KENYA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: KENYAN SHILLING (KES)

POPULATION AND GEOGRAPHY

Area: 580 370 km^2
Population: 49.7 million inhabitants (2017), an increase of 2.7 % per year (2010-2015)
Density: 86 inhabitants / km^2
Urban population: 26.5% of national population
Urban population growth: 4.2% (2017 vs 2016)
Capital city: Nairobi (8.8% of national population)

ECONOMIC DATA

GDP: 163.3 billion (current PPP international dollars), i.e. 3 286 dollars per inhabitant (2017)
Real GDP growth: 4.9% (2017 vs 2016)
Unemployment rate: 11.5% (2017)
Foreign direct investment, net inflows (FDI): 671.5 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 17.8% of GDP (2017)
HDI: 0.590 (medium), rank 142 (2017)
Poverty rate: 36.8% (2015)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Kenya is a unitary country with a multi-party democratic political system. The President is both head of state and government and he is directly elected by the citizens. The Kenyan parliament is a bicameral house consisting of the National Assembly and the Senate. The Senate represents the counties, and serves to protect the interests of the counties and their governments. It participates in the law-making function of Parliament by considering, debating and approving Bills concerning counties. The 2010 Constitution recognizes two levels of government: the national government and the county governments. Both levels are defined in Article 6 (2) as distinct and interdependent and are required to conduct their mutual relations on the basis of consultation and cooperation. Each of the county governments is composed of a county assembly and a county executive. The governor and members of the county assembly are directly elected during the general elections. The county assembly is composed of members elected with a number of special seats to ensure that no more than two thirds of the membership is of the same gender as well as members of marginalized groups including persons with disabilities.

The main devolution laws include: a) the County Government Act of 2012 providing for county governments' powers, functions and responsibilities to deliver services; b) the Transition to Devolved Government Act of 2012, providing a framework for the transition to devolved government pursuant to section 15 of the Sixth Schedule to the Constitution; and c) the Intergovernmental Relations Act of 2012, providing a framework for consultation and cooperation between the national and county governments and amongst county governments to establish mechanisms for the resolution. Other Acts passed to operationalize the devolved system of government include the Transition County Allocation Revenue Act of 2013 and the County Public Finance Management Transition Act of 2013.

Kenya has held its general elections for presidential, parliamentary and local authorities' offices every five years since its independence in 1963. The current Constitution, promulgated in 2010, ushered in a new political dispensation. The first elections following the enactment of the 2010 Constitution were held in 2013 and subsequently in 2017 (Presidential, Parliamentary and County all on the same day). In 2017, Kenya adopted a Devolved System of Government policy, clarifying and strengthening roles and responsibilities of both the national and the county governments to strengthen the implementation of devolution as envisaged in the Constitution. The government is also reviewing the County Government Act and the Intergovernmental Relations Act to address emerging devolution concerns.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	County Governments *(Kaunti)*			
	Average municipal size: 1 057 444 inhabitants			
	47			47

OVERALL DESCRIPTION. One of the objectives of Kenyan devolution is to promote social and economic development and the provision of proximate and easily accessible services throughout the country. To achieve this, the 2012 County Government Act envisages the establishment of other levels of decentralization, namely: 1) the urban areas and cities within the county established in accordance with the Urban Areas and Cities Act of 2011; 2) the sub-counties equivalent to the constituencies within the county established under Article 89 of the Constitution; 3) the Wards within the county established under Article 89 of the Constitution; and 4) village units in each county determined by the county assembly of the respective county. In establishing a village unit, a county assembly is required to consider the following: population size, geographical features, community of interest, historical, economic and cultural ties, and means of communication. These different levels of decentralization are not local self-governments. They are only for purposes of proximate service delivery. Moreover, these levels only operate on delegated responsibility and they are administered directly from the county headquarters.

