

**A SURVEY OF FACTORS THAT INFLUENCE LOCAL
AUTHORITIES FINANCIAL MANAGEMENT: THE CASE
OF CITY COUNCIL OF NAIROBI**

BY

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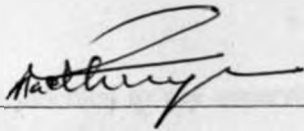
D61/7252/2006

**MANAGEMENT RESEARCH PROJECT PRESENTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS OF THE MASTER OF
BUSINESS ADMINISTRATION DEGREE AWARD, SCHOOL OF
BUSINESS, UNIVERSITY OF NAIROBI**

JUNE 2010

DECLARATION

This research project is my original work and has not been presented for a degree in any other university for academic purposes.

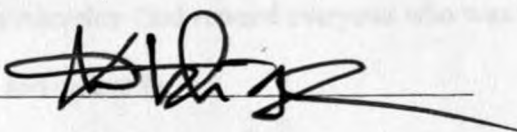
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ACKNOWLEDGEMENT

Firstly, I give the Almighty God all the Glory for making it possible for me to undertake and successfully complete this project.

I am greatly indebted to my supervisor Mr. H. Ondigo for his guidance, support and useful comments to this research work, not withstanding his busy work schedules.

Special regards to all the staff of City Council of Nairobi who provided me with information pertinent to completion of this study.

Finally and most importantly, my gratitude goes to my family. My wife Zipporah, Dad Obedi, daughter Neliah and son Mark for their moral support, prayers, understanding and encouragements. They were all always there for me.

May the Almighty God reward everyone who was involved in this research project both directly and indirectly.

DEDICATION

I wish to dedicate this project to my loving wife Zipporah, daughter Neliah and son Mark who were indeed supportive and understanding. They stood by me, and prayed for me.

Also, to my Dad who encouraged and challenged me on importance of furtherance of education.

ABSTRACT

This study was a case study of city council of Nairobi where factors that influence the financial management of local authorities were the subject of investigation.

Literature review was done based on five major factors, which is dynamic human resources in local authorities as requirement for efficient financial management, rapid urbanization, under funding and poor revenue collection by local authorities, urban slums and urban poverty.

Major instruments of collecting data were questionnaires targeted on ten heads of the respective departments out of the population of sixteen departments of the city council. These departments and the respective heads were considered as good representative sample from which a generalization was formed.

Main findings from the study were that dynamic human resources, legal frame work, rapid urbanization, under funding, poor revenue collection, urban slums and urban poverty are significant factors that influence local authority financial management.

Major recommendations from the findings were that the city council should put in place programs to change the prevailing culture to deal with corruption and involve stakeholders to cultivate goodwill from the city residents. The funding from central government should be increased to meet the challenges of rapid urbanization. Modern capital budgeting and financing method should be considered to bring efficiency. Improvement should be made on external financial reporting in order to gain public confidence. LAIFOMS and other information technologies should be expanded to increase revenue and add social value in service delivery such as to procure new equipments and service old equipments; improve physical infrastructures in education, health, housing, roads, urban slums and manage urban poverty in order to achieving its goal of becoming a world class African metropolitan city by 2030.

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LIST OF ABBREVIATIONS

ALGAK	Association of local authorities of Kenya
CBS	Central bureau of statistics
CCN	City council of Nairobi
CILOR	Contribution in lieu of rates
ERS	Economic recovery strategy
FM	Financial management
GTI	Government training institute
LAIFOMS	Local authority integrated financial operating management system
LATF	Local authority transfer fund
RPAG	Revenue potential assessment guidelines
RML	Road maintenance levy
SBP	Single business permit
STD	Standard deviation

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LAIFOMS computer system importance as tool to revenue collection received a response mode score of 4, mean 3.50 and standard deviation of 0.707 while LAIFOMS importance in production of online financial report received a mode score of 3.5, mean 3.20 and standard deviation of 0.789.

4.10 Urban slums as a factor

Table 14: Growth of urban slums effect on council budgets

Factor	Yes	Not sure	No
Growth of urban effect on council budget	80%	20%	0%

Source: Research project

80% of the respondents interviewed indicated as in Table 14 above that growth of urban slums has impacted on the council budget while 20% were not sure. Council involvement in slums upgrading was cited as one of the major spending on urban slums.

Table 15: Urban slums issues

Issues	Mode	STD	Mean
Urban slums have grown with rapid urbanization	4	0.919	4.20
Urban slums contribute minimal or insignificant revenue	4	0.632	4.20
A significant budget expended on urban slums	4	0.632	4.20

All the urban slums issues in Table 15 above scored a response mode of 4 and mean of 4.20. However, the contribution of rapid urbanization on growth of slums scored a standard deviation of 0.919, urban slums minimal or insignificant contribution to revenue

CHAPTER ONE

INTRODUCTION

1.1 Background

Financial management is concerned with planning, directing, monitoring, organizing and controlling the monetary resources of an organization. It seeks to plan for the future in such a way that a person or business entity has a positive flow of cash. It includes the administration and maintenance of financial assets. The process of financial management may also include identifying and trying to work around various risks to which a particular project may be exposed (Brigham 2004).

The main purpose of financial management in an organizational set up is to achieve various predetermined goals set at a given time. Hence, management should ensure or need to ensure that enough funding is available at the right time to meet the needs of the business organization. Financial control is therefore very important activity because it helps to ensure that the organization is meeting its objectives. But funds are not always enough at any given time in any organization to meet all the needs. This calls for proper identification of projects that needs to be accomplished first before others (Yeager, 1989).

Decision functions of financial management falls into three main areas i.e. the investment, financing and asset management decisions. In value creation, investment decision is the most important as it involves the determination of the total amount of assets needed to be held by the firm. Financing decisions involves determining how best to physically acquire the needed funds. The mechanism of getting a short-term loan, entering into a long term lease arrangement, or negotiating a sale of bonds or stocks must be taken into consideration. Once assets have been acquired and appropriate financing provided, decisions on how the assets are managed effectively must be taken into consideration (Horne and Wachowicz, 2008).

Local Authorities refers collectively to administrative authorities over areas smaller than a state. The term is used to contrast with offices at the nation-state level, which are referred to as central government. "Local government" only acts within powers delegated to it by legislation or directives of higher level of government. Finance is critical to the operation of local authorities. Local authorities provide her people with essential services like education, health, security and social amenities including fire services. Revenue sources for local authorities are constantly reviewed to determine where funds can be earned to pay for all the expenses for the services provided to the citizens who live in within the local government boundaries (Barron, 2008). According to Barron, local authorities' main sources of finance are intergovernmental transfers, property tax, Sales tax, Service charge, central government, charges for services and other minor source. However, finances available are usually inadequate in terms of the demands placed on local authorities.

1.1.1 Laws governing local Authorities in Kenya

Local government in Kenya is composed of four tiers of Local Authorities namely: Cities, Municipalities, Towns and County Councils. These councils are corporate entities that are established under the Local Government Act Chapter 265. They are established in order to provide essential services, regulate business and economic activities, provide health, education, infrastructure and social services to the people within their areas of jurisdictions. Currently, there are a total of 175 local authorities in Kenya. However, most of them are financially unstable and struggling to survive instead of delivering services to the residence. Though they collect sizable revenue from their residents ranging from parking fees, market cess, land rates, and advertisements fees among other fees and charges, they still struggle even to pay salaries to their employees.

Other laws that affect the management of local authorities and their revenue base are:-

Local Government Loan Authority Act (cap 270)

Land planning Act (Cap 497)

Valuation for Rating Act (cap 266)

Rating act (Cap 267)

Agriculture act (Cap 218)

Local Authorities Transfer Fund act no. 8 of 1998

Financial regulations, 2007

Public Procurement and Disposal act, 2007

Constitution of Kenya

1.1.2 Sources of Revenue for the Local Authorities

Section 148 of the Local government Act Chapter 265 empowers local Authorities to impose fees and charges on services they render. All local authorities are under the Ministry of Local government which develops revenue potential assessment guidelines (RPAG) to assist Local authorities enhance their revenue bases. The fees and charges collected by Local authorities are enforced through the relevant by-laws and registrations. If there is not a by-law, then fees and charges may be imposed by a resolution of the local Authority with the consent of the Minister of Local government. (ALGAK)

Local Authorities main sources of revenue are local own revenue, revenue from central government and other sources.

Sources from local own revenue includes; user charges, licenses/Single Business Permit (SBP) and other regulatory fees, Property tax (plot rent and rates), quarry fees, market and bus park fees, water and agricultural cess, national reserve and park fees. Municipalities rely more on water and sewage fees, property rates and single business

permits while county councils and town councils on single business permits, market fees, bus parks and cess revenue.

Revenue from central government consists of; Contribution in lieu of Rates (CILOR), Local Authority Transfer Fund (LATF), Road Maintenance Fuel Levy (RMFL)

Other sources include; Loans, Grants and Donations, Contributions in kind and Investment income.

