally collected from within the slums, most of the services are rendered by independent agreements entered into between waste generators and private service providers.

In Nakuru, currently six private refuse collection firms collect a substantial amount of domestic refuse from willing residents at a fee. In Eldoret, the municipal council is presently arranging for private companies and community groups to complement its

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[112] As already noted, the Mombasa Municipal council was never a water undertaker.

collection service. It has evaluated bids for refuse collection, with the aim of getting private firms to collect 25 percent of the total refuse generated. In Kisumu, a project supported by development partners will develop a framework for PPPs.

5.6 Electricity

Nationally, it is estimated that only about 15.3 percent of the total population has electricity connections with only 3.8 percent in the rural areas having access.[113] In all five towns in the study, three main challenges to power supply were noted: access, affordability and reliability.

Table 16: Electricity coverage in the study cities

Service Coverage	*Nairobi*	*Mombasa*	*Kisumu*	*Nakuru*	*Eldoret*
Electricity					
*Proportion of households with access to electricity***	*52%*	*42%*	*n.a.*	*n.a.*	*n.a.*

** 2005/06 Kenya Integrated Household Budget Survey

Nairobi has the best service, with 68.2 percent of households reported as having access to electricity.[114] However, connection rates drop considerably in the slum areas where only 22 percent of households are connected.[115] Even where households have connections, supply is by no means guaranteed as 28 percent of households had electricity available for less than 12 hours a day. In response to these challenges, the Kenya Power and Lighting Company is piloting new ways of supplying electricity to slum areas in Nairobi, starting with Kibera, the country's largest slum. If successful the project will be expanded to other slum areas throughout the country.

In Eldoret, Kisumu and Mombasa, the challenges cited included limited affordability due to low incomes and high costs of access particularly where buildings are distant from transformers. Attempts have been made to address these challenges through a group scheme known as *Umeme Pamoja*, which allows clients to pool resources to meet the cost of transformer and installation connections.

In all towns complaints were made on the reliability of connections. Interruption of supply is most acutely felt by corporate clients. It was reported that poor reliability in power supply had led over 70 percent of firms to purchase a generator to ensure continued running of operations. Further, firms reported a fall in productivity due to power outages, estimated at nearly 10 percent. It was also reported that over 34 percent of firms had suffered loss or damage to equipment due to power surges. The resultant negative impact on firm productivity and local economic development appeared non-trivial. This outcome is consistent with another study which, in noting the poor relative performance of the power utility, points out that:

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[113] Kenya Integrated Household Budget Survey
[114] Ibid.
[115] Gulyani, S. et al. op. cit.

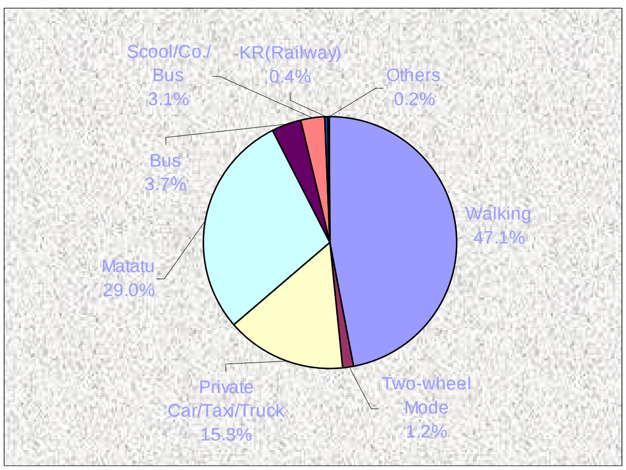
“From an analysis of comparative data for electricity prices and performance in 13 southern and East African countries:' Kenyan prices are among the highest in the region for domestic consumers, general business and small and large industries. This is a reflection also of taxes, levies and surcharges on energy in Kenya (VAT of 18 percent plus an electrification levy of 5 percent and a *3ckWh* surcharge), which were the highest in the region in 2003. The sector's technical performance, as measured by transmission losses is worse than that of many African competitors, and financial performance is also very poor: the Kenya Power and Lighting Company Ltd. in 2003 was the only utility company among the 12 comparator countries that registered a loss. For general business, i.e. commercial users that consume about 2500 kWh per month, 2003 prices in Kenya were fourth highest, on a par with those of Tanzania and Uganda, but much higher than corresponding prices in South Africa, Botswana, Malawi or Namibia.”[116]

5.7 Public Transport

5.7.1 Walking is the most common mode but matatus also play a critical role

In all towns, pedestrian trips constitute the most common transport mode but the least catered for. Walking accounts for 47 percent of the trips in Nairobi, 50 percent in both Mombasa, and Kisumu, 53 percent in Nakuru and 60 percent in Eldoret.[117] Yet facilities for pedestrian travel and non-motorised transport in general are virtually non-existent in the five cities, with most roads not having pedestrian walkways or cycle lanes. A recent study of transport in the wider Nairobi metropolitan area provides the following details regarding modal split (Fig 5)

Figure 7: Modal split within the Nairobi Metropolitan Area



Source: Katahira & Engineers International et al. (2005)[118]

[116] World Bank (2007), p 46
[117] Estimates based on interviews in the 5 towns.
[118] Katahira & Engineers International et al. (2005). “The Study on Master Olan for Urban transport in the Nairobi Metropolitan Area in the Republic of Kenya: Final report prepared for JICA.

5.7.2 Policy and coordination issues stand out

None of the cities has a transportation policy, a lapse that can be traced to the lack of an institutional champion. Indeed, discussions with Nairobi City officials indicated that transport policy is a shared responsibility between the Council and the Ministry of Transport. This institutional arrangement has not worked well because of the ambiguity it has created regarding which agency bears primary responsibility for urban transportation in the city.[119] Institutional accountability for transportation issues has suffered as a result. The following table outlines the institutional responsibilities for urban transport in Nairobi and other towns, and it illustrates the complexity in arrangements that have led to the current impasse in urban transport.

Table 17: Institutional responsibilities in urban transport

Responsibility	Ministry of Roads & Public Works	Ministry of Transport	Ministry of Health	Ministry of Education, Science & Technology	Council		Traffic Police		Private Stakeholders (KERSA[120])
					Nairobi City	Other Towns	Nairobi City	Other Towns	
Traffic Management Policy	-	□	-	-	-	-	-	-	□
Traffic Laws and Regulations	-	□	-	-	□	□	-	-	□
Traffic Signals	-	-	-	-	□	-	□	□	□
Traffic Management System such as One-way System	-	-	-	-	□	□	-	-	□
Traffic Signage	□	-	-	-	□	□	□	□	□
Road Marking	□	-	-	-	□	□	□	□	□
Car Parking Control	-	-	-	-	□	□	-	-	□
Road Traffic Safety	□	□	□	□	□	□	□	□	□

Source: Katahira & Engineers International et al. (2005)[121]

[119] For instance, city officials reported that they had not been fully consulted during the early stages of a study of transportation in Nairobi, sponsored by JICA in 2005.

[120] Kenya Private Sector Alliance

[121] Katahira & Engineers International et al. (2005). "The Study on Master Plan for Urban transport in the Nairobi Metropolitan Area in the Republic of Kenya: Final report prepared for JICA.

Nairobi in particular deserves special mention as it faces a range of transportation issues, with extreme levels of congestion and a high prevalence of traffic accidents embodying these issues. The main urban transport problems of the city are summarized below. Much of these issues are common to all the large cities.

Existing Conditions	*Key Issues*
Public transport	
③ Major public transport mode is the Matatu with 14-seat capacity and they cater for about 85□ of total public transport, while buses cater to about 15%.	③ Small Matatus concentrate on major transport corridors. This causes serious traffic congestion and accidents.
③ Taxi, *tuktuk* and bicycle taxi also operate in the area. But no taxis have meters.	③ Inconvenience for taxi users
③ There are three commuter lines that are operated by Kenya Railways Corporation with about 350,000 passengers monthly.	③ Commuter lines operate poor train coaches and station facilities.
③ Private cars are the preferred mode for high income people	③ Rapid increase of private cars has led to worsening traffic jams and deterioration of urban environment.
Traffic management	
③ Multiple agencies and organizations involved in traffic management	③ Without coordination, traffic management activities are carried out in an ad hoc manner.
③ Traffic accidents in the whole of Kenya drastically decreased since the enactment of new Matatu regulations.[122]	③ High prevalence of traffic accidents.
Legislation and organizations	
③ Laws related to the transport sector enacted separately by the Local Government Act, the KRB Act, and the KR[123] Act.	③ There are conflicting provisions in related laws and regulations
③ KRB[124] is tasked to manage the Road Maintenance Levy Fund (RMLF[125]).	③ Over-reliance on RMLF ③ Insufficient manpower to undertake mandated functions ③ Inability to coordinate with related agencies

[122] Compliance with these regulations has suffered in the recent past, and casual evidence indicates a surge in accidents.
[123] Kenya Railways
[124] Kenya Roads Board
[125] Roads Maintenance Levy Fund

③ MRPW[126] takes charge, through the RD,[127] of development, maintenance and rehabilitation of class A, B and C roads.[128]	③ Shortage of funds for project implementation ③ Ineffective organisational structure ③ Inadequate planning, management and monitoring of project implementation
Financing of transport	
③ Sources of funds for road projects include RMLF (50□ of the total fund), government budget (40%), donor support, LATF and local cess	③ Over-reliance on RMLF. ③ Lack of donor support partly due to Kenya's macroeconomic and debt conditions
③ Public transport—bus and matatu services—are provided by private operators without any regulation.	③ Sometimes irrationally different fares are applied. ③ No mechanism to apply user charges for maintaining transport infrastructure.
Environmental and social aspects	
③ Deterioration of air quality and increase of noise pollution ③ Degradation of forested area	③ Health problems for inhabitants ③ Needs for restoration of forested areas
③ Increasing slum population	③ Increasing demand for NMT
③ No spaces for NMT	③ Encroachment of road reserves
③ No space for bus bay for safe riding	③ Under-utilization of public transport

Source: Katahira & Engineers International et al. (2005)[129]

5.7.3 Characterizing public transport in three cities in Eastern Africa[130]

Below outlined are the characteristics of public transport in three sub-Saharan African cities: Nairobi (Kenya), Addis Ababa (Ethiopia) and Dar-es-Salaam (Tanzania). Although the data is not current, as it dates back to 2002, a number of similarities and contrasts can be teased out.

③ Nairobi and Addis Ababa had no clear urban transport policy but Tanzania's draft national transport policy devoted comprehensive attention to the urban sector.
③ Walking accounted for a high share of all trips in the three cities was high: 47% in Nairobi, 42% in Dar-es-Salaam, and 70% in Addis Ababa.
③ Among the three cities, Nairobi had the highest fatality rate, at 9.7 per 100,000 population. This is one of the most serious urban issues in Nairobi. Fatality rates in the other cities were 5.8 for Dar-es-Salaam and 1.9 for Addis Ababa.
③ The minibus was the primary mode of public transport, accounting for 70% of all

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126 Ministry of Roads and Public Works
127 Roads Department
128 These are defined as follows: Class A, international trunk road; Class B, national trunk road; Class C, primary road; Class D, secondary road
129 Katahira & Engineers International et al. (2005). "The Study on Master Olan for Urban transport in the Nairobi Metropolitan Area in the Republic of Kenya: Final report prepared for JICA.
130 World Bank (2002) "Scoping Study. Urban Mobility in Three Cities: Addis Abaab, Dar-es-Salaam and Nairobi". SSAT Working Paper No. 70 by Transport Research Laboratory.

trips in Nairobi[131], for 98% in Dar-es-Salaam and for 72% in Addis Ababa.

