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PUBLISHER

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VERSION

VoR (Version of Record)

PUBLISHER STATEMENT

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REPOSITORY RECORD

Omwenga, Mairura E.. 2019. “Financing Services in Kenya Small Towns”. figshare. https://hdl.handle.net/2134/29193.

21st WEDC Conference Kampala, Uganda, 1995

SUSTAINABILITY OF WATER AND SANITATION SYSTEMS

Financing services in Kenya small towns

Mairura E. Omwenga, Kenya

THE 1995 KENYA population is estimated at 25-26 million people, of which 15-20 per cent (4.5 million) live in urban areas. Out of the 148 designated urban and trading centres in Kenya,143 can be classified as small / secondary centres and accommodating about 60 per cent of the national urban population.

Compared to the main principal towns, secondary towns provide the immediate market and service centre for the majority of Kenyans engaged in agriculture. Unfortunately the growth and development of these towns has been inhibited by inadequate infrastructure services like water supply, sanitation, power and transport. Since agriculture constitutes the backbone of Kenya's economy - contributing 25-30 per cent of Gross Domestic Product and supporting about 80-85 per cent of Kenya's population-inadequate services in secondary towns results in severe negative impacts on overall national development efforts. Limited financial resources have been identified as one major element inhibiting development of adequate infrastructure services in Kenya's small / secondary towns. This paper looks at financial problems facing key infrastructure services -water supply and sewerage - in these towns.

Infrastructure investment costs

Capital costs

Data from recent project contracts shows that capital of about KShs.200-500 million is required to develop a water or sewerage system in an average secondary town with 20-50,000 people. The per capita cost is about KShs.10-25,000 and this is indeed very expensive for many consumers whose average income is KShs.1-2,000 / month.

Recurrent costs

Operation and maintenance costs for water supply are estimated at 5 and 1 per cent of the total capital works respectively - with combined average of 2.5 per cent. For sewerage services, both operation and maintenance costs are estimated at 1 per cent of the capital works. The average annual recurrent costs in an average size secondary town is therefore about KShs.10 million and KShs.5 million for water and sewerage respectively.

Levels and sources of finance

National budget

In the last 5 years, the combined expenditure in small / secondary towns was K£33.86 million in 1989 / 90 and K£91.81 million in 1993 / 94 - representing only 10-20 per cent of the country's local authority budget (1 K£ = KSh.20).

As concerns infrastructure services like water supply, sanitation and roads, the allocation was K£4.50 million in 1989 / 90 and K£29.16 million in 1993 / 94. This represents an average investment level K£0.04 million per secondary town in 1989 / 90 and K£0.24 million in 1993 / 94. This level of investment is certainly far below the requirements of even a single town estimated at K£10-25 million in capital works and K£0.25-0.5 million in respect to recurrent costs.

Revenue sources

Local authority revenue can be split into two parts -(i) current revenue, and (ii)) capital revenue.

Sources of current revenue

In the period 1989-94, the main sources of current revenue were sales of goods and services (including service charge) at 70 per cent of the total current revenue, indirect taxes (licenses and cess) at 20 per cent and direct taxes (rates) at 5-6 per cent. Over the same period Central government transfers (grants) were negligible, if not cut-down altogether.

Revenue collected from water and sewerage charges constitutes the bulk of the earnings from sale of goods and services.

Sources of capital revenue

In the period 1989 / 94, the total capital revenue raised annually in all small / secondary towns in Kenya was between K£2-12 million. This revenue was only 40-45 per cent of expenditure requirements. It is also observable that in the past 5-8 years funds raised from external sources dwindled down from K£900 million in 1987 / 88 to a mere K£40 million in 1990 / 91.

The Government contribution has usually been an on-lending loan from the Local Government Loans Authority (LGLA) to the recipient local authority. Unfortunately this local contribution has also virtually collapsed.

Identified problems

Overview

Inadequate financing is certainly one of the major problems facing local authorities in Kenya. The factors contributing to this poor financial position include - poor local resource base, uncertainties in capital revenue

sources, delays in project implementation, inappropriate development standards, and institutional bottlenecks.

Poor local resource base

The bulk of the area (95-98 per cent) in these towns in Kenya is under agriculture. The main employment activities in secondary towns are agriculture, public / administration service, and retail business. The average wage employment is about KShs.1000-2000 per month. Unfortunately agriculture, as the main employer, barely contributes 1 per cent of the total town earnings. Retail business and public sector account for 31 and 17 per cent of the total town earnings. The economic structure of these towns is therefore weak and subsequently the taxable sources are limited and poor.

Efforts to increase tax rates or expand the tax base have always faced stiff opposition from local residents and the veto powers of the Central government. The main reason for this opposition is the fact that collection of revenue from existing sources is far below acceptable levels. Unfortunately the Central government and its statutory bodies / parastatals is occasionally the main defaulter in respect to unpaid rates, water bills and sewerage charges.