1.1.3 Factors that influence financial management of City Council of Nairobi

City council of Nairobi is the largest local authority in Kenya and is classified into 75 wards and each of these wards is represented by a councilor. The management of the City Council rests with Mayor and the councilors. Councilors are elected or nominated to the office for a term of five years period during which they are expected to run the affairs of the city. This includes making the council's policies among other things. The policies made are executed by the Town clerk, the chief officers or heads of departments and the employees. The central government through the Ministry of Local government controls the council's funding from the treasury. (www.citycouncilofnairobi.go.ke) City council of Nairobi offers numerous services to the residents and some of these services include; urban planning and development control water supply sewerage, environmental protection and management, roads and drainage, fire services, health, pre-primary and primary education, library services, recreational facilities, open air markets, business licensing, public housing, parking services, public toilets and mortuary services. In order to deliver these services effectively, it requires dynamic human resources. This has been a problem because most competent human resources leave the council for better paying jobs. In its endeavor to provide these services, the City council has faced many challenges and has been roundly criticized for poor service delivery in the past. As a result of poor

historical performance, the city council and other local governments have virtually lost credibility with stakeholders and the government resulting in mushrooming of alternative approaches to deliver services at the local level (Wathika, 2006).

The City of Nairobi has experienced rapid urbanization over time that is in terms of population and physical expansion. Since its formation in 1896 when Kenya Uganda railway reached the place, the CCN has grown in size and population. The first European to settle in Nairobi was Sergeant Ellop of Royal engineers. The European decided to make it their head quarters due to its cool climate. It replaced Mombasa as the capital of the British protectorate in 1905. In 1919 Nairobi was declared a municipality. By the time Kenya attained her independence it became the capital city (White, 1948). Nairobi is currently divided into eight division and fifty locations as indicated in Appendix 2 and serve a population between 3 and 4 million (Central Bureau of Statistics 2007). Such growth in population and size has placed a lot of financial constraints on the management of the City Council. Rural – urban migration coupled with natural population growth has greatly contributed to the increase that now requires sound financial management based on recurrent needs of the populous. Such rapid urban growth requires provision of basic infrastructure where proper planning is a mandatory necessity. Infrastructural services that have suffered due to such rapid increase in population are; solid waste management system, water and sewage systems, drainage and flood protection, roads, mass transportation, electric installations, telecommunications creating environmental pollution, congestion and other similar problems which results in under provision of basic services (Nairobi urban study group, 1973)

Among the key challenges identified in the strategic plan (2006) is lack of adequate financial resources. City Council of Nairobi generates over Kshs. 9billion (2009/2010) in revenue from local sources (66%) and transfers from the central government (34%). The

main sources of income includes, land rates paid annually (that accounts for over 20% of total revenues), SBP (9%), parking fees (5%), Rent from its housing department (4%), water supply, Health services (Hospital) etc. The revenue generated including the central transfers are all meant to improve service delivery to the ever increasing population growth. Considering the population size of Nairobi City, the transfers from the central government that is LATIF and RML are far from adequate in meeting the increasing service delivery demands. Lack of proper financial management by the council is the main challenge that heavily affects its service delivery.

According to Ringera (2007) report, weaknesses and corruption loopholes are apparent in the policy and legal framework / environment, within which the council operates, general management and administration of the council, human resource management, provision of social services, planning and budgeting, procurement, stored and contract administration, financial management, internal audits and records management. The Ringera report further noted that weaknesses relating to planning and budgetary process hinder proper delivery of the desired services. The council budget does not serve as management tool. Its implementation is haphazard and uncoordinated. Some of the priorities outlined in the budget are ignored and those that are not budgeted for are funded. This means that some departments cannot access funds to meet their operational requirements. This curtails provision of some essential services. Furthermore the council has not established clear guidelines to assist in the implementation and monitoring process of local authority service delivery action plan project (LASDAP). It is not clear which office should be accountable for these projects. Yet these are important community development projects aimed at transforming the lives of city dwellers (strategic plan 2006).

1.2 Statement of the problem

Local authorities face a number of governance problems, in particular financial governance. Financial base and management is the backbone of any institution, and financial management in local authorities affects literally all the mandated services that local authorities provide. The poor financial management in local authorities is largely due to the poor revenue and expenditure documentation and tracking. This shortcoming has resulted in unpaid land rates and bills, and has been exploited by the local authority officials and service consumers. It has further attracted corrupt practices as officers and consumers collude to distort bills and meter readings in cases of water supply. In most cases, the records are never readily available and in cases where they are available they are difficult to access and often not correct. The few honest consumers take months and years to have their billing issues investigated and concluded (Mitulla and Wamae 2007)

UN- Habitat article on municipal financing urban shelter (2005) stated inter alia that the major challenges that must be addressed include the large numbers of smaller, financially weak municipalities; asymmetrical decentralization; retrenchment of central transfers; weakness of local revenue sources; lack of strong domestic capital markets; impediments to the development of municipal credit institutions; inadequate capacity and rules for sound financial management at the local level; lack of mechanisms to finance urban investments; and lack of funds for maintaining existing assets reference to the developing countries municipalities.

Local authorities in Kenya are managed by councilors. The councilors are responsible for formulating policies for the councils while the chief officers are responsible for implementing them. Ultimate responsibility on how economic development and service

delivery to city dwellers is in the hands of these civic leaders, characterized by finite, and short time horizons to next general election. The frequency of general elections creates fear and anxiety among such politicians leading to poor financial management practices. Such fear and anxiety create windows for corruption. Corruption in big locations like city of Nairobi is devoted to institutional and individual analysis of its causes and consequences in numerous areas, such as procurement, auction, taxation, economic growth, bureaucratic, red tape, economic integration and decentralization (Compte, Lambert-Mogiliansky and Verdier 2000; Mookherjee 2000, 2003; Shleifer and Vishny 1993; Wallace and Haerpfer 2000)

No research on financial management has been done on Nairobi, being the largest local authority in Kenya that administers a budget of Kshs12billion. Hence the research gap that the study will attempt to bridge. The survey thus seeks to identify the factors that influence financial management of the City council of Nairobi.

1.3 Objectives of the study

The overall objective of this study is to find out what factors influence financial management in local authorities in Kenya with specific reference to city council of Nairobi.

1.4 Importance of the study

Financial management is quite crucial to an institution whether profit making or non-profit making. Local authorities like city of Nairobi needs sound financial management to manage its many assets and acquire new assets in order to deliver services. Any study that aims at finding how the local authority such as Nairobi is fairing on financial management is justified.

This study is aimed at finding factors influencing financial management. It is hoped that the study will come up with some corrective measures that may help the council to resolve its financial mismanagement. The following individuals and organizations will find the findings of the study useful.

To the Government

The finding of this study will help the government agencies to identify those key factors that influence local authorities' financial management and also guide them to make allocation of financial resources more appropriately.

To the individual Local councils

The findings will help the individual councils to make policies that lead to better financial management practices and regulations.

To the Chief Officers of the Councils and the Civic leaders

The findings will help the Councilors, Town clerks, the Treasurers and the Heads of the departments among others to make informed decisions on budgeting, investment and risk management

Planning Departments

The findings will assist the planning departments in the central government and in the local councils to make effective plans for the future deliverables.

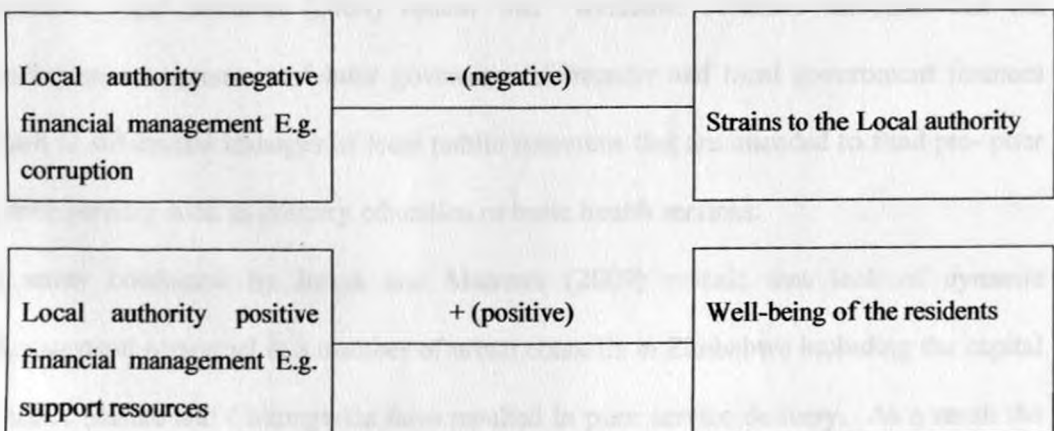
CHAPTER TWO

LITERATURE REVIEW

2.1 Agency Theory

The agency theory entails principal and agent relationship. The councilors are the agents entrusted by the city residents through their votes and residents acting as the principals pay for the services provided either directly or through taxes. The theory according to Whonderr (2005) deals with people who own business and others who have interests in it, for example managers, banks, creditors, family members and the employees. The agency theory postulates that the day to day running of a business enterprise is carried out by managers as agents who have been engaged by the owners of the business as principals who are also known as shareholders. Problems associated with agency theory apply to the local authorities. For example, moral hazards, a situation in which agents deliberately take advantages of information asymmetry to redistribute wealth to themselves in an unseen manner which is ultimately to the detrimental of the principal. For example, the purchase of a cemetery by the City council in Arthi river area. (Daily nation, 22nd April 2010).

Figure 1: Effects of +ve and -ve financial management on local authorities and residents



Source: Whonder, J. (2005) Modern Financial Management Theories and small businesses

2.2 Factors that influence local Authorities Financial management

For local authorities to deliver public services and achieve their policy objectives, it is imperative that local authority finances are well managed. Local authorities with strong financial management capacity usually succeed in delivering services to their communities. However, those with weak administrative personnel in financial management to a large extent fail to deliver services.

2.2.1 Dynamic Human Resources in local authorities

According to Olown (2003) local authorities that lack sufficient financial management capacity fails to deliver effective services as local political accountability mechanisms are generally inadequate to ensure that political leaders respond to the needs and wishes of their communities.