③ Most of public transport business in the three cities is privately owned, except for the bus company in Addis Ababa which is owned by a parastatal entity.

5.8 Shelter and slums

5.8.1 A substantial proportion of urban residents live in slums

Slums in Kenyan towns have grown rapidly over the last four decades. Following independence in 1963, and the removal of colonial restraints on migration, the urban population expanded swiftly in local authority settings without the resources and capacity to provide adequate housing. In the wider context, poor economic growth, especially in the 1980s and 1990s, undermined the ability of Kenyan authorities to tackle slums[132]. Government's initial strategy of providing conventional housing, accompanied by slum clearance (common in many parts of the world at the time), proved ineffective; slum clearance only resulted in the formation of new slums in other city locations. In many towns, boundaries were extended into impoverished rural settlements in the peri-urban belt, swelling the numbers of those living in slum-like conditions.

There are no accurate estimates of the urban population in slums. A conservative estimate of 30 percent has been given for Nairobi (1999 census), but a much higher proportion (55 percent) is found in other reports[133]. The proportion for Kisumu has been given as 60 percent[134] but is probably lower for the other towns, although there are no accurate figures to support this claim. Whatever the case, it is clear that slums accommodate a substantial share of the urban population in Kenyan cities.

In most cases, slum housing is of poor quality and overcrowded, and urban services are often lacking. Although dwellings vary in quality from one settlement to another, they are generally built of temporary materials. Investments in these dwellings are normally made through private investment, albeit investment operating on the fringes of the law.

5.8.2 Unlike other cities the vast majority of slum dwellers in Nairobi are tenants

Gulyani *et al.* (2006) have drawn attention to the high rates of return in Nairobi slums, emphasizing that from this standpoint slums provide "low quality, high cost" housing to the urban poor. The authors go on to point out that urban slums in Nairobi do not fit into the stylized account of slums whereby squatter-owners invest to upgrade their housing. On the contrary:

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[131] By 2005, this had risen to 85%. See Katahira & Engineers International et al. (2005)

[132] Economic growth slowed substantially during the 1980s and 1990s, turning negative in 2000. The average annual growth rate over the period 1997-2002 was a low 1.4 per cent. This poor performance has been attributed to low investment, high interest rates, limited international aid flows, political uncertainties (especially during the election years, 1992, 1997 and 2002), and persistent economic mismanagement. See Institute of Policy Analysis and Research (2005).

[133] For a discussion of these estimates see Gulyani, S. et al. op. cit. p.14. Alder (1995), citing work carried out by Matrix Development Consultants in 1993, gives a figure of 55 percent.

[134] Kisumu City Development Strategy 2004-2009

"Unlike in many other cities of the world, an extraordinary 92 percent of the slum dwellers are rent paying tenants (rather than "squatters" who own their units). Unit owners are mostly absentee landlords who seem to be operating a highly profitable business in providing shelter to the poor. In sharp contrast to the widely-held notion that slums provide low-quality, low-cost shelter to a population that cannot afford better standards, we find that Nairobi's slums provide low-quality but high-cost shelter". [135]

In some settlements, tenure has ethnic dimensions. In Kibera, a slum with about 700,000 people[136], houses are mainly owned by Nubians and the Kikuyu, yet the majority of the tenants are Luo, Luhya and Kamba – reflecting the history and character of different waves of migration.

In contrast to Nairobi, some of the other cities in the sample show a marked level of land ownership by slum dwellers. In Kisumu and Nakuru, for instance, a large proportion of slum residents own the land they occupy and, therefore, have secure tenure[137]. In Kisumu, the land in the slum settlements used to be communal land, held in trust by the municipal authority. It was later adjudicated and titles issued to qualifying residents. In Nakuru, slums typically sit on land purchased by "land-buying" companies and subsequently allocated to their members. This model of land acquisition is also found in Eldoret, although field investigations indicated that land companies had in many cases not yet conveyed titles to their members. But Mombasa is unique as slum residents tend to be 'tenants-at-will' who pay ground rent to land owners, some of whom are absentee landlords, in return for the right to use land and put up buildings on it. In contrast, tenants in the other towns do not have the right to build. This type of tenancy provides considerable security of tenure, although informal. It has been recognized by the municipal council since the 1920s and regulated through a system of "village layouts", land subdivisions which enable residents to lay out their settlements in an orderly fashion. However, this type of "ownership" constrains infrastructure development and provision of public facilities as it is difficult to obtain the consent of landowners many of whom live overseas.[138]

Box 17: A tale of two slums: policies and tenure, not just incomes, determine living conditions in Nairobi and Dakar

A study analyzing development in the slums of Nairobi and Dakar finds, strikingly, that incomes, education and jobs are not sufficient to ensure good living conditions. Slum residents in Dakar enjoy a far superior living standard compared to those in Nairobi, even though they are poorer and worse educated than their Kenyan counterparts (box figure 1).

[135] Gulyani, S. et al. op. cit. p. 7

[136] Since being mapped by Matrix Development Consultants in 1993, showing a population of 250,000, Kibera's population estimates have varied, some claiming more than 700,000. Kibera has become an emblematic slum for Africa and no visit to Nairobi by prominent politicians and high ranking officials from donor institutions is complete without touring the settlement - with substantial press coverage.

[137] In Nakuru, for instance, low income settlements were previously built on rural land which was subsequently incorporated into municipal council boundaries

[138] Field interviews

Conceptualizing quality of living conditions as a composite of four interacting factors—the unit, infrastructure, tenure, and the neighborhood's condition and location—and graphing it as a Living Conditions Diamond, allows Gulyani and Talukdar (2008) to highlight both the problem and potential solution (box figure 3). On each of the four dimensions, living conditions in Nairobi's slums are worse than those in Dakar.

To start, infrastructure access in Nairobi is appalling and dramatically lower than in Dakar—as illustrated in the Infrastructure Polygon (box figure 2). For instance, in Nairobi only 22 percent have access to electricity and 19 percent have access to piped water in the form of an in-house connection or a yard tap. By contrast, 84 percent of Dakar's slum residents have piped water connection and 82 percent have electricity. Further, housing units in Nairobi are smaller, more crowded, and constructed with worse building materials. The explanation lies in understanding tenure. Although land tenure is largely "informal" in both cities, the tenure mix—proportion of renters versus owners—and turnover rate differ significantly in the two cities. In Dakar where three-quarter of its residents own their slum dwelling, turnover averages 19 years in the same unit. In Nairobi, some 92 percent of the residents are tenants and move in about 5 years. Combined with a complex political economy, this has created a situation in Nairobi in which none of the three stakeholders—the tenants, the absentee "shack owners," and the government as landowner—have been investing to improve quality of living conditions.

One way to break out of this trap in Nairobi is for the government to bring the other two stakeholders to the table and negotiate a deal—one that explicitly alters the tenure mix, for instance, by converting a significant proportion of slums tenants into owner-occupiers that have a greater incentive to invest.

FIGURE 1: DEVELOPMENT DIAMOND

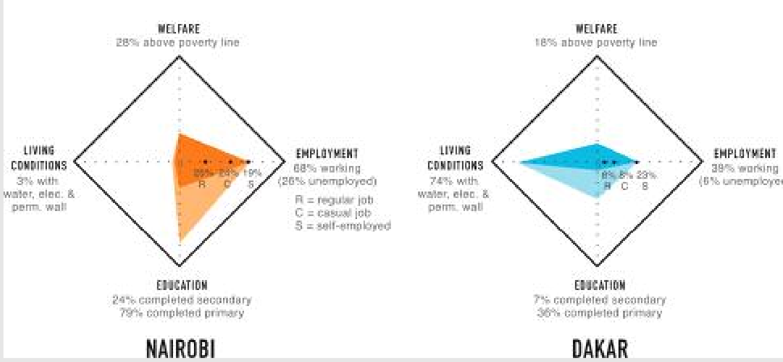


FIGURE 2: INFRASTRUCTURE POLYGON

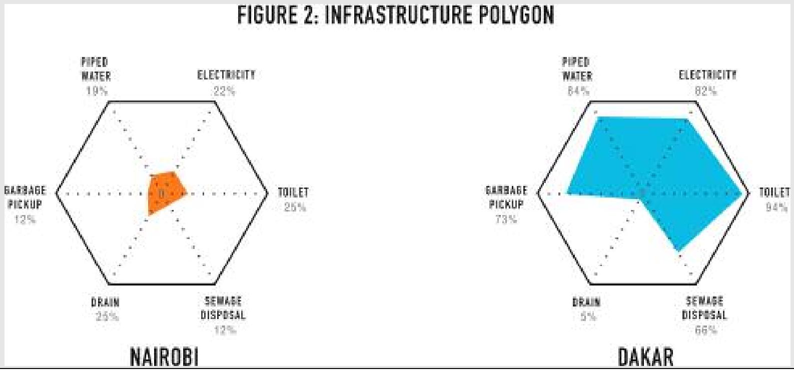
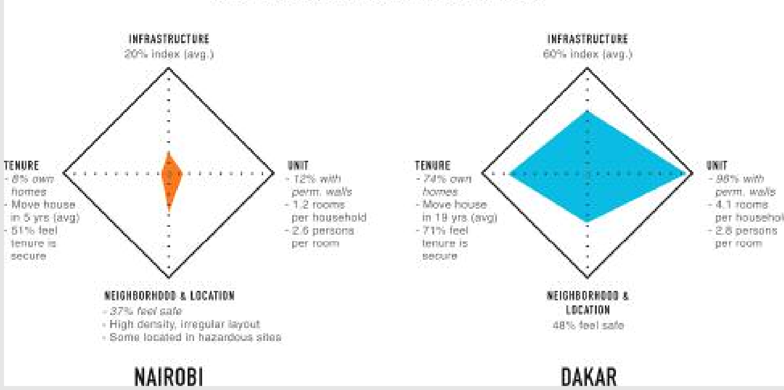


FIGURE 3: LIVING CONDITIONS DIAMOND



Source: Gulyani and Talukdar (2008), Gulyani, Talukdar and Jack (2008).

