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# EVALUATION:
# KENYA SMALL TOWNS SHELTER AND COMMUNITY DEVELOPMENT PROJECT (615-HG-006 AND 615-0212)

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# Preface

This evaluation was undertaken by Abt Associates Inc. for the A.I.D. Regional Office of Housing and Urban Development based in Nairobi, Kenya (RHUDO/ESA). This report is based on the team's field work of September-October 1988.

We thank the RHUDO for the substantive guidance it provided: Jack Hjelt's preliminary orientation, Michael Lippe's briefings, Richard Martin's overall direction, and Joel Kolker's comprehensive review and comment of earlier drafts.

We, of course, take full responsibility for this report.

John D. Miller
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## Acronyms

| | |
|---|---|
| A.I.D. | U.S. Agency for International Development |
| CDSS | Country Development Strategy Statement |
| GOK | Government of Kenya |
| GTI | Government Training Institute (Mombasa) |
| HG | Housing Guaranty |
| IA | Implementation Agreement |
| ISC | Interministerial Steering Committee |
| Ksh | Kenya Shilling (US$1.00 = Ksh 18.1, October 1988) |
| LADP | Local Authority Development Programme |
| LGLA | Local Government Loans Authority |
| MLG | Ministry of Local Government and Physical Planning |
| MLH | Ministry of Lands and Housing |
| NHC | National Housing Corporation |
| ODA | Overseas Development Administration (British) |
| PID | Project Identification Document |
| PMU | Programme Management Unit |
| PP | Project Paper |
| PRE/H | A.I.D. Office of Housing and Urban Programs |
| RHUDO/ESA | Regional Housing and Urban Development Office/East and Southern Africa |
| TAT | Technical Assistance Team |
| USAID | A.I.D. Mission to Kenya |

I. INTRODUCTION

The subject of this evaluation is a project developed by A.I.D. and the Government of Kenya (GOK) in 1979 and 1980 in support of GOK policies and in response to a request for assistance. A Housing Guaranty (HG) loan of $16 million (615-HG-006) and a complementary technical assistance grant of $665,000 (615-0212) were authorized in September 1980 for the Small Town Shelter and Community Development Project. Over the subsequent eight years, the implementation of the Small Towns Project has moved in several directions. The project has at times gone forward expeditiously and at times slowed to inaction. The number of participating towns has increased, the objectives have expanded and changed, substantial technical assistance has been provided and then terminated. Ultimately the project has financed the construction of revenue-generating projects, local infrastructure, and housing for low-income families in 26 towns of 5,000 to 20,000 around the country.

The Implementation Agreement was signed in February 1983. The Loan Agreement for the first $1.5 million was signed, and the funds disbursed, in April 1985. The Loan Agreement for the next $3.5 million was signed, and the funds disbursed, in November 1986.

All of the HG funds have been expended or are now programmed for specific construction projects. Negotiations for the third and final HG borrowing are currently underway; disbursement from the Lender to the GOK of the final $9.55 million is imminent. Long- and short-term assistance, training, and equipment purchases that were funded by the grant component of the project have been completed.

Three project reviews have previously been undertaken, each focusing on specific project concepts and components. A July 1985 study (PADCO) reviewed how the project accomplishments could contribute to the GOK policy of District Focus for Rural Development. A September 1986 evaluation of the RHUDO's training program (Community Consulting Group, International) takes a critical look at the training provided in support of the Small Towns Project. A May 1988 study (Matrix) looked at the financial impacts of the project's revenue-generating components.

The RHUDO concluded that in view of the significant physical progress achieved and the completion of the technical assistance and training activities, an evaluation should take place at this time. The RHUDO identified two broad objectives to this evaluation. RHUDO asked for a review of the project's impact on the identification and preparation procedures of national and local institutions to undertake project activities, particularly in the context of the project components yet to be implemented. Proposals for the design and development of other similar projects are also reflected in this objective. At the same time, RHUDO seeks to determine how any of the concepts of the Small Towns project might be usefully applied to the current development of a USAID program that proposes market town investments as one means to improve agricultural market systems and productivity (Kenya Market Development Program).

The evaluation was undertaken by an urban economist and urban development planner. Prior to arrival in Kenya, the team reviewed all relevant documents made available in Washington by the RHUDO and the Office of

Housing and Urban Programs (PRE/H). These included the original Project Identification Document (PID) and Project Paper (PP), the Implementation Agreement, interim project reviews, and other related reports and studies. At that time also, the team reviewed A.I.D. guidance and methodologies for undertaking evaluations, incorporating relevant portions into the approach ultimately used.

The team spent three weeks in Kenya, benefiting from discussions with the RHUDO staff and studying the extensive project files. A list of the most significant reference materials is found in Appendix B.