Crook (2003) on the other hand asserts that poorly designed intergovernmental fiscal systems and weak local financial management would risks local government finances prone either to being illicitly diverted by (central or local) government officials, before reaching the local community or to being “ captured” and redirected away from their intended use by local political elites.

Reinikka and Suenson (2004) concur that available evidence indicates that the inadequate management of inter governmental transfer and local government finances result in substantial leakages of local public resources that are intended to fund pro- poor public services such as primary education or basic health services.

A study conducted by Jonga and Munzwa (2009) reveals that lack of dynamic management personnel in a number of urban councils in Zimbabwe including the capital Harare, Mutare and Chitungwiza have resulted in poor service delivery. As a result the country has experienced constant rise to the deterioration of urban infrastructure facilities

and provision of services, forcing the minister of Local government, Public works and National Housing to either suspend or dismiss some personnel officers for failing to efficiently and effectively delivery goods and services to their communities.

Davidson and Nientied (1991) in their research asserted that what is needed in developing countries is dynamic management that has a sound understanding of the key urban development problems and potentials. They went further to state that such dynamic management must be proactive in facilitating the development of their towns rather than merely responding to demands for public goods and services. In their recommendations they stated that “among the most critical management functions of urban managers are policy making and management, development planning, institutional development and resource mobilization.”

Becker (1994) asserts that many African cities are faced with problems of inadequate boundaries, limited jurisdictional responsibilities, unstable political systems, interfering rather than supportive governments, unqualified staff and technical resources and chronic shortage of fiscal resources as some of the problems facing financial management in local authorities.

2.2.2 Rapid urbanization

Rapid urbanization is a global challenge that affects both national and local authorities in financial management. As growing proportions of people move to cities and towns, problems of the poverty and inadequate service delivery emerges. The situation is further compounded by the problem of spread of informal settlements. Since such settlements are unplanned, the residents face serious difficulties which include lack of proper sanitation, pollution, and absence of basic amenities such as water and electricity. They also lack social infrastructure such as schools, hospitals and effective policing. The unplanned

settlements offer limited employment opportunities. The result is that the migrants from rural to urban areas and their children, often experience even greater social and economic deprivation than the former state which prompted them to leave their rural areas in the first place. Such conditions make inhabitants of unplanned settlement to be more prone and vulnerable to crime and insecurity and if left unchecked could result in an enduring urban underclass living at bare minimum level. Such trends possess great challenge to local authorities which include making them unable to provide adequate services to their citizens. The services most affected by such rapid urbanizations include: inadequate supply of clean water, provision of effective waste management and proper sanitation provision. The local authorities are unable to finance and manage affordable housing schemes and efficient mass transport systems. Informal and squatter settlements are growing as more migrants come to seek living in towns and cities creating problems in delivery of basic services such as water supply, sanitation, waste management, housing, schools health and recreational facilities as witnessed in Batio in south Tarawa and Ebaye in the Marshall Islands, port Moresby and Suva. Unemployment, poverty and crime rates are the end results. Government institutions at the national levels and local levels, as well as traditional leadership structures, have been unable to manage the transition from village to cities efficiently (UNESCO for Asia and the Pacific, 2007) Owing to lack of planning and investment, the physical pattern of urban development is often haphazard and environmental degradation is growing. Many urban centres in South Pacific are showing the same symptoms of rapid urbanization as those in other developing countries. In most large countries, national populations are increasing at high levels. In Melanesia, the rate of the annual national population growth of Solomon Islands and variation is higher than 2.8 per cent and in Papua New Guinea is 2.3 per cent. In the context of the

broad patterns, the most important feature is that an increasing proportion of the population is living in areas classified as urban.

Cook Islands, Marshall Islands, Naum and Palan, now have more than 50 per cent of their population living in urban centres. In Fiji, Kiribati, Niue, Tonga, and Tuvalu, between 30 and 50 per cent of the population live in urban. Although the rural population is relatively large in a number of countries, urbanization and urban living are fast becoming an integral part of the development of the south pacific nations. Urbanization in Asia is proceeding at a scale that creates many challenges to feed, shelter, and generate employment on sustainable way for an estimated 1.1 billion people projected to be added to the population of Asian cities in the next 25 years. The population and housing densities on Asian cities are continuing to decline and the increase in the urban land in these cities on the future. With the exception of Singapore, no country in Asia has solved its housing problems. The most challenging problem facing Asian cities is meeting its demand for and maintaining urban infrastructure to provide access to good quality, affordable and reliable services.

Asia suffers from environment disparity in income levels, living standards and social economic conditions. While poverty will tend to remain worse in rural areas, urban poverty is a crucial issue characterized by unemployment, lack of skills, and unequal access to infrastructural services. The central problem of urban finance in Asia countries is the weakness of the revenue base of local governments. Most local government in Asia does not use modern financial management practices. The performance of Asian countries is increasingly dependent on the capacity and performance of local governments. Successful urban development requires developing partnership among all parties involved. (Seetharam, 2006).

2.2.3 Underfunding and poor revenue collection

Local authorities in Pakistan suffers from under funding by the government and poor attention to collect revenue over decades have weakened the capacity of municipal governments to fund, build and maintain infrastructure. Most affected services are water and sanitation.

In Zambia, especially in southern province, local authorities were not delivering adequate services due to poor financial management and low caliber of the elected councilors. Sinazongwe district commissioner, while commenting on the issue lamented that a good number of local authorities in the area were limping because of mediocre financial and administrative management coupled with low caliber of the elected councilors. (Ngombe, 2007)

Olowu and Wunsch (2003) assert that sound revenue collection system by local authorities is an essential pre-condition for the success of fiscal decentralization. Shah (1998) and Oates (1998) assert that local revenue mobilization has the potential to foster political and administrative accountability by empowering committees. Bahiigwa et al (2004; Brosio 2000; Fjeldstad and Samboja 2000) asserts that local government in Africa seem to raise whatever taxes, fees, and charges they are capable of raising, often without worrying excessively about the economic distortions and distribution effects that these instrument may create.

According to Bardhan and Mookharjee (2002) most local authorities in Africa use complicated and non-transparent revenue collection system which is costly to administer and capable of facilitating corruption and mismanagement. On the other hand, many local taxes have a distorting effect on resources allocation decisions, and thus, an inhibiting affect on start up of new enterprise and achievement of economic growth (Bahiigwa et al 2004; Devas and Kelly 2001; Sander, 2003). These effects occur when effective rates

vary greatly between different goods that are traded, or when licenses fees are set too high for startup small scale enterprise to survive. Fjeldstad and Samboja (2001) further asserts that the levels and types of local revenue instruments by themselves can result in the tax burden falling more on the poor than on the relatively rich in local communities.

In Africa, the growth of town and cities has outpaced local authority capacity in terms of management, infrastructure, and financing. Many African towns and cities are now facing a governance crisis. Accordingly, the capability and capacity of urban local government to provide basic services to a growing population have entered the core of development debate. In particular, fiscal decentralization – the development of revenue mobilization and spending powers to lower levels of government, has become main theme of urban governance in recent years.

2.2.4 Urban Poverty

Tostensen et al (2001) asserts that urbanization of poverty is one of the most dramatic developments on the Africa continent, yielding contracting images of affluent residential and business districts and utter misery in shanty towns or slums. More than 50 percent of Africa's population will soon live in towns and cities, and 50 percent of Africa poor will live in urban slums by 2025. South Africa is the most urbanized region in the continent. Angola currently has an urban population of more than 60 percent and South Africa about 55 percent. Over the next ten years, some over 50 million people in West Africa are expected to migrate to cities. Demographic change in East Africa is just as dramatic.

The growth of Africa's towns and cities has outpaced local authority capacity for service delivery in terms of management, infrastructure, and financing (McCluskey et al 2003, p.3). Urban municipal authorities, many of which were originally instituted as colonial administrative institutions, have not been reconstructed to cope with the fast growing

population (Bcall 2000). Secondly, a growing number of urban residents live in informal settlements characterized by deficient basic services such as housing, clean water, electricity, sanitation, refuse collection, roads and transport (Devas 2003). Thirdly, many local authorities are financially weak and rely on financial transfers and assistance from the central government (Broiso 2005). The revenue such authorities collect are often insufficient and large amount of revenues collected are inappropriately managed.

That fragility will be defined by lack of education, the diminution of household back-up resources and exclusion from valuable social and decision making networks.

In Latin America and the Caribbean, urbanization has made easier to satisfy some of the basic needs of the population, yet it has not reduced the overall problem of urban poverty. Although public services are more abundant in urban areas, the high cost of living and lower and instable incomes push most of the population into poverty limiting their access to the goods and services offered in the cities. During the last three decades, the number of poor urban residents has increased significantly from 44 million in 1970 to 125 million in 2000, whereas the number of rural inhabitants living in poverty has remained stable at approximately 78 million. Urban poverty is increasing as a result of the rise in informal urban employment (which, in turn, results from the inability of the region's economies to generate sufficient formal employment). In certain cases, the informal sector which concentrates mainly in service activities represents up to 73 percent of the urban labour market. The main challenges facing Latin, America and Caribbean cities is how to incorporate this informal workforce into the formal economy, where wages, social protection and productivity are higher, or alternatively, how to improve the productivity, income and level of protection of informal employment. Urban poverty in these countries is characterized by multiple deficiencies whose main dimensions include; insufficient or unstable income, which leads to inadequate consumption, risks caused by deficient access

to basic goods and services, low-quality housing that leaves residents more vulnerable to critical sanitary problems, contamination, crime and natural disasters, dissemination and limited access to the formal labour market, in particular for women and ethnic groups.