5.8.3 Local authorities have failed to cope with slums

Local authorities are not responsible for land policy and therefore do not have the administrative and legal powers to resolve land issues in slum areas. This, together with their poor financial health and limited institutional capacity, deprives them of the ability to devise effective strategies for responding to slums. Indeed, local officials reported that even where it made sense to upgrade infrastructure in slum areas (for instance opening up of roads and building schools), the lack of legal authority over land issues ruled out such interventions. Moreover, the lack of current physical development plans makes it difficult for municipal authorities to devise strategies for managing slums.[139]

These problems aside, previous efforts to upgrade slums have brought to the fore a number of issues: limited affordability of project facilities, such as infrastructure, by the poor; the complexity of dealing with land tenure; and the lack of municipal capacity to implement upgrading projects and address shelter issues in general. Attempts in the 1970s and 1980s to expand the supply of affordable housing in the principal towns, primarily through sites and services projects, met with mixed results largely as a result of high standards, poor cost recovery, limited implementation capacity, and the lack of transparency in the allocation of serviced plots.[140] This approach was later abandoned, severely constraining the supply of serviced land for low-income settlements. Had they been fully successful, site and service projects for the poor would probably have tempered the growth of slums.

These outcomes are not surprising in historical perspective, as downward accountability towards the informal sector and slums has always been informal.

5.8.4 Slums have their patrons in the formal sector

Land in slum settlements has historically been "managed" by gatekeepers consisting of officials in the provincial administration and municipal councils. These gatekeepers are

[139] For instance, the last physical plan for Nairobi dates back to 1973 and for Mombasa to 1926.
[140] Lee-Smith D. and Memon, P. (1988).

members of an urban elite that derives substantial income from rent seeking, at the expense of the urban poor.

In Nairobi, interviews of the mayor and other officials clearly pointed to little capacity or drive for responding to slums. This is not surprising for, historically, the administration of slum areas has never been clear-cut, with the provincial administration generally exercising greater control than local authorities. In respect to Nairobi, Lee-smith and Lamba (1998) point out:

"Kenya's provincial administration has been instrumental in structuring Nairobi's informal settlements and in administering them outside the legal framework. Thus chiefs and district officers allocate plots for housing and informal sector businesses outside the framework of any plan. These plots are on public land including road reserves. People of any income group can obtain these plots in return for payments which the officials appropriate. This mode of acquiring public land has also come to be associated with political manipulation by the ruling party in its attempt to buy off political opponents. Furthermore, there is no clear cut distinction between city and central government officialdom in this respect. Many, if not most, city officials collude in the management and control of informal settlements and businesses, which also conveniently provide them with income in the form of bribes".[141]

5.8.5 Central leadership of slum upgrading should combine with local ownership and capacity

The Ministry of Housing (MOH) is piloting slum upgrading in Nairobi under the Kenya Slum Upgrading Program (KENSUP) with the objective of improving overall livelihoods of people living and working in slums through targeted interventions to address shelter, infrastructure services, land tenure and employment issues, as well as the impact of HIV/AIDS in slum settlements. Initial activities have centered on social and physical mapping, and community mobilization in a small part of the sprawling Kibera slum in Nairobi, but physical works are progressively being phased in. The program will progressively be rolled out in secondary cities and program activities have already started in Kisumu.

One component is the construction of flats to accommodate those initially displaced by redevelopment. Questions have been raised about the affordability and viability of this approach amid fears, as has happened so often in the past, that these units will eventually be absorbed into the middle-income housing market and will not serve the poor. Other slum upgrading projects are planned for Mombasa and Kisumu.

Although the original plan was to have the Nairobi City Council act as implementer, this was later reversed for reasons that are not entirely clear. It has been argued that this centralization is temporary, made necessary by the lack of capacity at the council, and that implementation will be transferred to the Council in due course. The reasons for this centralization are rather unconvincing. The Council as the planning authority for Nairobi should be assisted to manage slum upgrading, while the Ministry focuses on matters of policy, technical assistance and leveraging financing. That upgrading is led by a

[141] Lee-Smith, D. and Lamba, D. (1998).

government ministry is yet another indicator of the marginalization of local authorities, denying them the opportunity to build up their capacity for this task.

5.8.6 International experience offers useful lessons but strategies must respect local context

Useful lessons can be drawn from international experience on upgrading and responses to urban poverty (Box 18). But it is critical to bear in mind that local conditions can make or break the strategies adopted. For instance, the majority of slum residents in Nairobi are tenants, and solutions that pre-suppose land ownership by the poor would not be practical. In contrast, Kisumu and Nakuru, where the level of land ownership by the poor is higher, could more directly benefit from such experience.[142]

Box 18: Enhancing the quality of life of the urban poor: Two approaches from Indonesia

The Kampung Improvement Program (KIP): Between 1970 and 1999, the World Bank supported a series of projects to improve housing and basic infrastructure in densely-populated, low income *kampungs* of Indonesia. These projects came about during a period of rapid rural-urban migration of Indonesia's poor. During its three distinct operational phases, the program evolved from its initial focus on physical improvements (under KIP I — 1969/79 and KIP II — 1979/89) to a three-pronged approach—Tribina—integrating social, economic and physical development (KIP III — 1989/99).

A large share of *kampung* residents participated in the planning and implementation of the KIP. The level of participation determined the perceived benefits of the program. Furthermore, it also helped instill a sense of ownership among the beneficiaries. Although some had feared otherwise, project improvements did not induce any major gentrification in the improved areas. The projects brought improvements in housing and basic infrastructure to low-income areas at low costs. They also served as a prototype for investments and improvements in other areas, although improvements to KIP *kampungs* came more rapidly. Thanks to the program, the majority of residents in KIP *kampungs* now have piped water in their homes as well as their own toilets with septic tanks. Improved drainage helped reduce flooding. But efforts to improve solid-waste management had mixed results. KIP residents have also enjoyed land values higher than those in non-KIP *kampungs*. The potential capital gains from KIP investments were estimated to yield around 31 percent rate of return (ERR) over a 15-year period. Yet, many *kampung* residents were not able to recoup the real value of their land and houses due to their poor business savvy and weak claims on tenure.

Prior to KIP, the prevailing view was that all unplanned development and informal settlements were to be eradicated through planned relocation or redevelopment. Before KIP started more than 60 percent of the settlements in Jakarta lacked the most basic infrastructure. The KIP concept was thus a direct response to a looming political, social, environmental and public health crisis blanketing the city. The decision to launch KIP was both brave and innovative for its time. Departing from the centralized and top-down system of the 1960s, it introduced a bottom-up, democratic approach. The policy has benefited millions of urban poor. In its 30 years, KIP has improved 18,000 hectares of *kampungs*, reaching more than 7 million people, giving them a sense of hope, self- esteem and belief in a better future.

The Urban Poverty Projects (UPPs): UPP1 was a response to the 1997 financial crisis, when the problem of urban poverty in Indonesia was seen primarily as a lack of income and employment. With the intent to get financial resources to the poor rapidly, UPP was designed to organize the poor into groups which would receive micro-credit loans for income generation or grants for tertiary level infrastructure; and promote the development of community organizations (BKMs) at the ward (*kelurahan*) level that would receive block grants that they would manage as a revolving fund. In the first two years alone, the project provided

[142] In the typical slum in Nairobi, property rights cannot be transferred to tenants without first canceling the Temporay Occupation Licences held by structure owners; and the case for compensating structure owners for their existing investments would need to be addressed.

loans/grants to over 670,000 households through 1,298 BKMs, primarily for income generation activities. Some tertiary level infrastructure investments were also financed, benefiting more than a million people.

UPP1 supported direct block grants to communities largely because of the general lack of trust between communities and local governments (LGs) at that time (1998). Under UPP 2 and 3, both designed after the passing of the decentralization law in 2001, the focus has shifted to strengthening the capacity of both community and LG for service delivery concurrently. Block grants are still being provided to communities for services at the *kelurahan* level. Concurrently, the capacity of LGs to work with communities is strengthened through their involvement in the development of the BKM; the formulation of Regional Poverty Alleviation Strategies with the participation of BKMs; and through the joint implementation of investments in infrastructure and services.

The implementation of Phase I and II have yielded strong indirect evidence that the UPP approach is an effective way to organize communities, provide improved services, and promote partnerships between LGs and communities: For example, the number of households benefiting from UPP1 Phase 1 surpassed targets; the majority of the Phase 1 BKMs remain in operation even after the end of Phase 1; BKMs came together on their own to form BKM Forum at sub-district-district levels to work together; LGs are already using BKMs to channel government funds for poverty alleviation in some areas; and under Phase II, improved socialization and facilitation processes have dramatically increased participation in the program.

5.8.7 Microfinance offers new opportunities[143]

The poor in Nairobi are starting to link up with microfinance institutions as they seek finance to improve their housing (Box 19). Still, housing microfinance is a relatively new product in Kenya and is offered primarily by the National Cooperative Housing Union (NACHU) and the Kenya Affordable Shelter Project of the K-REP Development Agency. Pamoja Trust, through their Akiba Mashinani Trust, has also started to offer small loans to groups in upgrading sites. Savings and Credit Cooperatives (SACCOs), of which there are many, also help their members acquire housing, typically by financing plot acquisition and house construction. There is little systematic information on financing by SACCOs as the majority of loans are taken out as personal loans, and diverted to housing without the direct knowledge of lenders[144].

Box 19: Informal housing finance in Nairobi

Three low-income settlements in Nairobi (Mwiki, Kiambiu and Huruma), illustrate how the urban poor access informal finance to improve their housing conditions. Mwiki, on the outskirts of Nairobi, is an example of the newer settlements that have developed in the city's peri-urban belt, built primarily on land acquired from private owners by land buying companies. Kiambiu and Huruma are inner-city slums which accommodate some of the poorest households in Nairobi on land which is owned by public authorities. In all three sites, household incomes are roughly estimated to be not more than USD 100 per month.

In Mwiki, the early plot owners approached quarry owners in the vicinity to agree how much they would be required to pay, in instalments, for quarry stone. Typically, a quarry owner would open a register to record the installments received from the plot owner, until materials enough to build a minimum dwelling had been paid for. Other plot owners save with hardware shops, following a similar procedure. Installments are affordable as they range from Ksh 50 (USD 0.75) to Ksh 500 (USD 7.5). Depositing money with these "intermediaries" protects savings from being diverted to other uses. The majority of plot owners construct their houses incrementally and it can take up to 4 years to construct two to three rooms. A standard sized

[143] The poor do not have access to conventional sources of finance, as illustrated in Annex 5, a taxonomy of housing finance in Kenya.
[144] Discussion with the Kenya Union of Savings and Credit Cooperatives

room of 10’x10’ built of permanent materials would roughly cost Ksh 85,000 (USD 1,270) and a semi-permanent room Ksh 45,000 (USD 670).

Informal savings groups in Mwiki generally do not use their resources to finance housing and do not seem to have links with formal micro-finance institutions. But in both Kiambiu and Huruma, what started as informal savings groups have, in time, established links with micro-finance institutions, Jamii Bora and Akiba Mashinani, respectively. At Jamii Bora, the interest rate on loans is 10 percent and for a loan of Ksh.10,000 (USD 150), enough to build an improved temporary structure[145], the repayment period is 50 weeks. Loan defaulting is low and groups assume the responsibility to pay when their members default.