Currently, only the county governments are operational while the cities, municipalities and towns have not yet been fully established. The Urban Areas and Cities Act of 2011 gives effect to Article 84 of the Constitution to provide for: the classification, governance and management of urban areas and cities; criteria for establishing urban areas; and the principle of governance and participation of residents and for connected purposes. The Act was later amended to provide for a reasonable population threshold for qualification of an urban area to be a city, municipal or a town. Under these powers, there are currently one city (Kisumu), two municipalities (Nakuru and Eldoret) and 103 towns. These powers are managed by boards appointed by the county government. The decentralization of county government functions and service provision to non-urban sub-counties are provided for in the Constitution and the County Governments Act of 2012.

The State Department of Devolution in the Ministry of Devolution and Planning (MDP) is responsible for overseeing successful devolution in Kenya. The MDP main mission is to 'provide leadership, coordination, an enabling environment for planning, transformed public service delivery and management of the devolved system of government'. Although a high degree of autonomy has been granted to the counties, the MDP still plays an important role in assisting with the coordination of intergovernmental relations and coordinating implementation of all devolved programs and projects.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Constitution introduces three categories of responsibilities: exclusive, corresponding to functions assigned and performed by only one level of government; concurrent, which may be performed by both national and county governments; and residual, i.e. functions that are not expressly assigned by the Constitution to either level of government (article 186 of the Constitution). In the latter case, these functions reside with the national government. The powers and functions of the national and county governments are set out in the Fourth Schedule. Where a function or power is conferred on more than one level of government, it becomes a function or power within the concurrent jurisdiction of each of the two levels of government. Counties are responsible for implementing national government policies at their level. County governments have generally been assigned social (welfare) functions. These include provision of water, health care, county planning, housing, agriculture, local economic development, roads, sanitation and waste management.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	COUNTY LEVEL
1. General public services	Basic research activities (statistical office)
2. Public order and safety	Firefighting
3. Economic affairs /transports	Road networks and facilities (highways, national, regional, local); Ports (sea and fishing, inland waterways); Public transport (road); Support to local enterprises and entrepreneurship; Agriculture, rural development, irrigation; Commerce; Energy (electricity, gas, etc.)
4. Environmental protection	Parks & green areas; Nature preservation; Waste management (collection, treatment and disposal of waste); Sewerage (waste water management); Street cleaning
5. Housing and community amenities	Drinking water distribution; Housing (subsidies); Housing (Construction/renovation); Housing (Management); Urban and land use planning; Urbanism
6. Health	Primary healthcare (medical centres); Hospital services (general and specialist); Preventative healthcare; Public health services
7. Recreation, culture & religion	Sports and recreation; Libraries; Museums
8. Education	Pre-primary education; Special education
9. Social protection	Social care for children and youth; Support services for families; Elderly; Disabled people; Social exclusion / poverty (benefits and policies); Immigrants; Integration of foreigners; Social welfare centres; Housing subsidies/benefits; Unemployment subsidies/benefits

SUBNATIONAL GOVERNMENT FINANCE

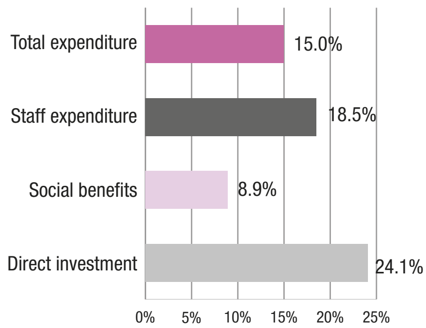
Scope of fiscal data: the "local government sector" for which financial data are provided: municipal councils, town councils and county councils.	Other IMF GFS	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The Constitution assigns specific powers, functions and fiscal resources to each level of government (Article 6(2)). Furthermore, the Constitution requires all county governments to operate a financial management system that comply with any requirements prescribed by national legislation (Article 190). The Public Finance Management Act of 2012 provides for the effective management of public finances by the national and county governments; the oversight responsibility of parliament and county assemblies; and the different responsibilities of government entities and other bodies. It also prescribes the Integrated Financial Management Information System (IFMIS) to be adopted by both national and county governments. In the event that a county government does not operate the said financial management system or is unable to perform its duties, the national government may then intervene. The Senate determines the allocation of national revenue among counties, and exercises oversight over national revenue allocated to the county governments.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**133**	**4.2%**	**100%**
Inc. current expenditure	90	2.9%	67.9%
Staff expenditure	50	1.6%	37.8%
Intermediate consumption	30	0.9%	22.2%
Social expenditure	3	0.1%	2.6%
Subsidies and current transfers	0	0.0%	0.2%
Financial charges	3	0.1%	2.3%
Others	4	0.1%	2.7%
Incl. capital expenditure	43	1.4%	32.1%
Capital transfers			
Direct investment (or GFCF)	43	1.4%	32.1%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