Solutions to these problems require multi-sector interventions coordinated in impoverished neighborhoods. Acting in coordination with the poverty unit and other teams on the sustainable development department, the social programs division works to understand the multiple dimensions and characteristics of urban poverty, principally kiosks that affect the inhabitants of central areas, and identify effective policies that addresses the most urgent concerns.

Hence, many African cities and towns are now faced with a governance crisis and poor services delivery capability.

2.3 Conclusion of the literature review

The literature reviewed above expressly detailed the weaknesses associated with the financial management by local authorities around the globe that may result in finances being directed to unbudgeted projects leaving out the budgeted for projects. However, there are no direct references to influences that are responsible for the financial management in local authorities. This is the gap that this study will try to fill in the research findings.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research design

The research design used in this study was a case study design of the city council of Nairobi. As a case study, both qualitative and quantitative methods were used to obtain data. Case study allows generalization to be made from a sizable sample of the population (Derizon and Lincoln ed. 1994).

3.2 Target population and sample selection

The population of the study is the local authorities in Kenya with the City council of Nairobi as the case study. The City Council is comprised of sixteen departments. Using judgmental sampling, ten departments listed below were selected as the sample study based on their relative importance in service delivery. Ten respondents from each department were selected for interview.

Town Clerk department

City Treasurer Department

City Planning Department

City Education Department

Social Services and Housing Department

Public Health Department

City Environment Department

Audit Department

Procurement Department

Human resource Department

3.3 Sampling procedure

The respondents for this study were the heads of the respective departments selected for the study. The heads of departments were selected based on their availability. Where the head of department was unavailable, the deputy was selected. Where the deputy was not available, the assistant head of department was selected. This procedure ensured full representation of the selected department by well informed chief officers who gave valuable information to the study.

3.4 Data collection procedures

The data collection method used in the study was by both closed and open ended questionnaires that were both dropped and picked or interview administered on the ten representatives of the selected department. The study used primary data that was collected using questionnaires in appendix 3.

3.5 Data analysis procedures

The data was collected and their validity tested from the field. Responses in the questionnaire were tabulated, coded and processed by use of the excel spread sheet. Descriptive statistics was used to determine the most frequent responses on the factors that influence local authority financial management. Frequency tables and percentages were used to summarize the demographic profile of the respondents.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

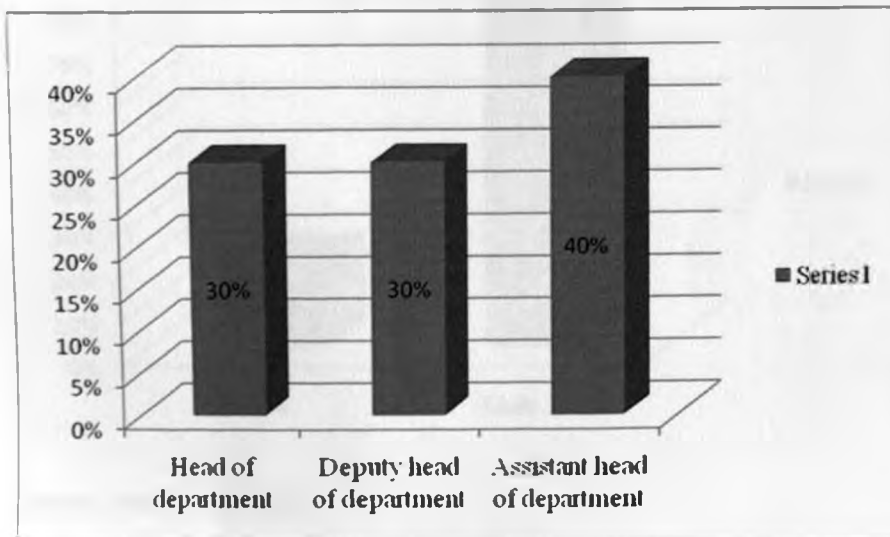
4.1 Introduction

This chapter analysis the data collected. The data was collected through questionnaires that were served to ten heads of the respective departments of the city council that were selected for the interview. Each head of department represented the selected department. The results or findings have been summarized in tables and percentages.

4.2 Responses to the questionnaires

Questionnaires were administered to the ten heads of department. Some questionnaires were administered and others were dropped and picked later. All the ten questionnaires that were served were completed and returned.

Figure 2: Summary of composition of the respondents to questionnaires



Source: Research project

The assistant heads of department were the most available chief officers in their offices for the interviews comprising 40%. The heads and their deputies were mostly engaged in other council activities and comprised 30% each.

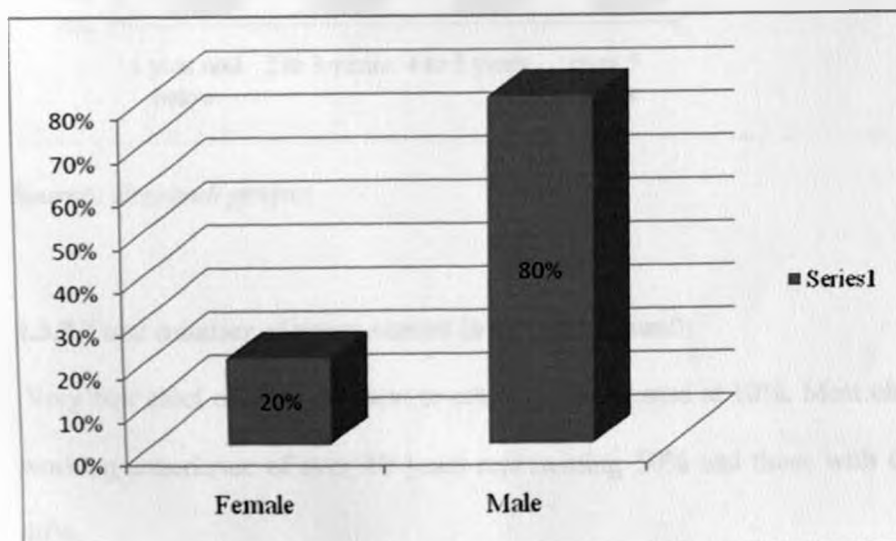
4.3 Demographic profile of respondents

Profile of respondents were noted interms of gender, number of years served in the current position, total number of years served in the city council, age bracket, academic qualifications and professional qualifications.

4.3.1 Gender

80% of the respondents interviewed were male and 20% female. This is an indication that council chief officers are predominantly male.

Figure 3: Gender of respondents

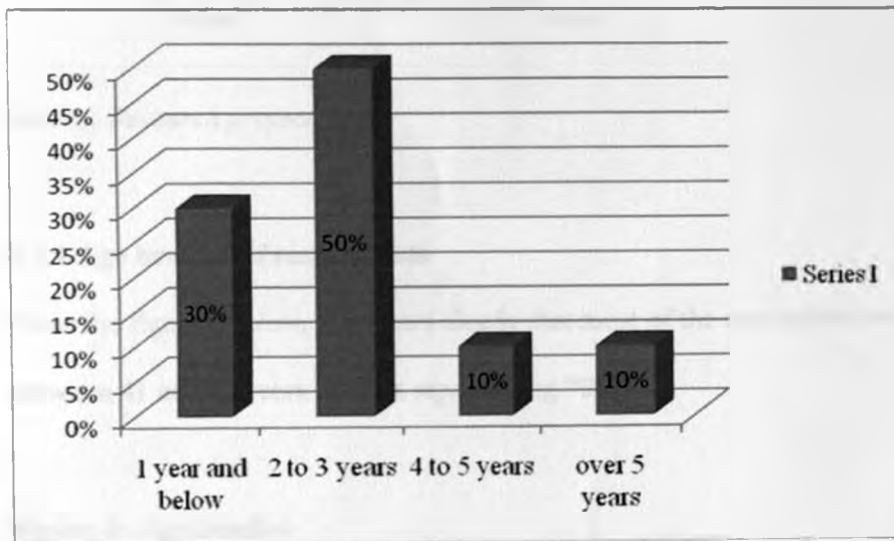


Source: Research project

4.3.2 Number of years served in the current position

Most respondents had served in their current positions between 2 and 3 years representing 50%. Those who were on their first year of service represent 30%. In essence, majority chief officers with an experience of up to 3 years in current position in the departments represent a total of 80% while those 4 years and above a total of 20%. Respondents who had more than 1 year experience on their current position represent 70%.

Figure 4: Number of years served in the current position

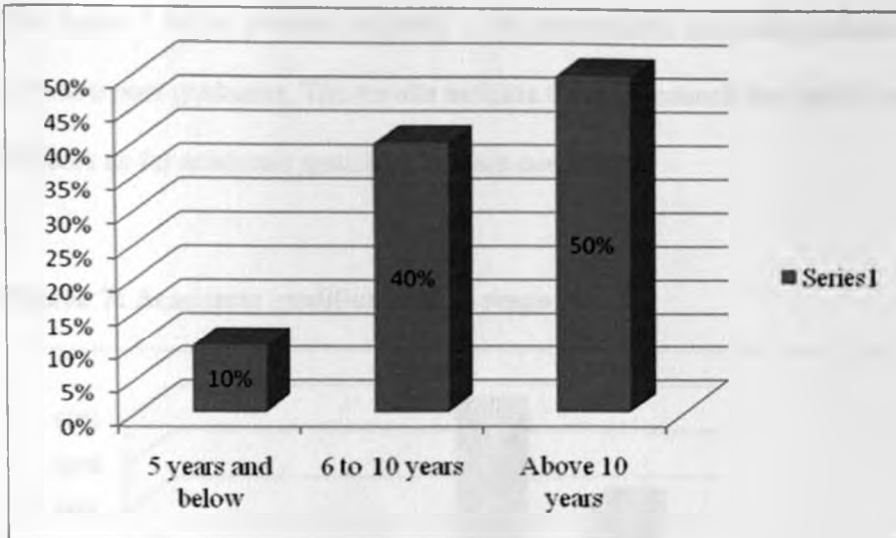


Source: Research project

4.3.3 Total number of years served in the city council

Very few chief officers are new to council as indicated at 10%. Most chief officers had working experience of over 10 years representing 50% and those with 6 to 10 years at 40%.