Huruma residents, through facilitation by Pamoja Trust, formed *Muungano wa Kampi ya Moto,* a registered self-help group. The group has been able to borrow for housing from *Akiba Mashinani*[146] *Trust,* a fund formed by Pamoja Trust, after saving up to 10 percent of the loan amount in advance.

Source: Mutero, J. G. (2007)

Another source of housing microfinance is Jamii Bora, (JB) a micro-finance institution which lends to poor borrowers who have saved with the institution. It uses classic micro-finance procedures, with borrowers forming small groups so that loans are in part secured by peer pressure. It claims to have 140,000 members. Some years ago JB decided to develop a housing project for members and acquired 300 acres of land outside Nairobi. The plan is to construct 2,000 houses over 3 years at a cost of Ksh 900 million (USD 13.6 million). The units will have 2 bedrooms, a sitting room and a kitchen. Members will be expected to participate directly in the project by producing their own building materials.

It is clear that housing micro-finance is in its infancy and major challenges remain. An important hurdle is how to go to scale. In the wider context, enterprise micro-finance has already demonstrated how this can be done, especially by tapping into the capital market. As reported in a recent publication, Faulu Kenya, a micro-finance institution, successfully raised funds through a bond issue in 2005. Stanbic Bank Kenya Limited and its parent, the Standard Bank of South Africa, served as the underwriter for a five-year bond for Kenya Shillings 500 million guaranteed up to 75 per cent by the AfD (Agence Française de évéloppement). Proceeds of the bond sale went towards expanding operations. This type of bond issue, virtually unprecedented in Sub-Saharan Africa, illustrates the type of innovation that is feasible in countries with a functioning capital market.[147] Lessons on other innovations can be gleaned from Box 20 on the Indian experience.

[145] Mud structure with a metal roof.
[146]Akiba Mashinani literally means “grassroots savings” in Kiswahili
[147] United Nations (2006)

6. Cities of Hope: The Way Forward

6.1 Introduction

Kenya's five largest cities are at crossroads. Despite being the incubators of economic, political and social change, rapid urbanization and its attendant problems are now posing unprecedented challenges to these cities. Urban services are unable to absorb the continuous flow of people into these cities. Income disparities are rising and a significant share of the population now resides in large and growing expanses of informal settlements. Corruption in local institutions, and crime and violence on the streets are impeding businesses. Not surprisingly, it is the poor who suffer most. These challenges are compounded by a leadership vacuum at all levels of urban polity.

A key finding of this study is that this dysfunctionality is part of a broader malaise afflicting the entire urban system in the country. Given the primacy of the case study cities in the urban system of the country, it is not unsurprising that the issues faced by these cities somewhat reflect the broader challenges faced by Kenya's urban system. They are complex and multidimensional, and provide no easy answers or quick fixes.

Yet, for this study to deliver something meaningful that can translate into a way forward, it is critical to find focus within this complex labyrinth—a priority list of areas/themes around which discussions and debates can focus in the short to medium term, and a consensus set of actions can emerge, bringing together the Government, the development partners and the civil society in general. With this in view, in this concluding section we present three key themes for action to improve conditions in the five largest cities. These are:

- *reversing the marginalization of local governments and reforming local governance systems;*
- *addressing infrastructure backlogs and service delivery deficiencies; and*
- *arresting slum proliferation and improving existing slums*

In the following sections we explore these themes further with a view of identifying specific areas of action within these themes around which the dialog can move forward and ideas and actions can coalesce.

6.2 Reversing the marginalization of local governments

Reforming the local governance system in the country with a view of making representative local governments both accountable and capable to manage cities and deliver services requires tying together various elements of reform in a coordinated and sequenced fashion within the context of a strategic framework. To that end, from a policy standpoint, this requires:

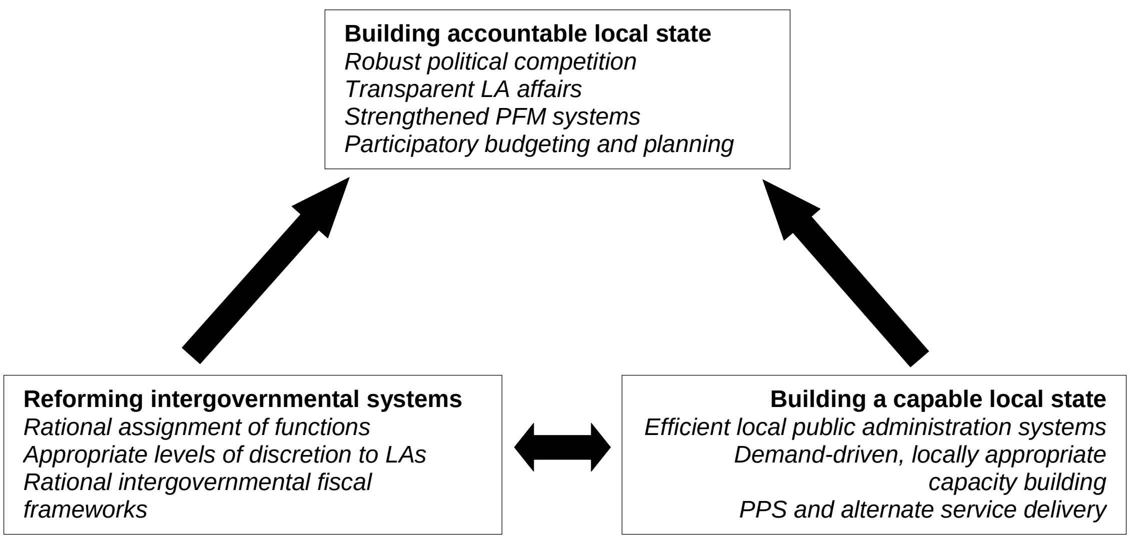
- Recognizing the preeminent role of LAs over local governance decisions. This will mean that decisions regarding planning and public expenditures, service provision, and LED that have a dominant local character and dimension will become the responsibility of LAs and that they will be able to accorded the appropriate level of discretion.

- Building systems of local accountability. The success of local autonomy will depend on effective systems of accountability. Two forms of accountability exist in this regard: upward accountability towards higher levels of government—defined by the rules of the intergovernmental system and public financial management; and downward accountability towards citizen clients—characterized by healthy political competition, transparency in public affairs, and participation of citizens. Our take is that accountability at the local level in the Kenyan context starts at a political level, and from there extends to administrative and fiscal systems.

- Strengthening capacities at the local level to deliver the mandated responsibilities in an efficient and effective fashion through more streamlined institutional channels, better vertical and horizontal systems of information and coordination, as well as more capable local public officials.

Based on the above principles, we present a simple, stylized model of an efficient and accountable local state consisting of these three building blocks.

Figure 8: A simple model for reforming local governance systems



6.2.1 Reforming intergovernmental systems

A rational assignment of service delivery sectors and functions within sectors with appropriate level of discretion to LAs to deliver their assigned responsibilities

There should be a move to a more rational revenue-expenditure assignment framework within the context of overall government policy on decentralization and local government reform. The revenue-expenditure framework should define the roles and responsibilities of various tiers of government in service delivery taking into account economies scale and scope, capacities and resources, and local preferences. It should differentiate not only between tiers, but also within tiers based on above considerations.

A policy of asymmetric decentralization may be the right approach for Kenyan cities at this point. Thus, in the five largest cities, the autonomy and authority of LAs in determining appropriate levels of service, setting expenditure priorities, managing assets, and delivering services should be strengthened and more clearly defined. In cities of smaller size and lesser capacity there should be a provision for staged transfer of functions in response to the LA capacity and performance. In services such as education, basic health and social protection, the delegated roles of LAs should be better defined with clear lines of coordination mechanisms between central agencies and LAs.

At the national level, in line with the functional assignments, current institutional structures should be realigned and streamlined and the role of central agencies involved in local affairs, among them the ODPM/MOLG, the sectoral ministries, provincial and district agencies, should be redefined with greater emphasis on improving spheres of cooperation between different tiers of governments and structures for coordination among different agencies dealing with local government affairs. At the local level, the relationship between policy makers and service providers, such as those between LAs and water companies, should be redefined with clear lines of management controls and reporting.

Supporting functional assignments through efficient and transparent intergovernmental fiscal frameworks

A transparent and efficient fiscal and financing system should underpin the above functional assignment framework. Revenue assignments should support expenditure responsibilities and identify source of financing best suited for each type of expenditure responsibility, both sectorally and functionally. This calls attention to several areas of reform, noted below.

Rationalizing existing transfer systems: The multiple channels of central funds flowing to local areas, among them LATF, RMLF and CDF, need to be more transparent, and better rationalized and coordinated. In particular, distortions associated with central funds that compete with other local funds, such as the CDF, need to be addressed. Further, central funds should also be better coordinated with local strategic planning process—organized through the LASDAP process, stakeholder forums and other means.

Enhancing untied resources to LAs: In general, the current level of direct transfers to five LAs is low, both as a share of total LA revenues and in terms of their buoyancy. Given the serious service delivery backlogs, even to maintain the current levels of service, there is a strong case to increase the level of transfers to the five LAs, especially through LATF, with improved incentives for greater efficiency and accountability.

Improving revenue mobilization and administration capabilities of LAs: The high share of own source revenues in the five cities is largely due to the low levels of transfers and borrowings, rather than a reflection of an efficient local revenue system. Yet, several studies, including this one, have identified that these LAs hold significant untapped potential to enhance their own source revenues. To realize this requires:

- Assigning more buoyant and stable sources of local taxes to LAs, as well as providing them with greater autonomy in rate setting for key local taxes such as the property taxes.
- Concurrently, assisting cities to strengthen their revenue administration capabilities in terms of both systems and personnel. In particular, it is essential to systematize tax assessments and improve collection efficiency in the large cities, and in the case of cities like Nairobi, greater powers to collect outstanding debt like CILOR.
- Finally, increase financial viability of services by strengthening user charges. Timely rate adjustments and improving collection efficiency are essential for both services directly provided by LAs (SWM) and those provided through utility agencies (water, electricity).

Addressing LA debt: With regard to the five largest cities, as well as for larger cities in general, to move LA finances towards a more sustainable platform two areas merit special attention:

- In the medium term, the existing debt of these cities should be tackled through a realistic and forward looking financial restructuring and debt reduction plan that addresses long standing non-performing loans and arrears to various statutory contributions. In particular, the case of Nairobi and Mombasa merit special attention since these two cities together account for about 55 percent of the total LA debt in the country. The plan should be tied to actual (dis)incentives in the transfer system and be monitored by central government, especially the Ministry of Finance or an appropriate entity such as a local government finance commission.
- In the long term, develop systems—policies, legal frameworks and institutional structures—for responsible borrowing by financially viable cities.

Setting up the institutional arrangements for intergovernmental fiscal relations

Given the evolving nature of LAs in Kenya, it may be worthwhile to consider the establishment of an independent and statutory Local Government Finance Commission that can examine the functional and fiscal assignments on a periodic basis and recommend the appropriate assignment structures as well as determine the annual transfers to LAs based on transparent and predictable criteria in the context of a policy framework set out by the government. An LGFC type of institutional arrangement will help insulate local finances from short term political expediencies. It can work closely the MOF, the MLF, local government associations, and even individual LAs to determine longer term priorities, rationalize local fiscal flows, and monitor LA financial performance, including in the case of large cities financial restructuring and debt reduction plans.