KENYA

UNITARY COUNTRY

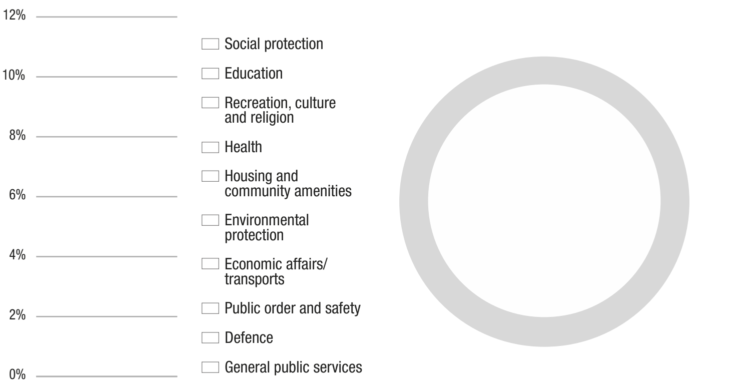
EXPENDITURE. The Public Finance Management Act of 2012 gives county governments latitude to determine and finance their expenditure priorities. The preparation and approval of budgets is done at the county level. In FY 2016, the total expenditure by county governments was 15% of the general government's expenditure. More than two thirds of counties' total expenditure e (68%) fall under current expenditure, with staff costs being the highest, accounting for almost 60% of the counties' current expenditures and almost 40% of the counties' total expenditure. Capital expenditure represents 32% of total county expenditures.

INVESTMENT. A Public Private Partnership Act enacted in 2013 allows government to engage the private sector for the provision of public services, providing counties with the opportunity to deliver services to their community in a more effective manner by partnering up with the private sector. Opportunities for external funding and the use of Public Private Partnerships are likely to increase direct investment at county level.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

No data available.
In line with their responsibilities, Local governments in Kenya generally devote the majority of their budget to economic affairs & transport, environmental protection, housing and community amenities, and the implementation of programs and projects in the areas of health, education and culture.

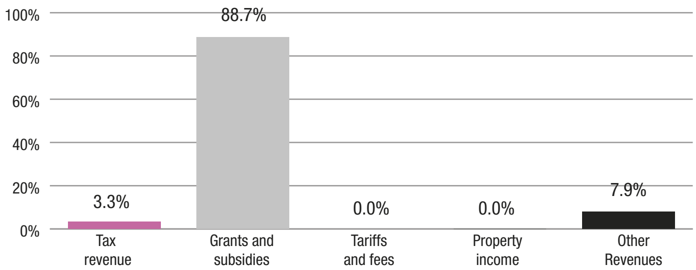
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**137**	**4.3%**	**20.6%**
Tax revenue	5	0.1%	0.9%
Grants and subsidies	121	3.8%	
Tariffs and fees	0	0.0%	
Property income	0	0.0%	
Other revenues	11	0.3%	

% SNG REVENUE



OVERALL DESCRIPTION. County government revenues represent 20% of total general government revenues. A very limited part of the revenue raised comes from tax and other revenues. The bulk of county governments' revenues come from grants and subsidies, which account for nearly 90 per cent of all county government revenues.

TAX REVENUE. Tax collection rates are low in Kenya and tax revenues represent less than 4% of subnational revenues. A 2018 study estimates that, on average, Narok County had the highest share of own-source revenues, accounting for 71% of its total revenues, followed by Nairobi City County and Isiolo County with 66% and 60% respectively.

