County Governance and Economic Development Index:
Public Finance Management and Business Environment Governance in Seven Counties
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Executive Summary

The County Governance and Economic Index is an audacious attempt to evaluate county development from a spectrum of parameters that transcend the spheres of political governance, public finance, and economics. In this index, we collect data and take stock of the developments in public finance, particularly the use of public resources and governance of the economic environment. We analyze the Auditor General’s and the Office of Controller of Budgets (OCOB) report from seven counties: Kisumu, Nairobi, Machakos, Kiambu, Mombasa, Nakuru and Uasin Gishu since 2013, for the Political Governance sub-index, although the Political Governance sub-index primarily deals with Public Finance Management, we associate it with political governance because thrifty and ethical public finance management are ultimately functions of the political office bearers like the governors and their willingness to institute the same. For the Economic Governance sub-index, we analyze the World Bank’s sub-National Doing Business Report for 2016, for the same seven counties with the exception of Nakuru.

The composite County Governance and Economic Development Index has fourteen data points, the Political Governance sub-Index, accounts for nine data points while the Economic Governance sub-Index accounts for four data points.

The data points for the Governance sub-index include: Availability of the County Integrated Development Plan (CIDP); Availability of the County Fiscal and Strategy Paper (CFSP); Timely dissemination of the County Budget Estimates (CBE); Availability of the Annual Development Plans (ADPs), Availability of the County Budget Review and Outlook Paper (CBROP); Development Expenditure as a percentage of total County Expenditure (DevEx); Procurement Based Queries as raised by the Auditor General’s report (ProQuery); Imprest queries as raised by the Auditor General’s report (ImprQuery); and Cash Balance queries as raised by the Auditor General’s report (CashBalQuery).

The data points for the Economic Governance include data collected by the World Bank’s: “Doing Business in Kenya 2016” report. It evaluates the relative ease of Dealing with Construction Permits; the relative ease of Registering Property; the relative ease of Enforcing contracts and the relative Ease of dealing with construction permits in each particular county.
Data collected shows the distinction between the Political Governance sub-index and the Economic Governance sub-index. For example, in the Political governance sub-index, Machakos County comes atop of the seven profiled counties by having an aggregate score of 65.68%, the lowest ranked county in the Political Governance sub-index is Mombasa county with an aggregate score of 52.69%.

In the Economic Governance sub-Index, Kisumu County scores the highest points on average of the four parameters examined, scoring an average of 65.3%, while Nairobi county has the lowest average score with a score of 62.8%. The Economic Governance sub-index shows quite some variability across the data points. Some counties have very good scores when it comes to some aspects of the Economic Governance sub-Index like enforcing contracts for example, whereas they are very poor at others, like dealing with construction permits.

Of the seven counties analyzed, Machakos County has the highest score in the composite County Governance and Economic Index; with a score of 64.93%, whereas Mombasa County has the lowest score of 58.8%. All counties surveyed, with the exception of Mombasa, have higher scores in the Political Governance sub-Index.

\[1\text{http://www.doingbusiness.org/~/media/WBG/DoingBusiness/Documents/Subnational-Reports/DB16-Sub-Kenya.PDF}\]

\[2\text{We were not able to collect data for the Economic Governance sub-Index for Nakuru County because of unavailability of data from the World Bank Report.}\]
1.0 Introduction

The promulgation of the Kenyan constitution in 2010 heralded a new dawn in public finance management in Kenya. Public participation was ushered in, to democratize the management of public finance in the country. The constitution sought to mainstream the values of accountability, openness, and integrity in the public finance management processes. The management of public finances was taken away from cliques of a few individuals in the defunct local authorities (now county governments) and the national government. In the previous dispensation, very little information was disseminated to the public. The management of public finances was conceived as a highly technical exercise, which the general public lacked the capacity to understand. As such, consultation, public participation and oversight were almost non-existent. Today, the constitution and other auxiliary legislation(s) have established structures, and minimum thresholds to deliver the aforementioned values. The constitution and supporting legislation such as the Public Finance Management Act (2012) and the County Governments Act (2012) have explicitly provided for institutions structures that guide public finance management in the country. Primarily, the spirit and objective of the constitution and accompanying Acts of Parliament were to engender transparency, trust and inclusion in the management of public finances as well as ensuring that the public got value for money spent on their behalf by county governments.