In Nairobi, the team met with senior representatives of the key Kenyan institutions, most notably the Ministry of Local Government and Physical Planning (MLG), Ministry of Lands and Housing (MLH), and National Housing Corporation (NHC). The team also met with consultants who have had long and short term involvement with the project. Time constraints limited site visits to four towns that were selected by the MLG to represent a range of problems and accomplishments. The team visited Kitui, Karatina, Nyahururu, and Naivasha, meeting in each with the responsible local authority officials as well as representatives of parastatal and private financial institutions, business owners, market vendors, Peace Corps Volunteers, and others. A complete list of persons interviewed is found in Appendix A.

The following section of this report, Part II, provides a description of the Small Towns project tracing its evolution from the original design to its current concept and approach. Part III presents the findings and conclusions of the evaluation, reflecting an analysis of the project from the views of overall progress, project types, institutional development, and project management. Finally, Part IV suggests lessons and recommendations for continuing project implementation and the development of the Kenya Market Development Program.

## II. PROJECT DESCRIPTION

Kenya's population of over 21 million people is growing at an estimated rate of four percent per year, among the fastest in the world. Like most African countries, Kenya is experiencing rapid urbanization. The population living in urban places, now about 18% of total population, will climb to 30% by the turn of the century. Significantly, Kenya's secondary cities and towns are growing at a faster rate than its primary cities of Nairobi and Mombasa.

The consequences of these trends have been quite serious in small towns - difficulties in providing minimal services and infrastructure to encourage the creation of much-needed jobs, limited capacity to plan and manage the towns' traditional responsibilities, particularly their finances, and difficulties in promoting the construction of housing affordable to low-income families. These and other circumstances have led the Government of Kenya (GOK) to develop programs and projects that reflect policies such as encouraging economic balance among urban and rural places, decentralizing local government authority decision-making and revenue-raising, and promoting collaboration with the private sector in the delivery of urban services.

In 1979, even before some of these policies were clearly articulated, the GOK sought assistance from international donors to focus development assistance on towns other than the largest three (Nairobi, Mombasa, and Kisumu). The GOK requested the World Bank, A.I.D., and the British Overseas Development Administration (ODA) to fund projects in about 35 secondary and small towns.

A.I.D.'s Project Identification Document (PID) in July 1979 and Project Paper (PP) in September 1980 identified 11 towns in which a $16 million Housing Guaranty (HG) loan would finance low-cost shelter solutions (core housing, serviced sites, neighborhood upgrading, home improvement loans, and rental units), serviced sites for small businesses, a small business development program for women, demonstration projects in energy saving, construction and sanitation technology, and community facilities.

The project goal was "to improve the living conditions of low-income households living in the secondary towns and populated centers outside of Nairobi." The project purpose was "to demonstrate improved methods for the administration of public sector low-cost shelter programs in small towns including community facilities and employment generation components with special attention to project identification, innovative design, and post-occupancy management."

While the following highlights of the nine year chronology of the project depict delays before project implementation began, they also show sustained policy dialogue.

| Date | Event |
|---|---|
| 9/79 | Project Identification Document approval |
| 9/80 | Project Paper approval |
| 2/83 | Implementation Agreement signed |
| 3/83 | Technical Assistance Team formed |
| 6/83 | GOK District Focus for Rural Development |
| 1983 | Local Authority Development Plan, first submitted |
| 3/84 | Project Delivery Plan prepared |
| 4/85 | Loan Agreement signed ($1.5 million, Paine Webber) |
| 5/85 | Subsidiary loan agreements negotiated |
| 7/85 | First contracts awarded |
| 2/86 | On-Lending agreements signed (GOK Treasury to NHC and LGLA) |
| 1986 | Sessional Paper No. 1: Economic Management for Renewed Growth |
| 8/86 | GOK/RHUDO Redesign Workshop |
| 11/86 | Loan Agreement signed ($3.5 million, Paine Webber) |
| 3/87 | Phase Three Launch Workshop |
| 10/88 | Loan Agreement signed ($9.55 million, J. P. Morgan Securities) |

During the early years of the project's implementation, broader development objectives emerged. These objectives centered around making local authorities efficient and increasingly self-sufficient so that they could support and promote the development of their hinterlands. The objectives that ultimately developed are linked together through the GOK District Focus.

Towns that are better managed, with stronger financial resources - from revenue generating projects and property taxation, among others - will provide better services to the economic activities taking place in the agricultural regions they serve, as well as of course in the towns themselves. A dynamic will be set up that will result in additional economic activity that will in turn strengthen local authority finances and generate additional funds for development.

