

Detecting Financial Distress In Kenyan Local Authorities

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Abstract:

In creating local authorities, the vision of the ministry of local government is to have "viable, autonomous, accountable and responsive local authorities." Finance is critical to the achievement of this vision since it directly affects the operation of local authorities and the wide range of services that they are responsible for delivering. This study sought to establish if Kenyan Local Authorities suffer from financial distress and if so the extent of such distress. It further sought to determine the level of dependency of the LAs on external financial support from central government. In so doing the study intended to determine if Kenyan LAs are not only financial viable but also whether that viability is as a result of self financing and is thus sustainable. Based on a sample of 59 local authorities in the country, it was established that 22% of all Kenyan LAs are financially distressed, 71% are non-distressed while another 7% are in the grey area. The highest level of financial distress was observed among the town councils with 35% of them being financially distressed. They were followed by the county councils and municipal councils at 17% and 8% distress levels respectively. The study further established that only 24% of Kenyan local authorities are financially independent, 54% are financially dependent while 22% are in the grey area. County councils exhibited the highest level of financial dependency at 74% followed by town councils at 57% and finally the municipal councils at 15%. From the study findings it became apparent that more than half of Kenyan local authorities (54%) are not financially autonomous and viable as envisioned by the ministry of local government and are therefore incapable of being responsive to the needs of the citizens in their respective areas of jurisdiction. These LAs are therefore incapable of achieving their mandate and the vision for which they were created. The study made a number of recommendations on how the LAs can improve their financial health. These included structural reforms of the LAs, mutually beneficial engagements with the private sector, better engagement with the central government and participation in the stock market. The financial issues affecting local authorities affect all of us, in terms of the services we receive and the charges we pay. This study therefore, took an early opportunity not only in identifying financially distressed LAs but also gave recommendations on the various courses of action which the MOLG can take to achieve its vision.