However, while developments in the management of public finances are worth of mention, they should not come at the cost of another important facet of the Kenyan economy; the business environment. This is particularly important because unlike in the previous constitutional dispensation, devolved governments now have a constitutional mandate to, through county assemblies and other executive actions to put in place policies that have a serious bearing on the business environment in those particular counties. This ultimately means that counties could inadvertently put in policies that impair efforts to energize the business environment in the nationally. The Constitution’s Fourth Schedule gives county governments the mandate to institute regulations in areas of trade, markets and county planning and development, which include the regulation of housing and construction. The licensure regimes, which counties put in place, could place formal and informal barriers to the intensity of trade in these particular counties. The burden of these barriers to trade could disproportionately fall on informal, and small and medium enterprises. This index primarily deals with the congruence of public finance management in the counties as well as the creation of optimum business and economic environments in the county, without one, you would not achieve the other.
Because of the aforementioned, it becomes critical to create a nexus between two areas of governance; the political governance of resources from financial resources both from the national government and collected locally in the county and the governance of regulation that appertains to commerce and economic activities in the county. Ultimately, good political governance of financial resources at the county creates a sense of social accountability and speaks to constitution’s spirit of democratizing resource management in the county. Enabling regulation of economic activity in the county creates an optimum economic environment that allows business to thrive and provide gainful employment to the county.

The County Governance and Economic Development Index provides an objective platform upon which development in county governance after their advent in 2013 can be evaluated. The index is divided into two;

The political governance of the index, which evaluates ten data points related to the management of Public Finance in the counties; which include:

1. Availability of the County Integrated Development Plan (CIDP)
2. Availability of the County Fiscal and Strategy Paper
3. Timely dissemination of the County Budget Estimates
4. Availability of the Annual Development Plans
5. Availability of the County Budget Review and Outlook Paper
6. The Development Expenditure as a percentage of total County Expenditure
7. Net Count of Procurement Based Queries as raised by the Auditor General’s report
8. Net Count of Imprest queries as raised by the Auditor General’s report
9. Net Count of Cash Balance queries as raised by the Auditor General’s report.

The economic governance sub-index is composed of data collected through the World Bank’s “Doing Business in Kenya 2016” report.

The Economic Governance component of the index has four Data Points, they include:

1. The Ease of Starting a Business
2. Dealing with Construction Permits
3. Registering Property
4. Enforcing contracts

Data collected for the four sub-components of the Economic Governance is measured in the World Bank’s Distance to Frontier (DTF) methodology. A score of 100% being the global best practice for each sub-component a score of 86%, for example, means a 14% points deviation from global best practice.

2.0 Methodology
2.1 Governance Index

Data collected for the Composite Governance and Economic Index was aggregated from different sources:
Data for County Integrated Development Plans (CIDPs) availability was collected from the websites of the seven counties evaluated.
Data for County Fiscal Strategy Paper was collected from the county websites and evaluated over the availability of a four year period (from the fiscal year 2013-2014 to 2016-2017). Availability of the CFSP was weighted at 25% for each year, meaning that counties that had CFSPs available got a perfect score of 100% over the four-year period.
Data for County Budget Estimates (CBE), was collected from county websites and collaborated with the International Budget Partnership’s (IBPs) report on public finance transparency titled, “How Much Budget Information are Counties Publishing Online.” Availability of the CBE was weighted at 25% for each year, meaning that counties that had CBE available got a perfect score of 100% over the four-year period.
Data for the availability of the Annual Development Plans (ADPs), was collected from county websites. Availability of the ADPs was weighted at 25% for each year, meaning that counties that had ADPs available got a perfect score of 100% over the four-year period.
Data for the County Budget Review Outlook Paper (CBROP) was collected from the International Budget Partnership’s (IBP) report; “How Much Budget Information are Counties Publishing Online?” Availability of the CBROPs was weighted at 25% for each year, meaning that counties that had CBROP available got a perfect score of 100% over the four-year period.
Data for the percentage of expenditure devoted to development as a percentage of total county expenditure was collected from Office of the Controller of Budgets (OCOB). Counties were scored based on the average percentage of Development Expenditure (DevEx) over the four fiscal years.
Procurement Queries

Data for procurement queries was collected from the Auditor General’s Report. Counties were scored based on a weighted net negative count of each procurement based query raised by the Auditor General’s Report.

Imprest Queries

Similarly, data on imprest queries was collected from the Auditor General’s Report for each analyzed. Counties were scored based on a weighted net negative count of each imprest based query raised by the Auditor General’s Report on the financial statements of each particular county analyzed. Imprest queries examined the level of fiducial responsibility that imprest holders had, in keeping with the spirit of accountability and transparency as well as the robustness of each county’s financial system.