County governments are only allowed to levy property and recreation taxes, which they collect in collaboration with the Kenya Revenue Authority (KRA). Property tax collection is particularly low due to incomplete and obsolete information on tax cadastres and over-reliance on the valuation of individual parcels - without the use of simpler mass valuation techniques. The entertainment tax is imposed on entertainment, is borne by the consumer of entertainment and is paid by the service provider. The legal framework governing entertainment taxes is provided for in the Constitution, under the Entertainment Tax Act Cap. 479 and the Betting, Lotteries and Gaming Act (Cap. 131). Similarly, the collection of recreation tax is also low, due to a lack of clarity in legislation and responsibilities for tax collection at the county level.

Only an Act of Parliament can authorize the levying of any other taxes by county governments. However, county governments may charge fees for the services they provide. The legislation specifies that a county's tax and other revenue collection powers must not be exercised in a manner that adversely affects national economic policies, economic activities beyond the county's borders or the national mobility of goods, services, capital or labour.

GRANTS AND SUBSIDIES. County governments receive nearly 90% of their revenues in the form of grants and subsidies from the central government. And there is currently no policy in place to support an increase in local revenues.

A study carried out in 2018 showed that there are significant inequalities in grants and subsidies received by the different counties: In recent years, on average, Nairobi County has received 10.7% of intergovernmental transfers, compared to Lamu County, which received only 0.6%.

According to the Constitution, marginalized communities within counties are also entitled to receive resources from government equalization funds (section 203), through conditional grants. Equalization funds are intended to improve services such as water, roads, health and electricity in marginalized communities to bring them up to standard. However, the level of funds transferred to marginalized counties is not recorded.

OTHER REVENUES. Other revenues represent an estimated 8% of total subnational government revenue collected. These revenues are non-tax revenue, mostly from collection of county governments' user fees and charges from the sale of goods and services within the communities. Common fees and charges revenue collected are from market and trade licensing fees, parking fees, liquor licensing, county parks, beaches and public cemeteries, as well as licensing of domestic animals, ferries, tourism and casinos.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**16**	**0.5%**	**1.0%**	**100%**
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. The Constitution provides for the establishment of constitutional commissions and independent offices (Auditor General and Budget Controller) to strengthen the balance of power within the government. The financial statements must be presented at the end of each fiscal year for audit by the Comptroller and Auditor General. Kenya counties have improved the transparency of their budgets and are publishing more budgetary information.

The Financial Administration Act 2012 gives the Secretary of the Cabinet (Minister) responsible for the National Treasury the power to stop the transfer of funds to a county government if it is established that there has been a serious or persistent material breach of the measures provided for in the Act. However, Parliament may not approve or renew a decision to stop the transfer of funds unless the Comptroller has submitted a report on the matter to Parliament and the county government has had an opportunity to respond to the allegations made against it and present its arguments before the relevant parliamentary committee.

DEBT. County government debt account for less than 1% of Kenya's GDP in FY 2016. County governments are allowed to take out loans within Kenya, as long as they comply with the legislation. To borrow abroad they need to secure a guarantee from the national government. Borrowing by county governments is however restricted and is implemented under the condition, provided that the national government guarantees the loan and with the approval of the county assembly.

Recently, the World Bank Group launched a Creditworthiness Academy to assess the credit worthiness of counties. The objective of the Academy is to build capacity of county government financial officials and central government staff, to master the principles of creditworthiness. Through this initiative, officials are encouraged to identify solutions to key risks, market failures, and obstacles that prevent market-based financing from playing a greater role in addressing development challenges.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: IMF-GFS Data // The Office of the Controller of Budget of Kenya.
Other sources of information: UCLG Africa and Cities Alliance (2018) Assessing the Institutional Environment of Local Governments in Africa // George Githinji (2019) A look at presidential system of government in Kenya // Commonwealth Local Government Forum (2017) The Local Government System in Kenya. Country Profile // UN Sustainable Development Knowledge Platform (2017) Kenyan Voluntary National Review 2017 // Ministry of devolution and planning, Implementation of the Agenda 2030 for Sustainable Development in Kenya // UNDP (2016) National Urbanization Strategies // International Journal for Innovation Education and Research (2018) Effects on fiscal decentralization on poverty reduction in Kenya.