Figure 5: Total number of years served in the council

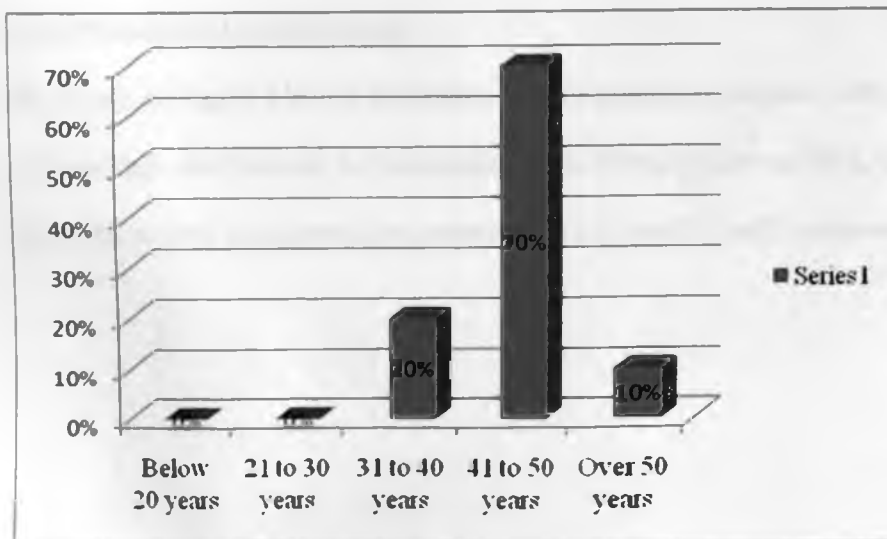


Source: Research project

4.3.4 Age bracket of respondents

From the figure 6 below, it appears clearly that most of the respondents were middle aged between 41 and 50 years bracket representing 70%.

Figure 6: Age bracket

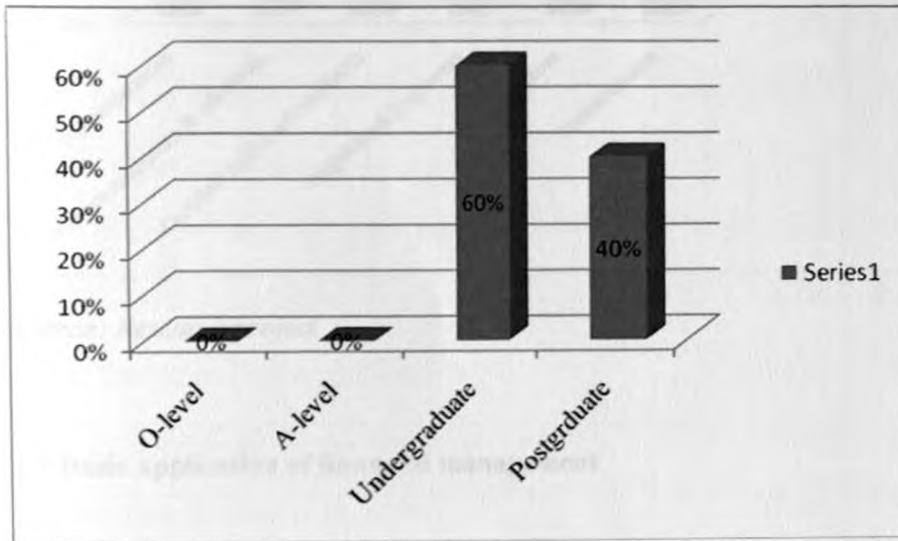


Source: Research project

4.3.5 Academic qualifications

The figure 7 below shows a majority of the respondents are undergraduates at 60% and 40% are post graduates. The results indicate that city council has highly qualified chief officers as far academic qualifications are concerned.

Figure 7: Academic qualifications of respondents

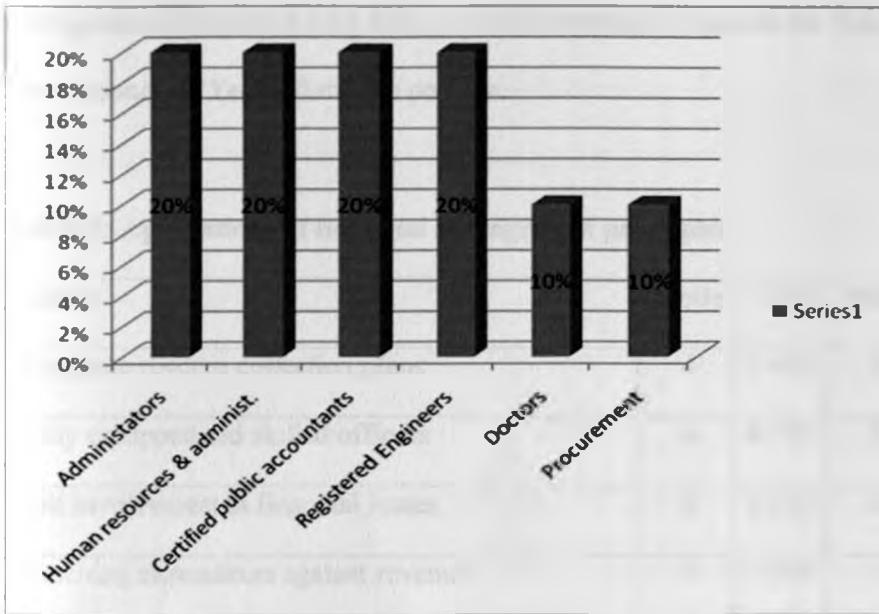


Source: Research project

4.3.6 Professional qualifications

The results in Figure 8 below do indicate that the council is endowed with diverse professionals who includes Administrators-20%, Human resources-20%, Certified public accountants-20%, Registered Engineers-20%, Doctors-10% and Procurement-10%

Figure 8: Professional qualifications of respondents



Source: Research project

4.4 Basic application of financial management

Table 1: Basic application of financial management

Application of basic financial management	Yes	Not sure	No
Implementation of strategic plans covering financial management	100%	0%	0%
Implementation of Annual plan/budgets	100%	0%	0%
Performance contract & rapid result initiative applications	100%	0%	0%

Source: Research project

The results in Table 1 above shows that the council has put in place basic financial management activities in long term and short term with respect to the financial resources.

The resounding 'Yes' affirms the position.

Table 2: Applications of financial management principles

Factor	Mode	STD	Mean
Adequate revenue collection plans	4	0.483	4.30
Fully equipped and skilled officers	4	0.789	3.80
Full involvement in financial issues	4	0.632	4.20
Matching expenditure against revenue	3	0.949	3.30
Production & communication of management rep.	4	0.843	3.40
Fully fledged Internal Audit function	5	0.483	4.70
Financial reports production for external users	2	1.059	2.30
Comprehensive fixed asset register	4	0.675	3.70
All fixed assets fully insured against risks	5	1.075	4.40
Application of modern capital budgeting tech.	3	0.816	3.00
Application of modern financing techniques	3	0.738	2.90

Source: Research project

From the application of financial management principles results above, there is indications that the council has a fully fledged Internal Audit function with a mode score of 5 (strongly agree), a mean of 4.70 and a standard deviation of 0.483 and has fully insured its fixed assets against risks with a mode of 5, mean of 4.40 but a standard deviation of 1.075 meaning some respondents were not sure about the position.

The council has put in place plans for revenue collections with a mode of 4, mean 4.30 and Standard deviation of 0.483; has skilled finance/accounts officers who are equipped with a mode of 4, mean 3.80 and standard deviation of 0.789; departments are fully involved and represented in financial management issues with a mode of 4, mean 4.20 and standard deviation of 0.632; produces and communicates financial management reports for internal users with a mode of 4, mean 4.70 and standard deviation of 0.483; maintains a comprehensive fixed assets register with mode of 4, mean 3.7 and standard deviation of 0.675.

The council seems not to be doing well in external financial reporting with a mode of 2-disagree, mean of 2.30 and standard deviation of 1.059 meaning there wide variation of opinions from the respondents about the factor. Areas of fair application of financial management and, or, areas where the respondents were not sure about application of the principle includes; matching expenditure against revenues with mode 3 (not sure), mean 3.30 and standard deviation 0.949; application of modern capital budgeting techniques with mode 3, mean 3.00 and standard deviation of 0.816; application of modern financing techniques with mode 3, mean 2.90 and standard deviation of 0.738.

4.5 Dynamic Human Resources as a factor

Table 3: External training programs for finance and accounts officers

Institution	Response
Government Training Institutes-GTI	100%
Institute of Certified Public Accountants of Kenya-ICPAK	100%
Local universities programs on financial management	10%
Foreign Universities programs on financial management	0%

Source: Research project

The results of the study shows that while the council has training programs with Government training institutions and ICPAK at 100% trainings programs with local universities response was a mere 10% and no programs at all with foreign universities.