Revenue based Queries

Data on Revenue queries was collected from the Auditor General’s Report for each county analyzed. Counties were scored based on a weighted net negative count of each Revenue based query raised by the Auditor General’s Report on the financial statements of each particular county analyzed. Revenue queries mostly referred to a county’s ability to budget for projected revenue as well as putting in place measures to go forward and collect the same revenue. Revenue queries also related to counties ability to:

- A county’s ability to raise local revenue;
- The ability of a county to reign on unnecessary expenditure.
**Cash Balance Queries**

Cash Balance Queries relate to queries raised by the Auditor General’s about a county’s cash and cash assets management practices. Counties were scored based on weighted net negative count of each Cash Balance based query raised by the Auditor General’s Report on the financial statements of each particular county analyzed.

2.2 The Economic Governance sub-Index

Data for the Economic Governance sub-Index was collected from the World Bank’s Report “Doing Business in Kenya.” Scores were allocated to counties using the World Bank’s Distance To Frontier (DTF) which evaluates a county’s relative standing from “best practice” for each particular indicator. For example, a score of 54% in Ease of Registering Property in a particular county means that that particular county is 44% points below global best practice in the Ease of Registering Property. Data for the Economic Governance sub-Index was collected for:

- a) Ease of Starting a Business
- b) Ease of Registering Property
- c) Ease of Dealing with Construction Permits
- d) Ease of Enforcing Contracts
3.0 Results and Analysis
3.1 Political Governance Index

Source: Availability of the County Integrated Plans

The seven counties have complied with Section 108 of the CGA 2012 by providing their County Integrated Development Plans for a period of five years, which are documents with clear goals and objectives, an implementation plan with clear outcomes, provisions for monitoring and evaluation, and clear reporting mechanisms. A statutory deadline of 1st September 2013 had been set for counties to avail their CIDPs. The counties have set a good base for citizen participation through which the public can judge whether the county’s annual budget was informed by the aspirations of the CIDP. Due to limitations of time in the development of this Index we were unable to conduct a qualitative analysis of the CIDPs and to determine if indeed they are fit for purpose for each particular county.

7Documents available on the county websites
The county governments are mandated to prepare the County Fiscal Strategy Paper and submit to the county assembly by the 28th February of each year. None of the counties has made all the CFSPs available on their websites for the four years under review. Machakos and Uasin Gishu fared well by availing the document for 3 of the 4 years (75%) while Kiambu provided for two years (50%). Nairobi published the document only once (25%). Kisumu, Mombasa, and Nakuru never published the CFSP on their website for any of the four years (0%). As provided for under Section 118 (5) of the PFM Act of 2012, the CFSP is supposed to include the views of the Commission on Revenue Allocation, the public, any interested persons or groups, and any other forum that is established by legislation. It means that the impact of public participation cannot be established since the CFSP is a product of the deliberations in a County Budget and Economic Forum. Failure to publicize the CFSP by the counties curtails public participation, which means the annual budgets prepared by the county governments are not owned by the public, but a few individuals within the County Treasury.

Source: (International Budget Partnerships, 2016)
Out of the seven counties, none has provided all of its budget estimates for the four financial years under review. Mombasa has not provided any budget estimate document (0%) while Kiambu and Uasin Gishu have each availed the document for one financial year (25%). Nairobi, Machakos, Kisumu, and Nakuru have made it available for two financial years scoring 50% each. There is very little information coming from the counties on how they project to raise their revenues and how they will spend it yet the County Executive Committee member in charge of finance is mandated by Section 129 (6) to publish and publicize the county budget estimates including on the county website. The counties are failing to facilitate effective public participation as envisaged by Section 91 of the County Governments Act of 2012 by denying easy access to information provided for by Section 96 of the same Act.

Source: (International Budget Partnerships, 2016)

Kisumu and Uasin Gishu haven’t made their Annual Development Plans available on their websites (0%) since devolved governments came into place. Nakuru has made it available for only two financial years (50%) while Nairobi, Kiambu, Machakos, and Mombasa have only published it once each (25%). The ADP is an important document provided for under article 220 (2) of the Constitution and Section 126 of the PFM Act of 2012 since it contains a summary of the budget and capital developments of the county for public scrutiny. The public is unable to keep track of the payments that are to be made on behalf of the county government, including details of any grants, benefits, and subsidies that are to be paid.

Source: Availability of the Annual Development Plans

sourced from county websites
Figure 5: Availability of the County Budget and Review Outlook Papers

The CBROP provides information on the fiscal performance of the previous year in comparison to the budget appropriation for that year. Only Machakos failed to provide the CBROP in any of the four years (0%) while Nairobi, Machakos, Kiambu, Kisumu, Nakuru Mombasa, and Machakos provided for only one year (25%). Consequently, little information is available to the public on the absorption of the budget into their county’s economy. Interrogation of budgetary allocations for the incoming fiscal year vis-à-vis the previous one is hindered due to lack of sufficient information on whether fiscal objectives of the county are being met.