In the region, South Africa and Uganda, both unitary countries, have established local government finance commissions to deal with intergovernmental fiscal affairs. In Ethiopia, which is federal country, transfers are done by the Ministry of Finance and Economic Development which allocates annual block grants to regional Bureaus of Finance and Economic Development, according to a national equity formula, which then allocate block grants to *woredas* (districts), according to a regional equity formula. There are lessons to be learned by Kenya from the experience of these countries.

6.2.2 Building an accountable local state

Strengthening political and administrative accountability at local level

There is a fair degree of political competition at the local level currently. Local elections are multiparty and fought keenly. Yet, evidence suggests that there is a real deficit in political accountability at the local level. Political accountability in the present system begins and ends largely with the local election which occurs every 5 years. With regard to administrative accountability, especially in the higher echelons of LAs, there is a split between accountability to the local leadership and loyalty to the central ministry. Several recent initiatives, among them the LASDAP process, SCs and PCs, and the stakeholder forum in Nairobi, provide a good beginning to enhancing pubic accountability of local administration. There is potential to do more, especially by developing a range of institutional avenues to make public accountability an ongoing and systemic affair. For example:

- Aligning political leadership and administrative machinery to common objectives at the local level. Various public offices at the local level need strengthening, especially the office of the mayor, and the role of councils and standing committees. Further, LAs should have direct say in the hiring and performance management of senior local staff to be able to hold them accountable to citizens.
- Making wealth declarations by senior public officials on a regular basis compulsory;
- Strengthening the stakeholder forum in Nairobi and extending stakeholder forums to the other four cities. The deliberations at the SFs should be given more teeth by formally integrating these with the planning and public expenditure processes of the five LAs;
- SFs operate mostly at the city level. Yet, consultation is most effective and essential at the local level on an ongoing basis. To ensure that, consultative forums/mechanisms are needed at the ward level where citizens can interact with their public officials regularly.
- Making LASDAP process more effective by: (i) linking it to budgets and actual resources; (ii) repositioning it from its current bureaucratic/technocratic orientation to a more comprehensive local ownership; and (ii) monitoring results and disseminating these at local level.
- Performance-based management measures such as SCs and PCs, already introduced in the five cities, needs to be expanded in terms of scope and rewards. There should be real incentives associated with performance management measures.

Strengthening public financial management systems

Several recent efforts, including the introduction of LAIFOMS and conditionalities associated with LATF transfers, have made improvements in financial accountability in the five LAs. Building on this, additional measures could include:

- Accelerating the implementation of LAIFOMS in the five cities and strengthening capacities of LA personnel in strategic planning, financial management, and budgeting.
- Better expenditure planning and budget implementation by integrating budgeting process with strategic planning process. The local budgets should become more comprehensive with greater emphasis on realism in estimations, aggregate controls through hard budget constraints, and improved budget implementation and monitoring.
- Making independent annual audits compulsory and publish their results widely. In this regard, if KNAO has capacity constraints in undertaking regular audits, the five LAs should be able to seek other ways of doing independent audits with oversight by KNAO.
- Institutionalizing M&E systems to better monitor, evaluate and provide feedback on LA performance. Better utilization of the current quarterly and annual performance reports would be a starting point in this area. Information flows should improve not only within LAs but also between central agencies and LAs, as well as between LAs and citizens.

6.2.3 Building a capable local state

Building efficient local administrative systems

Both autonomy and accountability of LAs will mean little in the absence of a capable local public administration that can deliver the mandated responsibilities efficiently and accountably. Over-staffing at the lower levels and understaffing at the higher levels, low salaries that demotivate staff going hand in hand with high wage bills that consume much of the resources, frequent transfers of higher level staff, weak management skills at higher levels and capacities at all levels heightened by poor training opportunities in key skill areas, and limited ability of LAs to hold their staff to account sum up the issues facing the local public administration system. Reforming the local administration system is a long haul process with actions required at the center and in cities. The key aspects of a comprehensive reform program are outlined below.

Develop a comprehensive human resources policy for LAs: While the broad outlines of such a policy will be national in scope and focus, specific operational strategies and implementation programs should be left to individual cities with oversight by ODPM/MOLG. A comprehensive human resources strategy will become the basis for real administrative devolution.

Simultaneously capacity building needs to shift to a more comprehensive and long term approach with greater role and resources for LAs to decide their priorities. In particular, areas such as urban management, financial accounting, participatory planning and community development, and project management have been identified as especially critical for capacity enhancement. These traditional skill areas should be complemented with new skill areas, such as LED, that the large cities need to compete in the global marketplace. In this context, it is worthwhile to think about developing a professional municipal cadre that is trained to manage large and complex cities.

The role of the central government is critical, not necessarily as a direct provider of training (although it may be required in special cases), but more as an enabler—developing incentive frameworks, providing resources and overseeing progress.

Rationalizing staffing numbers and optimizing skill mix of LA staff: This is a top priority for the largest cities, both from a human resources and a financial perspective, with action required on several fronts, among them changing the institutional mandates and incentive structures in local hiring to avoid politically-driven over-hiring at lower levels. At the same time, LAs should have more say in deciding the hiring, placement, evaluations and transfers of their senior staff. This is important for staff development and to foster accountability at the local level.

Staff at higher level, especially the Town Clerk, the Treasurer, the Chief Engineer and other senior administrative and technical staff must have a minimum tenure of 3 years in their positions and their transfers should not adversely impact LA management.

Strengthening ODPM/MOLG, local government associations and knowledge networks

With greater devolution, the Ministry itself needs to reform its current role and reinforce its capabilities in a number of areas to be an effective driver of the reform process as well as to respond to cities and LAs better. That is an area which requires much deeper analysis.

Local government associations and networks can play a useful role in the reform process. There is scope to strengthen such networks as well as linkages between local governments and civil society entities. The ALGAK, for example, presently plays a very limited role in LA policy matters. There is scope to define its role better and strengthen its capacities. The strong role played by municipal associations in countries as diverse as the United States, South Africa and Philippines are good examples in this regard.

Further, reliable and timely data should inform urban policy formulation and decision making. This is a task with externalities that go beyond individual cities. Hence the central government has a key role in setting up the necessary standards and systems for this. It should also facilitate knowledge transfer and peer learning among cities in the country and the region.

6.2.4 Approach to reform

As the above menu indicates, the LA reform agenda is complex and demanding. This becomes even more challenging in the context of the general decline of public sector institutions in the country and the prevailing political uncertainties that are not conducive to reform. The challenge would be not to import foreign models of public administration, but, through an incremental and evolutionary process, develop a home-grown model. It must be added here that a certain degree of dynamic flux is inevitable, and even healthy, in coming years as these systems will reflect the changing dynamics of cities in the country as well the political and economic transitions happening in Kenya.

Given this, the key is to develop a roadmap for reform that has broad buy in of key stakeholders, and is congruent with the prevailing political economy realities of the country—while being nimble to opportunities. In general, sector studies should be supported with political economy/stakeholder analysis to get a better grasp of the reform environment. Annex 3 provides an analysis of potential drivers of reform in each city. It identifies key agents of change and ranks their potential to drive change in the context of each of the five cities.

6.3 Addressing critical backlogs in infrastructure and improving basic services

The five largest cities form the economic hub of the country, playing critical role in trade and commerce, poverty alleviation, and human development. Various surveys indicate that backlogs in urban infrastructure and unreliability of services are adding to the costs of doing business. As noted earlier, there have been some encouraging efforts in recent years to improve services through restructuring of utilities, small scale PPP initiatives, and introduction of SCs. Yet, there is much more to be done—in the context of wider platform of reform—if the deterioration of many decades is to be reversed.

7.3.1 Preparing and implementing a capital development plan for large cities

Public spending on infrastructure in the five cities is extremely low, even by regional standards. For example, per capita expenditures on capital development in 2005-06 were as low as Ksh. 199 (about $3) in Nairobi and Ksh. 62 (less than $1) in Kisumu. The share of capital spending in total expenditure ranged from 8 percent in Nakuru to 24 percent in Eldoret 2005/06. In Nairobi, which faces major backlogs, this number was a mere 13 percent. These low levels of investments are not adequate if these cities are expected to act as the economic engines of the country. To remedy this, a capital development plan should be prepared for each of the five cities to address urgent backlogs in basic urban services. Such a plan will constitute of at least the following key elements, noted below. It is clear that such a plan would not be a one-time exercise, but rather an evolving program that needs to be monitored regularly and revisited on a periodic basis to assess progress and make necessary course corrections.

Assessment of current backlogs and projection of future needs: Realistic standards should drive such an assessment. It should examine both immediate needs as well as long term demands, taking into account the evolving needs of the economy.

Estimation of resource needs and developing financing plan: Given the limited resources available, the key issues will be to prioritize between competing needs and to develop a financing plan that provides the right incentives. The plan should distinguish between different sources (central agencies, local authorities, private sector etc.), and types of funds (grants, borrowings, PPPs, user charges, and so forth).

Considering the importance of these cities to the national economy, the central government has to provide the right incentives to cities to prepare and own such a plan. It will also have a key role in financing in view of the limited avenues for finance available to cities currently. In the longer term, local governments in these cities will have to improve their finances while central government will have to set up mechanisms for sustainable borrowing. Finally, there is an urgent need for expanding the role of private sector (discussed below).

Assigning institutional roles and responsibilities: The roles and responsibilities of central agencies, LAs, utility agencies, private sector, and the communities in the planning, development, and management and maintenance of the infrastructure should be clearly defined.

6.3.2 Public- private partnerships and alternate service delivery arrangements

Public sector has not played a dominant role in service delivery in the big cities. Yet, there have been nascent efforts to collaborate with private sector on service delivery. Recent examples in water supply, solid waste collection and street lighting have demonstrated sporadic but interesting success stories. Yet, public-private partnership on a more institutionalized mode has been hampered by lack of a coherent policy and legal framework for such arrangements, and general public disinterest in privatization arising out of fears of much higher user charges. A coherent policy on greater private sector role and public-private partnerships in service delivery supported by an enabling legal framework will help also help address the current negative public perception in this area as much as bringing private sector in a more systematic and well defined role.

In the large informal settlements, where formal modes of service delivery are weak, alternate and informal channels of service delivery already play an important role. The key is to acknowledge their valuable role and bring such entities within the ambit of a more formal framework for service delivery. Such entities will benefit from greater financial and institutional support, and closer coordination with LAs and the central government.

6.4 Arresting slum proliferation and improving existing slum settlements

Large expanses of informal settlements are ubiquitous to Kenya's big urban centers. They absorb an increasing share of the expanding urban population and are home to the vast majority of the urban poor. Some recent surveys have estimated that at least 30 percent or more of Nairobi residents are slum residents (World Bank 2006); in Kisumu that number has been suggested to be even higher. The precarious nature of life in these settlements poses risks not only to its residents but also to the city and the country as a whole. Although slum upgrading efforts have been piece-meal and modest thus far, Gulyani et al. (2002) note that they do appear to have created some benefits. Based on their study of Nairobi's slum settlements they observe that, *"for every 10 slum households who noted that a given sector-specific intervention had occurred in their neighborhood, nine said that it was working and that the situation was better than before*." Worldwide experience has shown that slum upgrading, in tandem with the policies to make land and housing markets more efficient, has enabled urban poor to access better housing.