Table 4: Dynamic human resources issues

Issues	Mode	STD	Mean
Right number of finance/accounts officers	4	1.080	3.50
Full control of placement of officers	4	0.568	3.90
No interference in placement of officers	2	0.632	1.80
Competence of officers in handling FM issues	4	0.843	3.40
Compensation system attractiveness	2	0.943	2.00
Prevailing culture does not allow corruption	1	0.675	1.30
Empowerment of staff handling FM issues	2.5	0.789	2.20

Source: Research project

From the results in Table 4 above the council has the right number of finance and accounting officers to handle all financial management issues with a mode of 4, mean 3.50 and a standard deviation of 1.08 meaning some respondent disagreed with the view; the HOD of finance department was in full control of placement of finance and accounts staff with mode 4, mean 3.90 and standard deviation of 0.568; the stated staff were competent to handle all financial management issues with mode 4, mean 3.4 and standard deviation of 0.843.

The results suggests that the council fared badly in creating a culture that does not allow corruption and corrupt practices to thrive with a mode of 1, mean 1.30 and standard deviation of 0.675 meaning that the most respondents were in agreement with the issue.

The council does not seem to do well in ensuring that there are no interferences by politicians within the council and central government in placement of the finance and accounts staff with mode 2, mean 1.80 and standard deviation of 0.632; does not have an competitive and attractive compensation system to retain staff with mode 2, mean 2.00 and standard deviation of 0.943; does not empower finance and accounts staff to handle all FM issues with mode 2.5, mean 2.2 and standard deviation of 0.789.

4.6 Legal framework as a factor

Table 5: Laws, rules and regulations that govern the use of financial resources

Law/Rule/regulation	Response
1 The local Government act chapter 265	100%
2 Agricultural act chapter 218	20%
3 Valuation for Rating act chapter 266	100%
4 Land planning act chapter 497	100%
5 Rating act chapter 267	100%
6 Financial Regulation, 2007	100%
7 Public Procurement and Disposal act, 2005	100%
8 Local Authority Transfer Fund act no. 8/1998	100%
9 The Public Audit act, 2003	100%
10 Constitution of Kenya	30%
11 Treasury circulars	30%
12 City council resolutions	100%

From Table 5 above, all the laws, rules, regulation, circulars and council resolutions are cited by the respondents as they govern the use of financial resources of the organization

with rule no. 1, 3, 4, 5, 6, 7, 8 and 9 getting 100% response. However Agriculture act chapter 218 (no. 2) seems to be the least significant at 20% followed by constitution of Kenya (no. 10) at 30% and treasury circulars (no. 11) at 30%.

Table 6: Legal framework issues

Issues	Mode	STD	Mean
Effectiveness of current legal framework in financial manag.	2	0.876	2.90
Frequency of review current legal framework	2	0.699	2.60
No loop holes on current legal framework	2	0.082	2.30
Full coverage of FM issues by current legal framework	4	0.949	2.30
Implementation of council resolutions	4	0.966	3.40
Court awards impact negatively on financial management	5	1.398	3.80
Court awards are fully budgeted for in current	2	0.943	2.00

Source: Research project

From the results in Table 6 above court awards impacts negatively on the council's financial resources with a mode of 5 mean 3.8 and standard deviation of 1.398 meaning there were divergent views by the respondents on the issue. Full coverage and sufficiency of current legal framework on all the main financial management aspects scored a mode of 4, mean 2.30 and standard deviation of 0.949; implementation of council resolution mode of 4, mean 3.40 and standard deviation of 0.966 which means council resolutions have a high likely hood of being implemented.

Issues of legal framework with poor indications includes effectiveness in ensuring sound financial management in the council with mode of 2, mean 2.90 and standard deviation of

0.876; frequency of reviews with mode of 2, mean 2.60 and standard deviation of 0.699; No loop holes to allow for diversion of funds from intended uses with mode of 2, mean 2.30 and standard deviation of 0.082 meaning that most respondents unanimous concurred with sentiment; court awards were fully budgeted for in the current period with a mode of 2, mean 2 and standard deviation of 0.943.

4.7 Rapid urbanization as a factor

Table 7: Rapid urbanization effect on recurrent and capital budgets

Factor	Yes	Not sure	No
High rate of urbanization effect on recurrent and capital budget of the council	70%	30%	0%

Source: Research project

Table 8: Main sectors impacted by rapid urbanization

Sector	Response
Formal and informal sectors	100%
Education sector	90%
Transport and communication sector	100%
Housing sector	90%
Health and sanitation sector	90%
Solid waste management	100%

Source: Research project

The survey results shows that the main sectors of economy stated above were significantly impacted by rapid urbanization, formal and informal, transport and communication, solid waste management sector indicating 100% response and education, housing health and sanitation indicating 90% response.

Table 9: Rapid urbanization issues

Issues	Mode	STD	Mean
Informal sector has grown with rapid urbanization	5	0.422	4.80
Rapid urbanization has placed high demands on financial resources	5	0.316	4.90
Crime rate has increased cost of enforcing law	5	0.949	4.30
Unplanned structures increased with rapid urban	5	0.516	4.60
Rapid urbanization has outgrown provision of roads in new suburbs	4.5	0.527	4.50

Source: Research project

The findings of the survey above in Table 9 does indicate that all the rapid urbanization issues tested were all important and impacted significantly on the financial resources of the council. Informal sector has grown with rapid urbanization showed a mode of 5, mean of 4.80 and a standard deviation of .0422; rapid urbanization has placed high demands on financial resources of the council had a mode of 5, mean 4.90 and standard deviation of 0.316; crime rate has increased with rapid urbanization and increased the cost enforcing various laws had a mode of 5, mean 4.30 and standard deviation of 0.949; unplanned structures increased with rapidly urbanization had a mode of 5, mean 4.60 and standard deviation of 0.516; and rapid urbanization has outgrown provision of roads in new suburbs scored a mode of 4.5, mean 4.5 and a standard deviation of 0.527.

4.8 Underfunding as a factor

Table 10: Main sources of funding from central government

sources	Response
Local Authority Transfer Fund – LATF	100%
Road Maintenance Levy – RML	100%
Contribution In Lieu of Rates – CILOR	90%

Source: Research project

The councils main external sources of funds from the study as shown in Table 10 above are basically three namely, LATF and RML with a response of 100% each and CILOR with a response of 90%.

Table 11: Underfunding issues

Issues	Mode	STD	Mean
Current provision of LATF of 2.2B is adequate for the council	1	0.699	1.60
Current provision of RML of 0.9B is adequate for the council	1.5	0.994	1.90
Current provision of CILOR of 0.1B is adequate for the city	2	0.483	1.70
Central government transfers are always paid on time	2	0.516	2.40
Central government transfers are all fully paid without diversions or withholding any amounts	2	0.949	2.30

Source: Research project

From Table 11 above, the result of the survey shows that transfers from the central government are all not considered as adequate for supplementing the councils local sources with LATF scoring a response mode of 1, mean 1.60 and standard deviation of 0.699; RML scoring a mode of 1.5, mean 1.90 and standard deviation of 0.994; and CILOR scoring a mode of 2, mean 1.70 and standard deviation of 0.483. The timeliness of payments of the transfers scored a response mode of 2, mean 2.40 and standard deviation 0.516 and certainty about full payments of the transfers with no diversion to other uses or withholding scoring a mode of 2, mean 2.30 and standard deviation of 0.949.

4.9 Poor revenue collection as a factor

Table 12: Main sources of local revenue

Sources	Response
Property rates	100%
Single Business Permit – SBP	100%
Parking Fees	100%
House rents	90%
Market Cess	20%
Other sources in fees and charges	90%

Source: Research project

Table 12 above shows the responses to the main sources of local revenue with property rate, SBP, Parking fees scoring 100% each and House rent, Market and other sources in fees and charges document scoring 90% and Market cess 20%.

Table 13: Poor revenue collection issues

Issues	Mode	STD	Mean
Lack of goodwill from residents & neighborhood associations	5	0.516	4.60
Lack of political goodwill from council and affirmative groups	5	0.516	4.60
Political patronages	4.5	0.789	4.20
Outdated enforcement laws on revenue collection	4	0.516	4.40
Lack of motivation of revenue collectors	3	1.174	3.40
Corruption and corrupt practices at all levels	5	0.850	4.50
LAI FOMS system assist revenue collection	4	0.707	3.50
LAI FOMS system assist in production online financial reports	3.5	0.789	3.20

Source: Research project

From Table 13 above, lack of goodwill from the city residents and neighborhood associations and lack of political goodwill from the council and affirmative action groups impeded revenue collection with response mode score of 5, mean 4.60 and standard deviation of 0.516 each. Corruption and corrupt practices at all levels was also cited as a significant issue with a mode of 5, mean 4.50 and standard deviation of 0.850.

Political patronages were a contributing factor to poor revenue collection with mode of 4.5, mean 4.20 and standard deviation of 0.789. Outdated revenue collection enforcement laws also contribute to poor revenue collection with mode score of 4, mean 4.40 a standard deviation of 0.516 meaning most respondents concurred with the statement. Lack of motivation of the revenue collector scored a response mode of 3, meaning the respondents were not sure about the factor, a mean of 3.40 and a standard deviation of 1.174 indicating that the respondent had divergent views about it.

and significant budget expended on urban slums scored a standard deviation of 0.632 each.