12Available on some county websites
On average, the counties are meeting the minimum statutory requirement of thirty percent of the total budget to development expenditure. At 32%, Nairobi County posts the lowest average while Machakos County has the highest at 49.7%. Only Nairobi in 2014/2015 (26.8%) and Nakuru in 2013/2014 (29%) allocated less than the 30% prescribed Section 15 (2) of the PFM Act of 2012.
Over the last four fiscal years, a number of procurement queries have been through audit reports in the counties. Kisumu leads in the number of procurement queries with a total of 20, followed by Nairobi with 12, Mombasa with 11, Kiambu and Machakos with 10 each, Nakuru with 5 while Uasin Gishu has the least with 4. This could explain the high levels of corruption with a report on economic crimes in 2016 by Price Waterhouse Coopers ranking Kenya the third most corrupt in the world.

Source: Kenya National Audit Office (KENAO) Reports

The number of imprest based queries raised by auditor general across the seven counties evaluated raises questions of probity amongst county officers and officials. For example at the end of Financial Year ending on June 30th 2015, Mombasa County had un-surrendered imprests totaling up one hundred and twelve million, four hundred and thirty eight thousand shillings. Forty one million of this amount was held by 94 county officers with multiple un-surrendered imprests contrary to the law. Mombasa county had the highest count of imprest based queries while Uasin Gishu had the least imprest based queries according to the Auditor General’s report.

Source: Kenya National Audit Office (KENAO)

Figure 8: Performance in Terms of Imprest Queries

Similarly counties had counties faced budgetary difficulties, owing mainly to their inability to forecast future revenue collections. This mainly arose because counties lacked appropriate plans or ability to collect revenue. As a consequence counties faced had substantial budgetary deficits because of problems in revenue collect and forecasting. For example Nairobi had a deficit of approximately 2.8 Billion shillings or approximately 11% of total budgeted revenue.

Source: Kenya National Audit Office

Figure 9: Revenue Queries

The Auditor General’s report also called in to question the cash management practices of the counties. For example Machakos County operated fifty-three bank accounts, the county also failed to provide crucial information on the accounts relating to bank balances, account signatories and date of opening of the accounts contrary to the Public Finance Management Act. With regards to the Cash and Cash Balance Management, the Auditor General raised the most questions of Nairobi County and the least questions of Uasin Gishu County.

Source: Kenya National Audit Office

Figure 10: Cash Balance Queries

Based on the amount of information disseminated by the counties and the structures put in place to facilitate transparency, accountability, and public participation Machakos County leads among the seven counties with an aggregate score of 65.68%. The poorest performer is Mombasa County with a score of 52.69%. Other than Mombasa and Kisumu that have 52.69% and 55.35% the other five counties range between 60.13% and 65.68%. The slight deviation is attributed to the little information they are providing to the public. It is only the County Integrated Development Plan that all the counties have provided largely due to the fact that it is only a single five-year document.
3.2 Economic Governance sub – Index

Figure 12: Ease of Starting a Business

Source: (World Bank, 2016)
The counties are ranked based on the number of procedures, time, and the cost (% of income per capita) required to start a business. The number of procedures is uniform (7) while the time and cost are variable. Uasin Gishu (83.73) is the easiest county to start a business (20 days at a cost of 20.4% of income per capita), followed by Kiambu at 83.63% (21 days at a cost of 19.1% of income per capita), Machakos at 83.41% (21 days at a cost of 21.9% of income per capita), Mombasa at 82.91% (20 days at a cost of 26.9% of income per capita), Nairobi at 82.76% (22 days at a cost of 24.1% of income per capita) and Kisumu at 82.26% (25 days at a cost of 22.1% of income per capita). Investors tend to be frustrated by the rigorous procedure long time required to set up their business while the cost pushes up their operational expenses.

This aspect deals with the number of procedures, time and cost (% of warehouse value) needed for a small business to acquire the necessary approvals when building a simple commercial warehouse, as well as connect it to the water and sewerage network. Kisumu County (70.49%) is the easiest to deal with construction permits (15 procedures, 98 days, and cost of 3.5% of warehouse value) while Nairobi (56.17%) is the hardest with (17 procedures, 171 days, cost of 7.1% of warehouse value). Contrary to expectations, Nairobi being the commercial hub of Kenya makes it more difficult for investors to obtain construction permits compared to the rural county of Kisumu.