There is no reason to believe that Kenyan case should be any different from the above. They make the case for a national program to address the slum issues, both to mitigate the causes of slum formation and to upgrade existing slum settlements in the five cities. Political and financial costs, as well as the institutional challenges of such a program are bound to be formidable. But its long term benefits to welfare, environment, and the economy are likely to far outweigh these costs. Moreover, a start has already been made under KENSUP. The real challenge lies modifying the program to incorporate lessons learned, in scaling up this up many times over and making it sustainable in the longer term.

Fortunately, there is rich history of worldwide and regional experience to guide Kenya in formulating strategies to tackle slums. What is however critical, but often found lacking, is political will and real resources—financial, human and technological—to sustain a long term program for upgrading these settlements. Here, as a starting point, we outline four important aspects that need to be taken into consideration in formulating a national program to rehabilitate slums in Kenya's five largest cities.

6.4.1 Improving information on slums and their residents

There is woefully poor information on slum settlements and their inhabitants. For all the five cities, there is no accurate estimate of the number of inhabitants in these settlements. Some information on physical conditions of these settlements and the socio-economic characteristics of their residents are available on Nairobi slums, but for other cities even basic population and demographic indicators remain a source of much contention and debate. Such ambiguity makes it difficult to justify, design and implement the right kind of programs for the poor living in these settlements and even harder to assess the impacts of any policy or program.

A first step in these cities would thus be to develop a good information base about slum settlements in the five cities as a basis to agree upon priorities for action in each city. How many slums dwellers does the city have? Who are they and how poor? What aspects of their current quality of life need to be improved-should the priority be jobs or education or infrastructure or reduction of violence or some combination of such efforts? What are the factors that are currently helping slum dwellers in their own quest for physical, economic and social upward mobility?

Such information is useful to different levels of government as this would form the basis of developing national level policy frameworks and regulations, city level strategies and upgrading programs, and local level action plans and projects. Considering the dynamic nature of informal settlements, it is important to update the information every few years.

6.4.2 Engaging stakeholders and building support

The intricacies and high costs of improving slums along with the long term nature of such initiatives often dissuade policy makers from addressing the problem comprehensively. In the Kenyan case, both political fragmentation and ethnic divisions pose additional hurdles.

To avoid or minimize this danger, it is essential to:

- ③ Disseminate information and engage all key stakeholders comprehensively. Where necessary, along with technical analyses, detailed political economy/stakeholder analysis can be undertaken to inform policy/program planning.

- Build broad coalitions of support outside the group of immediate stakeholders, to insulate against short term political expediencies and bureaucratic hurdles. Such coalitions will vary depending upon the setting and the scale of operation, and can include political parties, religious organizations, media, NGOs and CBOs, human rights groups, professional groups, etc.

6.4.3 Investing in improving living conditions

Slums require much more than just infrastructure investments to become viable human settlements—living conditions need to be improved along multiple dimensions. For this, government can offer a combination of tenure security with infrastructure investments and use this package to explicitly create settlements that have a good mix of tenants and home owners. By doing so, resident turnover is likely to reduce and incentives for investments in these settlements are likely to increase.

Providing microcredit to households, extending adult education, improving security, drug counseling, support for HIV/AIDs patients, or promoting social harmony through community initiatives, and many more such activities often go hand in hand with improvements in physical environment in successful slum upgrading programs. The larger import of this is that, successful slum upgrading strategies are also comprehensive in that they invest in physical, social and human capital. The emphasis on certain variables and the choice of a particular strategy will vary among the five cities, and even among settlements within cities. The key challenge lies in identifying the *winners* for each context and optimizing benefits through right kind of synergies..

6.4.4 Strategizing long term and on multiple levels

There can be no single approach that will remain dynamic over time, or a single program that will fit all the five cities and the country as a whole. In the context of Kenya, upgrading strategies will occur at multiple levels:

- At the national level, the central government needs to outline a national policy on rehabilitating and upgrading informal settlements. Such a policy would take into cognizance the heterogeneity of slums in different cities and within cities, ethnic and complex political economy realities,
- At the city level, each LA authority, in partnership with other key stakeholders, would need to draft its own upgrading strategies. These strategies while being faithful to the overall policy and legal framework would identify city-specific approaches and strategies. Such strategies would form the basis for formulating city-wide upgrading programs.
- At the level of clusters and settlements, the city level strategies and programs would transition into detailed plans with buy in from specific stakeholders.

Similarly, the ability to respond nimbly to shifts in macro environment, as well as to changing conditions on the ground will be the hallmark of a successful program.

6.5 The case for treating Nairobi differently

Nairobi's importance to Kenya cannot be overemphasized. As noted earlier, half of country's GDP originates in Nairobi. Apart from its status as the capital city and the largest urban center, Nairobi's contribution to Kenya's culture and human and social development are enormous. It continues to attract more urban growth than all the other four cities combined.

Not surprisingly, Nairobi's urban problems are also acute. In particular, deficiencies in transport infrastructure and unreliability of electricity supply are driving up business costs while limited coverage of water and sewerage, and low levels of collection of solid waste are affecting the livability of millions of residents. Kibera, the largest informal settlement in Sub Saharan Africa, with more than 700,000 residents, is located in Nairobi. The metropolitan status of the urban area as well as the being the seat of different government tiers and units render unique coordination and management challenges.

Nairobi will continue to remain the most important urban center of Kenya by far for the foreseeable future. For this reason and in view of the magnitude and urgency of its problems with regard to governance issues, infrastructure deficits and proliferation of slums, there is a case for treating Nairobi differently even among the five cities. The details of what that differential treatment entails are not within the purview of this paper. But, suffice to say, it will call for substantial reordering of systems and structures, require testing of bold and big ideas, and commitment of very high order. Whether both the central and local governments, as well as the larger civil society they represent have the resolve for that, or let Nairobi, and by default, the nation, slide, is the moot question.

Annex 1: Kenya: Population Trends and Projections ('000s)

Year	Total Population	Growth rate (%)	Urban Population	Urban growth rate (%)	Percentage urban (%)
1950	6,077		340		6
1955	6,984	2.8	448	5.5	6
1960	8,115	3.0	597	5.8	7
1965	9,524	3.2	820	6.4	9
1970	11,273	3.4	1,161	7.0	10
1975	13,512	3.6	1,745	8.2	13
1980	16,282	3.7	2,623	8.2	16
1985	19,673	3.8	3,946	8.2	20
1990	23,430	3.5	5,785	7.7	25
1995	27,226	3.0	8,166	6.9	30
2000	30,689	2.4	11,016	6.0	36
2005	34,256	2.2	14,263	5.2	42
2010	38,956	2.6	18,304	5.0	47
2015	44,194	2.5	22,884	4.5	52
2020	49,563	2.3	27,715	3.8	56
2025	54,997	2.1	32,651	3.3	59
2030	60,606	1.9	38,017	3.0	63

Source: National Bureau of Statistics 2005, Vision 2030.

Annex 2: Key Datasets for the Five Cities

Part A

Indicator/Source	Kenya	Nairobi	Mombasa	Kisumu	Eldoret	Nakuru
5. Population (1999 census reports)						
• Total population						
1999	28,686,607	2,143,254	665,018	322734	197449	231,262
2000	30208365	2290049	704571	337246	208620	244637
2001	30,864,544	2,379,741	725,048	341,365	214,058	251,019
2002	31,517,142	2,470,850	745,670	345,320	219,508	257,417
2003	32,165,328	2,563,297	766,422	349,105	224,965	263,823
2004	32,808,269	2,655,997	787,280	352,710	230,422	270,230
2005	33,445,119	2,751,860	808,221	356,132	235,874	276,630
2006	34,045,843	2,845,353	828,513	359,056	241,106	282,773
• Inter-censal population growth rates						
1969	3.4					
1979	3.4					
1989	3.4					
1999	4.2	4.8	3.6			
• Age cohorts						
0 - 14	2,589,350 (36.1)	956,408 (33.9)	322,396 (36.2)			
15 - 64	4,461,429 (62.2)	1,819,714 (64.5)	553,951 (62.2)			
65+	100,418 (1.4)	31,034 (1.1)	14,250 (1.6)			
• % of female headed households	23	19.2	22.7			
6. Poverty (KIHBS, WMS)						
• % below poverty line						
WMS 1997	49	50.2	38.3	63.7	43.5	40.6
KIHBS 2006	40.5	21.3	37.6	43.4	42.3	50.2
• % Female headed households below poverty line						
WMS 1997	-					
KIHBS 2006	46.2	25.9	48.8	15.3	28.5	
• Average household size						
WMS 1997						
Census 1999	4.4					
KIHBS 2006	5.1	3.8	4.5	4.8	3.5	3.6
7. Health (KIHBS,DHS, 1999 census reports)						
• Infant mortality						
1999 census	77.3	49.7	59.3			
DHS 2003	61	67				
• Under 5 mortality						
1999 census	116	93	112			
DHS 2003	93	95				
• Child mortality						
1999 census						

Indicator/Source	Kenya	Nairobi	Mombasa	Kisumu	Eldoret	Nakuru
DHS 2003	35	30				
• Prevalence of HIV/AIDS						
DHS 2003	10	9.9	12.3			
• Prevalence of Diarrhoea among <5						
DHS 2003	17	13.9				
KIHBS 2006	9.6	8.1	2.1	10.4	5.4	
• % of respondents who know HIV/AIDS prevention						
DHS 2003						
KIHBS 2006						
• Distance to the nearest health facility (km) <0.5	23.3	-	-			
0.5-1	25.2	10.9	-			
1.1-2.9	15.9	8.2	-			
3-4.9	23.7	60.7	-			
5+	11.9	20.2	-			
DHS 2003						
KIHBS 2006						
8. Education (KIHBS)						
• % 6-17 yrs in school	95.6	97.8	93.3			
• % 15+ who can not read	5.7	2.1	9.6			
• Distance to nearest primary school (km)						
<0.5	26.4	30.7	14.3			
	14.5	8.6	3.2			
0.5-1	15	21.1	-			
1.1-2.9	6	8.1	-			
3-4.9	38	31.5	82.6			
5+						
9. Access to amenities (KIHBS,DHS)						
• % of households with water piped into the dwelling						
DHS 2003						
KIHBS 2006	7.82	28.6	11.1	6.4	14.4	3.1
• %of households with water piped into plot yards						
DHS 2003						
KIHBS 2006	14.3	39.7	11.4	0.3	1.6	
• % of households with a flush toilet as the main toilet facility						
DHS 2003						
KIHBS 2006	11.0	61.8	31.9	25.4	19.2	
• %of households with access to a VIP latrine as the main toilet						
DHS 2003						
KIHBS 2006	5.6	0.4	14.1			
• %of households whose garbage is collected by local authority						
DHS 2003						
KIHBS 2006	9.9	6.6	11.1			
• % of households with pit latrines						
DHS 2003						