4.11 Urban poverty as a factor

Table 16: Urban poverty effect on council budgets

Factor	Yes	Not sure	No
Urban poverty effect on council budgets	60%	10%	30%

Source: Research project

Of the respondents interviewed, 60% indicated urban poverty impacts on council budget. 10% were not sure while 30% asserted that urban poverty has no effect on council budget shown on Table 16 above.

Table 17: Areas impacted by urban poverty in the city council

Areas	Response
1 Unplanned structure	100%
2 Provision of social amenities	100%
3 Solid waste management	100%
4 Fire services	100%
5 Health services	100%
6 Revenue collection i.e. through waivers	100%
7 Education services	20%

Source: Research project

Areas impacted by urban poverty in the city council from Table 17 includes; Unplanned structures, provision of social amenities, solid waste management, fire services through frequent fire outbreaks, health services provision, loss of revenue through waivers (inability to pay for services provided) each received a response of 100% while provision of education services received a response of 20%.

Table 18: Urban poverty issues

Issues	Mode	STD	Mean
Urban poverty has increased with growth of urban slums	4	0.919	4.20
Significant budget in the past expended on urban poor population	4	0.632	4.20

Source: Research project

The results of Table 18 of the survey indicates urban poverty has increased with growth of urban slums with a mode score of 4, mean 4.20 and standard deviation of 0.919 while significant budget in the past expended on the urban poor population received a mode score of 4, mean 4.20 and standard deviation of 0.632.

4.12: Ranking of the factors in order of their relative importance

Table 19: Ranking of the factors in order of importance

Factor	Mean	STD	Mean/STD	Ranking
Dynamic human resources	4.20	2.044	2.055	4
Legal frame work	4.00	2.055	1.947	3
Rapid urbanization	3.70	0.949	3.900	7
Under funding	3.60	2.011	1.790	2
Poor revenue collection	1.90	1.449	1.311	1
Urban slums	5.10	1.449	3.519	6
Urban poverty	5.50	2.121	2.593	5

The respondents ranked the seven main factors that influence financial management of the city council 1-being the most important factor and 7- being the least important factor. From the Table 19 above, the means were divided by the respective standard deviation in order to facilitate ranking. From the computations, poor revenue collection is rank no.1 as the most important factor with mean over standard deviation of 1.311, followed by underfunding ranked no.2 with mean over standard deviation of 1.790, followed by legal framework no. 3 with 1.947, followed by dynamic human resources no. 4 with 2.055, urban poverty no. 5 with 2.593, followed by urban slums no. 6 and rapid urbanization least important at no. 7.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a discussion on the summary of the results or findings of the study, the conclusion and recommendation. Limitations of the study and suggestions for further research are also highlighted.

5.2 Summary

This study was a case study designed to determine what factors that influence local authorities' financial management with the city council of Nairobi being the case study. A sample of ten out of sixteen departments was selected for the study based on their relative importance to the service delivery. The respondents were the representative of the selected departments, ideally the heads or their deputies or their assistants. Being the heads of departments, they were considered as knowledgeable and conversant with the operations of the departments and the city council at large. Both open and closed ended questionnaires were administered or dropped and picked later. Primary data was employed in the research study. Data collected was analyzed using excel spread sheet and the results interpreted using descriptive statistics. Seven factors derived from the literature review that influence local authorities financial management were tested in the case study of city council Nairobi namely, dynamic human resources; legal framework; rapid urbanization; under funding; poor revenue collection; urban slums and urban poverty. The factors were also analyzed in terms of their relative importance in financial management of the city council.

5.3 Conclusion

The results of the research study show that following seven factors were significant and indeed influenced the financial management of the city council of Nairobi in order of their relative importance.

1. Poor revenue collection
2. Underfunding from the central government
3. Legal framework
4. Dynamic human resources
5. Urban poverty
6. Urban slums
7. Rapid urbanization

5.4 Recommendations

The city council should involve the stakeholders in formulating its major investment, financing and asset management decisions in order to stimulate goodwill from the city residents and affirmative groups and help improve its revenue collection from local sources. Reforms programs and full adoption of the financial regulations should help to change the culture of corruption. LAIFOMS computer system should be expanded to cover all areas of financial operations. To deal with underfunding the council should adhere to the laid down regulations for intergovernmental transfers like the LATF conditionalities/requirements. There is an urgent need to review most, if not all the existing legal framework including the local government act chapter 265. This will make legal frame work relevant, seal loopholes and help to change the way of doing in the council which will increase social value. The study indicated that the city council has qualified human resources unlike other small councils. However training programs to

change culture should be put in place. The change of the constitution of Kenya will help to clearly separate the roles of politicians and the executive of the council in order to reduce interferences in the placement of finance and accounts officers. Formulation of good strategic plans, involving all stakeholders, timely production of financial reports to external users and application of modern investment and financing techniques will help to deal with urban poverty, urban plans and rapid urbanization.

5.5 Limitations of the study

This study was not without limitations. Literature reviews for Kenyan cases are very few and had to rely on research done on local authorities in developing countries outside Kenya. There were challenges in primary data collection as the heads of departments are busy people engaged in many activities of the council. The research was also constrained by the cost factor.

5.6 Suggestions for further research

Further research on financial management should be carried out covering the other cities in Kenya such as Mombasa, Kisumu, Nakuru and Eldoret. Following the adoption of the new constitution of Kenya and the creation of the forty seven counties, further research should be undertaken to determine the best financial management practice that would add value to the counties and country of Kenya at large.

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APPENDIX 1: NAIROBI CITY ADMINISTRATIVE DIVISIONS

DIVISION	LOCATIONAL
Starehe	Huruma, Karioko, Mathare and Starehe
Dagoretti	Kawangware , Kenyatta /Golf club, Mutuini, Riruta Uthiru and Waithaka
Embakasi	Dandora, Embakasi , Kariobangi South, Kayole
Kasarani	Gikura, Kahawa, Kariobangi north, Kasarani Korokocho , Roysambu and Ruaraka
Langata	Karen, Kibera, Line-saba, Langata , Mugumoini and Nairobi West
Makadara	Makadara , Makongeni, Maringo, Mukuru Nyayo and Viwandani
Pumwani	Bahati , Eastleigh –south, Kamukunji and Pumwani
Westlands	High ridge , Kangemi, Kilimani, Kitsuru, Lavington and Parklands

APPENDIX 2: LETTER OF INTRODUCTION TO RESPONDENTS

UNIVERSITY OF NAIROBI
FACULTY OF COMMERCE
DEPARTMENT OF COMMERCE
P.O. BOX 30197
NAIROBI
14TH OCTOBER 2010

Dear Respondent,

RE: COLLECTION OF SURVEY DATA

I am a postgraduate student at the University of Nairobi, undertaking a master's course in Business administration.

As part of the requirement for my study, I am undertaking a management research project entitled;

“A survey of factors that influence local authorities’ financial management: the case of City Council of Nairobi”

You have been selected to form part of this study. This is therefore to kindly request you to spare some time to fill in the attached questionnaire. The information you provide will be used purely for academic purposes and will be treated with confidence. At no time will your name appear as a source on my report.

Your cooperation is highly appreciated.

Yours Faithfully

P.M. GATHUYA
STUDENT

H. ONDIGO
LECTURER/SUPERVISOR

APPENDIX 3: SURVEY QUESTIONNAIRE FOR HEADS OF DEPARTMENTS OF THE CITY COUNCIL OF NAIROBI

SECTION (A) BIODATA

1. Please indicate your department.....
2. Your position (tick where appropriate)
Director [] Deputy Director [] Assistant Director []
3. Gender
Male [] Female []
4. How many years have you served in the stated position
1 years and below []
2 to 3 years []
4 to 5 years []
Above 5 years []
5. State the total number of years you have served
5 years and below []
6 to 10 years []
Above 10 years []
6. What is your age bracket?
Below 20 years []
21 to 30 years []
31 to 40 years []
41 to 50 years []
Above 50 years []
7. State your highest academic qualifications.
O-level []
A-level []
Undergraduate level []
Post graduate level []
8. State your professional qualification(s).
.....
.....
.....

SECTION B: BASIC APPLICATION OF FINANCIAL MANAGEMENT

Financial management is concerned with planning, organizing, directing and monitoring the monetary resources of an organization and controlling risk. It also involves investment, financing and asset management decisions in order to maximize value creation.

9. Does the council have in place a strategic plan covering all aspects of financial management above?

Yes [] Not sure [] No []

10. Does the department have annual plans/budgets for revenue and expenditure?

Yes [] Not sure [] No []

11. The council adopted performance contracting and rapid result initiative programs for its 12,000 employees. Has it assisted the department/council in increasing its revenue collection or cost reduction?

Yes [] Not sure [] No []

12. The following statements attribute to the application of the financial management principles in your department and the council at large. Indicate the extent to which you agree with the statements on a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- not sure, 4- agree, 5- strongly agree. Tick as appropriate.

	5- Strongly Agree	4- Agree	3- Not Sure	2- Disagree	1- Strongly Disagree
The department plans adequately for collection of revenue to realize the departmental revenue target/budget					
The department has a fully equipped qualified and skilled finance and accounting officers					
The department is fully involved and represented in revenue mobilization, budget, finance and operations committee meetings of the council					

The projected cash inflows from internal and external sources are used as yardstick to control recurrent and capital/development expenditures					
Management financial reports e.g. actual revenue and expenditures against the respective budget, are produced and communicated on regular basis					
There is a fully fledged internal audit department that reviews the internal controls of the council					
Financial reports for external users e.g. income statement, balance sheet, cash flow statements, are produced on timely and regular basis and communicated accordingly					
The department maintains a comprehensive register of its assets, e.g. land, housing estates					
All the fixed assets are fully insured against loss e.g. accident, fire e.t.c.					
The council fully adopts the modern capital budgeting techniques in making major investment decisions e.g. net present value, capital asset pricing model e.t.c.					
The council fully adopts the modern financing techniques in making major financing decisions e.g. municipal bonds					

SECTION C: DYNAMIC HUMAN RESOURCES

13. State whether the finance/accounting officers stated above undergo external training programs to meet the diverse challenges. Tick where appropriate.