Source: (World Bank, 2016)

Figure 13: Ease of Dealing with Construction Permits

Source: (World Bank, 2016)
It measures the series of procedures required for a business to acquire a fixed asset from another business and transfer the property title formally to the buyer’s name. 9 procedures are required in all the counties while the time and cost (% of property value) are variable. Nairobi (54.27%) comes on top in this category 61 days at a cost of 6.13% of property value while Machakos (48.33%) is the least efficient taking 70 days at a cost of 6.05% of property value).

Figure 14: Ease of Registering Property

This category measures the time and cost (% of claim) taken to resolve a commercial dispute in a local court after its first mention. Mombasa (58.96%) does best by taking 390 days at a cost of 40.7% of claim while Kiambu (56.97%) is the worst taking 455 days at a cost of 38.6% of claim. Commercial disputes generally take long in Kenya with constant postponements of hearings while in the worst case scenarios evidence disappears mysteriously. The low credibility of the judicial system further weakens the interest of investors for the fear of not reaping what they sow.
Figure 16: County Business Index*
3.3 Composite County Governance and Business Index

Figure 17: County Governance and Business Index
The seven counties perform poorly on the Governance Index in comparison to the Business Index. Only Uasin Gishu’s performance in both indices is almost at par scoring 64.65% and 64.83% for the governance and business components respectively. The biggest discrepancy between governance and doing business is observed in Mombasa County at 52.69% and 64.92% respectively. A possible explanation is that the Mombasa County government is not releasing sufficient information regarding public policy and development to enhance public participate scoring lowly in governance. On the other hand, Mombasa is a port city, which is a gateway to the landlocked countries of East and Central Africa. Therefore, it was necessary for the County to reduce the bureaucracies involved in starting and running a business hence a better score in the ease of doing business. Good governance is a prerequisite for a vibrant business environment in the counties thus the need for the county governments to promote transparency by engaging the public more in governance issues.
4.0 Conclusions and Recommendations

Although the ultimate responsibility for development planning, economic growth, and general national progress falls within the mandate of the National government, there is a lot that counties could do to catalyze the process. Whereas not at all adequate, the transfer of fifteen percent of national revenue to governments could an important spur to development in the counties.

However, a high moral threshold is required in order to transform resources for development and progress. The availability of resource expenditure be they financial or technical is not in itself a measure of development, rather progress could only be evaluated based on who resource expenditure positively transforms the lives of those they are supposed to transform. Here, we make distinction monetary, physical and, soft resources such as a county’s human and policy capacity. Ultimately it is resources of the latter kind that transform monetary and physical resources at the behest of each county into development. This transformation happens through transparent and open political governance which engenders public trust and thrifty and ethical policy making that does not in itself enfeeble the capacity of county residents to participate in effective economic activity.

However, experience and data from this County Political and Economic Governance shows that County Governments, either lack appreciation accountability, transparency and an optimum regulatory policy rule making, with regard to the economic environment and the strong correlations these have with development or they willfully choose to ignore the same.

All is not lost, though, is not lost, probity particularly with regards to public procurement at the county level could see the public get more value for money. Although there is need to strengthen the rules that expose public funds to misappropriation, a lot to could be done in developing cultural norms that uphold transparency and accountability and abhor all forms of corruption. However, this responsibility does not squarely fall with County Governments or County Assemblies, it is both a shared responsibility and burden that falls on not only the National Government or County governments, but with citizens and other engaged civic actors.

Better organization from local business communities could, for example, illustrate the direct cost sub-optimal business environment regulation on employment and increasing overhead costs for example. On their part, Civil Society Organizations (CSOs), could share both the indirect and indirect costs of public resource misappropriation. They could for example share, what unethical public procurement has on roads for example and other social programs, they could share the effect on cronyism in public procurement on equity in social spending and programs.

Ultimately, Civil Society Organizations in counties and the business community in counties should not operate in silos. They should clearly understand the inter-relationships between them and synergize their advocacy for better impact.
5.0 Appendix


About
A premier Centre for: Free-Market oriented and Liberal policy analysis, education and reform in Eastern Africa,

Mission
To be a premier Centre for: Free-Market oriented and Liberal policy analysis, education and reform in Eastern Africa. EAPC endeavors to become a proactive tool for goal and development oriented policy reform and provide governments, organizations and individuals with evidence based policy alternatives.
To promote and widen the frontiers of; social, economic, and individual freedoms within Eastern Africa through by carrying in-depth policy research and analysis.