Indicator/Source	Kenya	Nairobi	Mombasa	Kisumu	Eldoret	Nakuru
KIHBS 2006	67.4	32.1	53.4			
• %of households whose garbage is collected by private firms						
DHS 2003						
KIHBS 2006	17.1	36.1	10.2			
• %of households with access to electricity						
1999 Census	42	52	41.6			
DHS 2003						
KIHBS 2006	51	68.2	47.9			
10. Local authority expenditure (Statistical abstract 2006)						
• % of expenditure on social services (millions)						
2003/04	2,144.97	16.4	31.0	26.1	26.9	30.3
2004/05	1,734.90	15.4	29.8	26.8	26.4	37.4
• % of expenditure on economic services (millions)						
2003/04	3,530.03	35.8	29.9	25.6	34.3	30.4
2004/05	2,641.87	31.3	25.8	25.7	34.0	25.9
• % of expenditure on Community services (millions)						
2003/04	1,798.70	18.0	20.3	25.7	14.7	21.3
2004/05	1,593.06	20.7	25.5	23.6	14.1	17.7
• % expenditure on administration (millions)						
2003/04	2,847.36	29.8	18.7	22.6	24.1	18.0
2004/05	2,466.10	32.6	18.5	23.9	25.5	18.9
11. Housing						
• % of households renting houses						
1999 Census	74.9	82.2	71			
KIHBS 2006	75.4	87.9	61			
• % of households owning houses (KIHBS 2006)	16.6	7.6	22.2			
• % of households in one room (KIHBS 2006)	59	64	62.8			
12. Building (Statistical abstract 2006)						
• Completed buildings by town						
2004		851	148	165	5	312
2005		231	22	49	7	30
• Value of completed building in KSH million						
2004		2003	163	40	41	120
2005						
• New residential buildings (NRB)						
2004	1,935	848	147	163	4	311
2005	602	229	22	49	4	27
13. Establishments (Statistical abstract 2006)						
• Number of establishments by industry						
2004 Agriculture and forestry						
Mining and quarrying						
Manufacturing						
Electricity and water						
Construction						
Wholesale & Retail trade, Restaurants and Hotels						
Transport and Communication						

Indicator/Source	Kenya	Nairobi	Mombasa	Kisumu	Eldoret	Nakuru
Finance, Insurance, Real estate and Business services						
Community, Social and Personal Services						
2005 Agriculture and forestry	2,832					
Mining and quarrying	182					
Manufacturing	4,875					
Electricity and water	301					
Construction	1,557					
Wholesale & Retail trade, Restaurants and Hotels	1,679					
Transport and Communication	2,009					
Finance, Insurance, Real estate and Business services	4,254					
Community, Social and Personal Services	15368					
• Number of employees by industry						
2004 Agriculture and forestry						
Mining and quarrying						
Manufacturing						
Electricity and water						
Construction						
Wholesale & Retail trade, Restaurants and Hotels						
Transport and Communication						
Finance, Insurance, Real estate and Business services						
Community, Social and Personal Services						
2005 Agriculture and forestry	327,361					
Mining and quarrying	5,734					
Manufacturing	247,516					
Electricity and water	20,289					
Construction	78,188					
Wholesale & Retail trade, Restaurants and Hotels	175,690					
Transport and Communication	114,898					
Finance, Insurance, Real estate and Business services	87,236					
Community, Social and Personal Services	750,800					
14. Credit (KIHBS)						
• % of households who sought credit	29.0	28.0	29.3			
• % of households who received credit						
15. Transfers (KIHBS)						
• Average amount of transfers received (No.)	611,910	250,791	63,881			
• Average amount of transfers given out (No.)	933,483	381,074	102,672			
16. Economic activities (Statistical abstract 2006)						
• % Employed in informal sector						
• % Employed in formal sector						
17. Employment (Statistical abstract 2006)						
• Wage employment by town and industry (No.)						
2004 Agriculture and forestry	320,630	9,483	909	237	66	1,045
Mining and quarrying	5,513	350	1,319	30	0	717
Manufacturing	241,979	79,731	33,492	8,620	18,797	11,071
Electricity and water	20,891	11,701	1,808	64	162	30
Construction	77,349	40,883	6,862	2,692	2,148	3,301
Wholesale & Retail trade, Restaurants and Hotels	168,011	61,712	24,265	5,187	4,720	7,236
Transport and Communication	98,332	30,668	32,648	2,145	1,083	2,011

Indicator/Source	Kenya	Nairobi	Mombasa	Kisumu	Eldoret	Nakuru
Finance, Insurance, Real estate and Business services	85,169	41,717	13,304	3,007	3,317	3,265
Community, Social and Personal Services	745,787	167,127	52,887	26,105	5,681	16,831
2005 Agriculture and forestry	327,361	9,691	905	243	68	1,065
Mining and quarrying	5,734	358	1,324	31	0	731
Manufacturing	247,516	81,265	33,891	8,845	19,248	11,283
Electricity and water	20,289	12,056	1,815	66	167	31
Construction	78,188	41,953	6,666	2,761	2,200	3,365
Wholesale & Retail trade, Restaurants and Hotels	175,690	63,512	24,897	5,321	4,834	7,375
Transport and Communication	175,690	31,915	34,118	2,201	1,109	2,049
Finance, Insurance, Real estate and Business services	114,898	43,306	14,582	3,085	3,397	3,328
Community, Social and Personal Services	750,800	169,359	53,549	26,785	5,816	17,152
• Earnings by industry and town (Ksh. Millions)						
2004 Agriculture and forestry	39,134.4	1,606.5	160.3	19.1	6.8	182.5
Mining and quarrying	883.2	67.5	39.8	0.7	0.0	49.1
Manufacturing	53,150.2	26,579.5	5,701.4	3,958.2	2,251.1	1,918.8
Electricity and water	8,152.1	12,086.5	1,339.8	29.5	133.4	17.3
Construction	20,473.9	2,035.6	2,013.2	478.7	645.2	708.0
Wholesale & Retail trade, Restaurants and Hotels	71,888.7	10,240.5	5,957.6	1,098.7	1,695.4	1,970.3
Transport and Communication	39,515.4	15,482.6	14,517.7	1,101.5	455.6	601.3
Finance, Insurance, Real estate and Business services	50,796.2	36,087.7	7,042.0	1,105.0	2,611.2	963.5
Community, Social and Personal Services	222,514.6	49,716.2	14,184.1	3,791.2	1,869.7	3,415.9
2005 Agriculture and forestry	46,116.4	1,893.2	160.3	19.1	6.8	182.5
Mining and quarrying	1,040.8	79.5	39.8	0.7	0.0	49.1
Manufacturing	62,632.8	31,321.6	5,701.4	3,958.2	2,251.1	1,918.8
Electricity and water	9,606.6	14,242.8	1,339.8	29.5	133.4	17.3
Construction	24,126.7	2,398.7	2,013.2	478.7	645.2	708.0
Wholesale & Retail trade, Restaurants and Hotels	84,714.4	12,067.4	5,957.6	1,098.7	1,695.4	1,970.3
Transport and Communication	46,565.3	18,244.8	14,517.7	1,101.5	455.6	601.3
Finance, Insurance, Real estate and Business services	59,858.7	42,526.1	7,042.0	1,105.0	2,611.2	963.5
Community, Social and Personal Services	262,213.4	58,586.1	14,184.1	3,791.2	1,869.7	3,415.9
• Minimum wages by town						
2004						
2005 Monthly contracts	-	4,638.00	4,638.00	4,638.00	4,279.00	4,279.00
Daily rate	-	223.10	223.10	223.10	205.10	205.10
Hourly rate	-	41.40	41.40	41.40	37.90	37.90
18. Household income and expenditure for poor and non poor (KIHBS)						
• Mean household income						
• Mean household expenditure on						
o Food						
o Rent						
o Transport						
o Health						

Note:
The indicators from the KIHBS are readily available for Nairobi and Mombasa.
Those for the other three towns, namely Kisumu, Nakuru, and Eldoret have been re-analysed using data from clusters within the respective towns.

Part B

Indicator	Source	Kenya		Nairobi		Mombasa		Kisumu		Nakuru		Other urban	
		Poor	Non Poor	Poor	Non poor	Poor	Non poor	Poor	Non poor	Poor	Non poor	Poor	Non poor
% of households with female heads	WMS	30.1	27.1	28.3	11.0	20.2	13.7	23.7	23.6	24.6	20.9	23.3	26.9
	KIHBS	28.4	24.9	25.8	16.4	46.7	17.1	9.7	12.0	32.4	9.0		
Mean household size	WMS	5.3	4.0	4.1	3.4	4.1	3.1	4.4	3.4	4.3	3.1	4.0	2.7
	KIHBS	6.2	4.4	4.3	3.7	5.9	3.9	5.6	4.4	4.4	3.1		
Household members who never attended school	WMS	20.1	13.8	6.3	3.0	15.6	7.8	7.1	4.6	8.5	4.9	11.6	7.0
	KIHBS												
% of mothers who delivered at home	WMS	64.4	47.3	31.3	11.1	47.5	20.0	31.6	4.4	20.5	12.0	29.5	12.6
	KIHBS												
% of households who take less than 30 minutes to nearest hospital	WMS	15.2	19.2	36.9	36.2	48.0	57.2	73.0	73.8	48.1	55.5	61.1	69.1
	KIHBS												
% of households using self medication	WMS	22.2	21.1	16.7	0.0	90.3	89.9	0.0	50.4	100.0	0.0	20.9	27.3
	KIHBS												
% of children immunized against measles	WMS			88.6	87.8	92.5	90.0	84.5	83.0	87.5	92.5	88.3	88.5
	KIHBS												
% of population gainfully employed	WMS	46.7	56.6	57.7	59.6	52.3	55.7	61.3	68.2	61.9	72.3	54.1	65.9
	KIHBS												
% of households using charcoal for cooking	WMS	5.8	10.1	5.8	6.2	12.8	16.8	44.5	45.7	21.7	20.4	53.4	
	KIHBS	6.8	15.4	17.9	10.2	31.7	39.2	40.4	57..0	47.1	41.2		
% of household using paraffin for cooking	WMS	13.2	17.0	91.7	63.8	70.7	68.4	43.6	45.6	70.6	64.2	29.1	
	KIHBS	4.3	12.1	63.8	34.1	43.9	6.8	20.8	28.2	40.6			
% of household owning dwelling units	WMS	78.3	68.6	4.6	15.8	20.1	13.8	15.9	12.3	3.6	4.9	24.3	10.7
	KIHBS												
% of household with piped water in compound	WMS	12.7	23.0	35.9	57.4	17.4	31.9	18.2	25.0	43.2	48.5	46.2	62.8
	KIHBS	7.0	27.6	32.4	78.0	6.6	35.1		10.0	62.3	69.2		
% of households with access to covered pit latrine	WMS	52.2	57.0	21.6	20.7	48.3	42.3	54.8	47.2	33.5	28.8	53.8	32.7
	KIHBS												
% of households with access to safe water during wet season	WMS	40.4	50.3	77.7	100.0	89.5	83.9	78.6	72.8	90.7	92.6	81.1	86.5
	KIHBS												
% of households with access to safe sanitation	WMS	58.3	72.2	43.3	76.3	62.9	72.9	84.4	89.9	76.5	81.7	79.2	81.0
	KIHBS												
Gross enrolment in primary school	WMS	93.5	95.2	100.9	85.3	71.7	92.9	74.5	92.4	81.7	74.6	90.0	91.0

Indicator	Source	Kenya		Nairobi		Mombasa		Kisumu		Nakuru		Other urban	
		Poor	Non Poor	Poor	Non poor	Poor	Non poor	Poor	Non poor	Poor	Non poor	Poor	Non poor
	KIHBS												
Mean expenditure on primary fees in Ksh.	WMS	354.8	1047.7	1058.9	4686.8	429.4	1515.4	1702.6	1350.4	528.6	1107.7	650.1	1348.6
	KIHBS	657	3289	1051	95518	2364	3915	1186	5098	389	235		

Source: Government of Kenya (2000b)

Note:
The indicators from the KIHBS are readily available for Nairobi and Mombasa.
Those for the other three towns namely; Nakuru, Kisumu and Eldoret have been reanalysed using data from clusters within the respective towns.