- Government Training Institutes on accounting/finance []
- Institute of Certified Public Accountants of Kenya []
- Local universities programs on financial management []
- Foreign Universities programs on financial management []

14. The following statements attribute to the dynamic human resources in your department and the council at large. Indicate the extent to which you agree with the statements on a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- not sure, 4- agree, 5- strongly agree. Tick as appropriate.

	5- Strongly Agree	4- Agree	3- Not Sure	2- Disagree	1- Strongly Disagree
The department has right number of finance/accounting officers to handle all financial management issues					
The head of department of Finance/Treasurer is in full control of the placement of finance/accounting officers					
The political leaders in the council or in the central government do not in any way interfere with the finance/accounting staff placement					
The finance/accounting staff are competent to make effective investment, finance and asset management decision that add value to service delivery of the council					

The city council compensation system for the finance/accounting officers is comparatively competent and attractive enough to retain them					
The council prevailing culture and values does not encourage corruption or corrupt practices to thrive					
The staff in your department are empowered enough to handle all financial management activities in transparent and honest manner					

SECTION D: LEGAL FRAMEWORK

15. State the laws/rules/regulations that govern the use of financial resources in your department and the council at large. Tick as appropriate.

- The local Government act chapter 265 []
- Agricultural act chapter 218 []
- Valuation for Rating act chapter 266 []
- Land planning act chapter 497 []
- Rating act chapter 267 []
- Financial Regulation, 2007 []
- Public Procurement and Disposal act, 2005 []
- Local Authority Transfer Fund act no. 8/1998 []
- The Public Audit act, 2003 []
- Constitution of Kenya []
- Treasury circulars []
- City council resolutions []

16. The financial regulation, 2007 provides that all officers working in the local authorities in Kenya shall be knowledgeable and conversant with the regulations and carry out their responsibilities as stipulated therein. State whether in your opinion all the staff in your department are conversant with the provisions of financial regulation, 2007.

- Yes [] Not sure [] No []

17. The following statements attribute to the legal frame work of the council. Indicate the extent to which you agree with the statements on a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- not sure, 4- agree, 5- strongly agree. Tick as appropriate.

	5- Strongly Agree	4- Agree	3- Not Sure	2- Disagree	1- Strongly Disagree
The current legal framework is effective in ensuring sound financial management in the council					
The existing laws, regulations and rules are reviewed accordingly with time to account for the changing environment i.e. they are up-to-date					
The existing legal frame work does not have loopholes i.e. does not allow for funds diversion from the intended use					
The existing laws are adequate or sufficient and cover all the main aspects of financial management of the council					
The resolutions of the council finance committee, and other standing committee are always implemented					
The court awards for past judgments against the council impacts negatively on financial management					
All the court awards for past judgments against the council are fully budgeted for in current year's budgets					

SECTION E: RAPID URBANIZATION

18. As far as your department is concerned, has the high rate of urbanization impacted on the recurrent and capital budgets?

Yes [] Not sure [] No []

19. State the main sectors that have been impacted by the rapid urbanization in the city of Nairobi.

Formal & Informal sector []

Education sector []

Transport and communication sector []

Housing sector []

Health & sanitation sector []

Solid waste management sector []

20. The following statements attribute to the rapid urbanization of the council of Nairobi.

Indicate the extent to which you agree with the statements on a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- not sure, 4- agree, 5- strongly agree. Tick as appropriate.

	5- Strongly Agree	4- Agree	3- Not Sure	2- Disagree	1- Strongly Disagree
Informal sector has grown with the high rate of rapid urbanization					
Rapid urbanization has placed high financial resources demands on provisions of social amenities e.g. provision of clean water, sanitation, street lighting e.t.c.					
The crime rate has increased and the cost of enforcing by-laws and maintaining order in the city of Nairobi increased					
Unplanned structures have increased rapidly and uncontrollably					

Rapid urbanization has outgrown provision of roads in new suburbs					
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SECTION D: UNDERFUNDING

21. What are the council's main sources of funding from central government? Tick where appropriate.

Local Authorities Transfer Fund-LATIF []

Road Maintenance Levy- RML []

Contribution in Lieu of Rates-CILOR []

Any other/s (specify).....[]

22. Taking into consideration of the contributions by the city residents to the taxes to the central government i.e. fuel levy, pay as you earn, value added tax, income tax e.t.c. and the financial demands for service delivery, indicate the extent to which you agree with the statements on a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- not sure, 4- agree, 5- strongly agree. Tick as appropriate.

	5- Strongly Agree	4- Agree	3- Not Sure	2- Disagree	1- Strongly Disagree
The current provision of LATIF of 2.2B in 2010/2011 budget is adequate for Nairobi city					
The current provision of RML of 0.9B in 2010/2011 budget is adequate for Nairobi city					
The current provision of CILOR of 0.1B in 2010/2011 budget is adequate for Nairobi city					
Transfers from central government are paid/wired to the council on a timely basis. i.e. as per month stated					

Transfers from central government in the past have all been fully paid to the council without diversions or withholding any amounts					
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SECTION F: POOR REVENUE COLLECTION

23. What are the council's main sources of revenue? Tick where appropriate.

- Property rates []
- Single Business Permit []
- Parking Fees []
- House Rents []
- Other sources in fees and charges []
- Any other/s (specify).....[]

24. Considering the main sources of revenue to the council, state whether the council collects at least 90% of the potential revenue.

- Yes [] Not sure [] No []

25. The council adopted the Local Authority Integrated Financial Management Information System-LAIFOMS in 2007 in computerizing its operations. Do you consider the system as adequate and reliable for revenue collection maximization as well expenditure minimization and control?

- Yes [] Not sure [] No []

26. Indicate the possible impediments to 100% revenue collection realization from the main sources stated above. Indicate the extent to which you agree with the statements below on a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- not sure, 4- agree, 5- strongly agree. Tick as appropriate.

	5- Strongly Agree	4- Agree	3- Not Sure	2- Disagree	1- Strongly Disagree
Lack of goodwill from the city residents and neighborhood associations e.g. Karengata					

Lack of political goodwill from council i.e. councilors, politicians, affirmative action groups					
Political patronages					
Some of the enforcement laws are old and out dated					
The revenue collection staff are not motivated e.g. transport, working tools, allowances					
Corruption and corrupt practices at all levels					
LAIFOMS computer system assist in revenue collection and accountability					
LAIFOMS computer system facilitate production of real time financial reports and the final accounts					

SECTION G: URBAN SLUMS

27. State whether the rapid growth of urban slums in Nairobi city e.g. Kibera, Mathare, Mukuru Kwa Njenga e.t.c. have impacted on the council budget.

Yes [] Not sure [] No []

28. Indicate which areas have been impacted by the rapid increase in urban slums in the city council. Tick where appropriate.

- Unplanned structure []
- Provision of social amenities i.e. water, []
- Solid waste management []
- Fire services []
- Health services []
- Any other (specify)..... []

29. The following statements attribute to the growth of urban slums in the city council of Nairobi. Indicate the extent to which you agree with the statements on a scale of 1-5,

where 1- strongly disagree, 2- disagree, 3- not sure, 4- agree, 5- strongly agree. Tick as appropriate.

	5- Strongly Agree	4- Agree	3- Not Sure	2- Disagree	1- Strongly Disagree
The urban slums have grown with the rapid rate of urbanization					
The urban slums contribute minimal or insignificant revenue to the council					
A significant budget is expended on urban slums. e.g. Slum upgrading provision of health services, disaster management like fire out breaks e.t.c					

SECTION H: URBAN POVERTY

30. State whether the urban poverty in Nairobi city has impacted on the council budget.

e.g. growth of uncollectable debts due to object poverty

Yes [] Not sure [] No []

31. Indicate which areas have been impacted by urban poverty in the city council. Tick where appropriate.

Unplanned structure []

Provision of social amenities i.e. water, []

Solid waste management []

Fire services []

Health services []

Revenue collection e.g. City mortuary, Pumwani maternity []

Any other (specify)..... []

32. The following statements attribute to the growth of urban poverty in the city council of Nairobi. Indicate the extent to which you agree with the statements on a scale of 1- 5. where 1- strongly disagree, 2- disagree, 3- not sure, 4- agree, 5- strongly agree. Tick as appropriate.

	5- Strongly Agree	4- Agree	3- Not Sure	2- Disagree	1- Strongly Disagree
The urban poverty has increased with the growth of urban slums					
Significant budgets have in the past been expended on the urban poor population e.g. cholera outbreaks, HIV/AIDs awareness and prevention, feeding programs e.t.c					

33. From the above consideration of the factors that affect financial management of the city council of Nairobi, please rank the factors in order of importance as far as you are concerned, 1- being the most significant factor and 7- being the least significant.

- Dynamic human resources []
- Legal frame work []
- Rapid urbanization []
- Under funding []
- Poor revenue collection []
- Urban slums []
- Urban poverty []
- Any other (specify)..... []

THANK YOU FOR SPARING YOUR TIME