Unreliable finance sources

Capital revenue for infrastructure services has traditionally been sourced from foreign loans / grants and the Central government has on - lending loans (Local Government Loans Authority -LGLA). In the past 5 years foreign loans and grants have experienced random cuts and depreciation influenced by international socioeconomic and political pressures. The operations of LGLA revolving fund have also been grounded because of poor administration and nonpayment by recipient local authorities. These factors have led to the stalling of many urban water supply and sewerage projects.

Implementation delays

Prolonged periods of negotiation, planning, design, approval, tendering and construction have often led to escalation of project costs. Four sewerage projects in Busia, Isiolo, Nyahururu, and Homa Bay were, for example, delayed for 5-10 years and in this period project costs doubled. The initial project costs were estimated at KShs.32.7 million in 1876 / 77 but these rose to KShs.86 million in 1985 / 86 when the projects were completed. In Bungoma town, a sewerage project initially estimated at KShs.29 million (1982) is due for completion thirteen years later in 1995 at KShs.150 million.

The escalation of project costs leads to higher plot connection fees for consumers. These high consumer charges have kept away many consumers as is evident from very low plot-connection levels (below 50 per cent) even after 15 years of project commissioning.

Development standards

A casual examination of secondary towns in Kenya shows that very little thought is given to the effect of scattered urban sprawl on costs of services. It is not uncommon to find urban development activities scattered over an expansive area, often across highly rugged and dissected terrain. Servicing such towns is extremely expensive because of the longer distributional distance.

As concerns alternative technology options, local authorities seem to be limited to only the expensive piped water supply and sewerage systems. Little thought is given to alternative options that are affordable and are in no way inferior either economically or in respect to improved health.

Institutional bottlenecks

The sharing of power and responsibilities between the Central government and local authorities, for example, remains a grey area of much conflict.

The management and administration of water supply and sewerage services is often split among the Ministry of Water Development, the National Water Conservation and Pipeline Corporation, the Ministry of Local Government, and local authorities. This split of responsibilities is often unclear and inhibits effective collection and application of revenue -leading to a problem of mutual indebtness. In many occasions, Central government department owe local authorities a lot of money in respect to unpaid rates and water / sewerage bills. Local authorities also owe the Central government substantial amounts of money in outstanding statutory deductions.

Internally, revenue collected from water and sewerage services is use to meet council-wide obligations but only at the expense of inadequate financing of the operations and maintenance of these utility services. This is because many of these secondary towns run on skeleton budgets and deficits. For the period 1989-94, for example, secondary towns in Kenya had been operating on a combined average budget huge deficit of about K£20 million annually. It is also observable that local authorities are keen to solicit for capital investment funds but fail to make adequate budgetary allowances for operations and maintenance. Due to inadequate operation and maintenance, for example, Africa lost well over US$ 11 billion worth of road capital investment in a period of about 20 years.

Proposed sustenance options

Overall strategy

In order to financially sustain urban water *supply* and sewerage services in Kenya secondary towns, certain changes are necessary in the problem areas identified above. These changes must however be gradual, evolutionary and focused on greater utilization of local resources.

Local/central relations

In order to develop sustainable infrastructure finance systems in Kenya, effective administration and management institutions must be in place at both the local and Central government levels. The powers and responsibilities of local authorities *vis* a vis those of the Central

government over water *supply* and sewerage services need to be clearly defined and adhered to. Some of the problems facing local authorities emanate from misuse of financial resources rather than lack of the same.

Local finance sources

Local authorities should be encouraged to develop infrastructure investments that they can afford to run efficiently with locally available sources. In this connection under-pricing of services and goods must be avoided. Secondary towns should be encouraged to explore ways of raising infrastructure capital from the private sector rather than relying only on direct tax mechanisms. As much as possible foreign financing should be limited to supporting local initiatives.

Revised development standards

The conventional sewer system, for example, must not be seen as the only option to improving health in urban settlements. The system is very expensive, remain under-utilized for a long time and is really aimed at achieving convenience rather than improving health.

The haphazard and scattered development in many secondary towns is wasteful, expensive to service and needs to be controlled. A smaller and more compact development structure is more efficient to service.

Education and values

It is recognized that the key constraint to adopting development policies that are sustainable is the misplaced high societal expectations. Misplaced high expectations in developing countries translate into white elephants and expensive projects that are unsustainable. It is indeed difficult to convince many consumers, planners, engineers, medical personnel and politicians that improved health and economic development are achievable by alternative options other than sewerage or piped water supply systems. This calls for greater societal education and awareness.

Finally, the aim of this paper is not to prescribe solutions to the problem at hand but to generate debate as we collectively evolve effective solutions. The paper notes that some bold and unpopular decisions need to be made. Piecemeal and half-dosage prescriptions are often worse than no prescription at all.

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