Annex 3: Improvements in Water Delivery in Eldoret

Since the Company commenced its operations, have water supply services improved?

	N	%
Not at all:	88	9.5
Slightly	218	23.4
Moderately	***382***	***41.0***
Highly	243	26.1
Total	931	100.0

Has the quality of water improved since the Company took over?

	N	%
Not at all	82	9.2
Slightly	159	17.8
Moderately	324	36.0
Highly	***330***	***37.0***
Total	895	100.0

Has corruption gone down?

	N	%
Not at all	123	14.0
Slightly	241	28.0
Moderately	***280***	***32.0***
Highly	226	26.0
Total	870	100.0

I now get water in my premises for 24 hours, 12 hours or 6 hours

	N	%
24 hours	***604***	***71.3***
12 hours	118	13.9
6 hours	89	10.5
Other	36	4.3
Total	847	100.0

I receive my correct water bill every month

	N	%
Not at all	91	11.7
Occasionally	250	32.0
Every month	***426***	***54.5***
Other	14	1.8
Total	781	100.0

Has the cash office improved its services?

	N	%
Not at all	106	12.0
Slightly	196	22.0
Moderately	***307***	***34.0***
Highly	293	32.0
Total	902	100.0

Annex 4: Reform Drivers in the Study Cities

The following tables report the findings of a rough assessment of the agents that influence/drive change and reform[148] based on the perceptions of the respondents during the study.

NAIROBI

Influencing change

Influence agent	Nature of influence	Ranking
City management	Program implementation	High
Councilors	Policy and legislation	High
MPs / Parties	Political economy / patronage	High
Private sector	Partnerships policy	High
Civil society	Governance / accountability	Moderate
Donor agencies	Slum upgrading policy / program	High

Driving reform

Reform agent	Nature of reform	Ranking
City management	TC drives implementation.	High
Councilors	Mayor provides political support	High
Sector Ministries	Policy reform leadership	Moderate
Civil society	Gender Policy and affirmative action	Moderate
Private sector	Partnerships / licensing deregulation	High

MOMBASA

Influencing change

Influence agent	Nature of influence	Ranking
City management	Program implementation	High
Councilors	Policy and legislation	High
MPs / Parties	Political economy / patronage	High
Private sector	Partnerships policy	High
Civil society	Governance / accountability	Moderate
Donor agencies	Slum upgrading policy / program	High

Driving reform

Reform agent	Nature of reform	Ranking
City management	Policy and program implementation.	High
Councilors	Mayor provides political support	High
Sector Ministries	Policy reform leadership	Moderate
Civil society	Gender Policy and affirmative action	Moderate
Private sector	Partnerships / licensing deregulation	High

KISUMU

[148] The ranking is the outcome of focus group discussions with different stakeholders.

Influencing change

Influence agent	Nature of influence	Ranking
City management	Program implementation	High
Councillors	Policy and legislation	High
MPs / Parties	Political economy / patronage	High
Private sector	Partnerships policy	High
Civil society	Governance / accountability	Moderate
Sector Ministries	Policy, Finance, Staff & Projects	High

Driving reform

Reform agent	Nature of reform	Ranking
City management	Program implementation.	High
Councillors	Mayor provides political support	High
Sector Ministries	Policy reform leadership	Moderate
Civil society	Policy advocacy	Moderate
Private sector	Partnerships	High

NAKURU

Influencing change

Influence agent	Nature of influence	Ranking
City management	Program implementation	High
Councilors	Policy and legislation	Moderate
MPs / Parties	Political economy / patronage	Moderate
Private sector	Partnerships policy	High
Civil society	Governance / accountability	High
Sector Ministries	Policy, Finance, Staff & Projects	High

Driving change / reform

Reform agent	Nature of reform	Ranking
City management	Reforms implementation	High
Sector Ministries	Policy reform leadership	Moderate
Civil society	Policy advocacy	High
Private sector	Partnerships	Moderate

ELDORET

Influencing change

Influence agent	Nature of influence	Ranking
Councilors	Policy / legislation Programmes	High
Private sector	Partnerships / Investment decisions	High
City management	Programmes implementation	Moderate
Civil society	Governance / accountability	Low

Driving change / reform

Reform agent	Nature of reform	Ranking
City management	Reforms implementation	Moderate
Councilors	Political support to reform	High
Civil society	Policy advocacy	Moderate
Private sector	Partnerships	Moderate

Annex 5: Housing Finance in Kenya: A Taxonomy

	Conventional finance (private)		**Social Housing Finance**			**Housing micro-finance**	**Informal Finance**
	Mortgage finance	**Non-mortgage finance (from the commercial banking sector)**	**Upgrading**	**Public rental**	**Site and service**[149]		
Shelter type →	Complete houses	Complete houses; incremental construction	On-site infrastructure and technical assistance	Complete houses	Land, on-site infrastructure and technical assistance	Land purchase; house rehabilitation; new housing; basic on-site infrastructure; technical assistance.	Land purchase; house construction
Sources of finance	Private	Private	International and local NGOs; public sector; international agencies such as UN-HABITAT (pilot projects)	NHC; Local Authorities (LAs)	NHC and LAs; international sources, especially the World Bank	NACHU, Pamoja Trust, Kenya Affordable Shelter Project (KASP) of the K-REP Development Agency and Jamii Bora are the notable ones. They generally draw from donors and private savings by members. Jamii Bora has also arranged a loan from a commercial bank, on the strength of a guarantee by an off-shore organization. Non-specialised sources consist of Savings and Cooperative Societies through their credit to members for purchase of plots of land, as well as personal loans which get diverted into house construction.	Relatives and friends; merry-go-rounds
Beneficiaries	High income borrowers[150]	Lower-middle to high-income households	Urban poor	Lower-middle and middle-income households[151]	Low-income households initially, but subsequent gentrification saw higher income households buy into site and service schemes.	Low- and middle-income households	Urban poor but also the non-poor[152]

[149] This type of public "housing" has been phased out, but was popular in the 1970s and 1980s

[150] Roughly households in the top decile on the income distribution

[151] Roughly households between the 4th and 7th deciles on the income distribution.

	Conventional finance (private)		Social Housing Finance			Housing micro-finance	Informal Finance
	Mortgage finance	**Non-mortgage finance (from the commercial banking sector)**	**Upgrading**	**Public rental**	**Site and service[149]**		
Shelter type →	Complete houses	Complete houses; incremental construction	On-site infrastructure and technical assistance	Complete houses	Land, on-site infrastructure and technical assistance	Land purchase; house rehabilitation; new housing; basic on-site infrastructure; technical assistance.	Land purchase; house construction
Type of subsidy	Tax relief on mortgage loan interest – the subsidy is equivalent to the amount of interest on the mortgage loan that is set off against personal income tax; no withholding tax on deposits placed with recognized financial institutions for purposes of saving for a downpayment	None	In principle, graduated tariffs for water include a subsidy for basic consumption, but in practice water markets do not work well and the poor end up paying much more for water than higher income households;[153] Rent subsidy in the special case of Mathare IV A in Nairobi, an upgrading project supported by GTZ of Germany; costs of technical assistance generally not recovered, and therefore these qualify as subsidies.	Rental subsidy[154]	Land and infrastructure subsidies, typically through cross-subsidies. In particular, land was generally publicly owned and was transferred to beneficiaries at sub-market prices; cost of technical assistance as it was not recovered in full	Cost of technical assistance, where provided, as it is not recovered in full; interest rate subsidies for SACCO loans	Interest rates, where these are below market,
Key challenges	To introduce mortgage insurance as a means of getting housing finance	Short maturities as loans usually taken out as personal loans and diverted into	To find ways of going to scale; to bring rates of return, currently very high, in line with returns	To privatise the existing public stock in an efficient and	To determine how this type of project could be re-introduced, building on historical	To find ways of increasing tenors and thus improve affordability, subject to the demand for such loans by the poor; to find ways of leveraging private capital	To develop a better understanding of the scope of this source and

[152] Gulyani et al. (2006), using an expenditure-based poverty line -- defined as an expenditure of Ksh 3,174 (US$42) per adult equivalent per month, excluding rent -- find that about 73 percent of the slum households in Nairobi are “poor” and 27 percent are “non-poor.”
[153] The majority of slum residents draw their water from water kiosks where the price per litre is a multiple of the price paid by those with house connections.
[154] The subsidy is equal to the difference between the rent paid and the market rent. Econometric estimates by Mutero, J. (1988) revealed substantial subsidies for Nairobi City Council rental housing, and although rents have been raised since then, they are still below market levels.

	Conventional finance (private)		Social Housing Finance			Housing micro-finance	Informal Finance
	Mortgage finance	Non-mortgage finance (from the commercial banking sector)	Upgrading	Public rental	Site and service[149]		
Shelter type →	Complete houses	Complete houses; incremental construction	On-site infrastructure and technical assistance	Complete houses	Land, on-site infrastructure and technical assistance	Land purchase; house rehabilitation; new housing; basic on-site infrastructure; technical assistance.	Land purchase; house construction
	institutions to target those further down the income distribution; to make foreclosure more efficient; to expand the supply of long-term finance at fixed interest rates, primarily through securitization of mortgages.	construction.	from other investments of equivalent risk; to resolve land issues, primarily in Nairobi slums, as land and structures typically owned by absentee landlords; to improve the efficiency of water markets.	transparent fashion.	experience	(corporate social responsibility funds, commercial banks etc) as a means of going to scale; to improve the financial performance of existing housing micro-finance institutions to enable them to attract private capital.	how it is utilised to finance housing; to establish links with housing microfinance institutions.

Source: Mutero, J. G. ()

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