These concepts evolved over time through a continuing dialogue between USAID, MLG, MLH, NHC, and the local authorities. The means to implement the project's concepts were often developed and agreed upon as part of the technical assistance. Long term technical advisors were placed in the MLG and the NHC, assisting in many aspects of policy and management. Short term assistance was provided to those institutions and to the RHUDO itself in analyses of the finances and the financial management capability of several target towns. The development of the MLG manuals - largely done with RHUDO assistance - was itself a process necessitating common understandings of the project, both conceptually and practically.

Equally important in terms of dialogue were the many trainaing activities carried out by RHUDO. These included financing of Kenyan personnel to participate in important international meetings, as well as short term seminars and workshops in subjects such as local government financial management, low-income housing standards, management and development skills, local authority development programs, revenue generation, planning and budgeting, and feasibility studies. From October 1983 through August 1986, the RHUDO sponsored 15 events that provided nearly 2,400 participant days of training.

While these activities suggest an informal dialogue on the nature of the project, there were three specific actions the RHUDO carried out that served to formalize agreements on the project's objectives. In September 1985, a workshop was held to launch the project officially. In August 1986, the RHUDO and GOK held a Redesign Workshop in which the collaborating institutions discussed the GOK development policies and strategies, established local authority selection and project criteria, and reviewed the roles and responsibilities of local authorities and the central government. Then, in March of 1987, a workshop was held to orient representatives of additional towns to be included in the project to the goals and objectives, management, progress, financing, and ultimately to shelter and non-shelter project components.

The evolution in project concepts that culminated in the Workshop coincided with a) the preparation and issuance of the GOK policy on urban-rural balance that was highlighted in the Sessional Paper on Economic Management for Renewed Growth; b) the strong renewed focus of the RHUDO on broad urban development considerations rather than narrow housing ones; c) the view that the enhancement of municipal services and management capacity improves the local economy; d) GOK intent to increase autonomy to local authorities; and e) the realization that growth rates in Kenya's small towns are at least as great as its primary cities of Nairobi and Mombassa, and thus warrant increased attention.

By early 1987, the project's objectives could be characterized as follows:

1. To improve the management of local authorities - by including systematic training and technical assistance as integral components of the project.

2. To improve the finances of local authorities - by not only improving bookkeeping and accounting, but by adding to their resources by introducing projects that earn revenue for the local authority.

3. To develop the small towns so that they will better serve their hinterlands - by constructing markets, slaughterhouses, and bus parks, by upgrading roads and drainage, and by providing potable water, sanitary sewerage, and other urban services.

4. To promote the economy in the small towns - by enhancing business opportunities partly through improved infrastructure and services and partly through increased access to credit.

5. To improve the shelter delivery system in small towns - by demonstrating affordable sites and services and core housing approaches, as well as promoting effective national housing policies.

The PID described a secondary cities project that was devoted to housing - policies, standards, self-help, cost recovery, etc. Expanding on these themes, the PP suggested public facility costs would be recovered from user charges and that employment would be generated by new business formation in neighborhoods of sites and services and core housing, and by the employment generated by housing construction. The project has had only limited impact in housing. Nevertheless, the focus on secondary cities and market towns remained strong even though such a focus was never based on the idea that investments in small towns could improve a town's and region's economy.

In sum, the Small Towns Project has taken a different course because the small local authorities were given expanded responsibilities to meet growing needs but had limited capacities to respond. The RHUDO accepted the shift with the principal caveat that the projects financed must benefit low-income households and earn revenue for the authorities. The evolution from the original PID and PP to the Small Towns project of today responds to the realities of Kenya's urban needs, and the changes in the thinking of the Government of Kenya.

## III. FINDINGS AND CONCLUSIONS

We will begin with a general review of the program's progress and then look in more detail at the success of various components of the project. Institutional development and project management will then be reviewed.

### A. Program Progress

The program is laying the foundation for the achievement of its larger development objectives. The implementation of the "revenue generating" projects is going hand-in-hand with improvements in local authority management and finances. Projects now programmed in additional towns will benefit from the design and locational experience of the first sets of projects. There is a growing appreciation on the part of local authorities that they can and should be more self-sufficient than in the past. Local authorities are thinking more about planning, and recognizing the importance of good financial management. The program has reinforced the idea that local autonomy is a valid goal, causing the local authorities to look less to the central government for support, and more to their own resources.

1. Physical Outputs. The projects implemented to date are promoting the economic development of the small towns and their hinterlands. With one or two exceptions, completed projects are generating the revenue required not only to cover costs and debt service but also to add to local authority revenues.

When completed, the program will have implemented the following projects, with an invested value of about Ksh 275 million:

- 1,795 core housing units
- 218 serviced plots
- 16 markets
- 15 bus parks; 1 truck park; 1 mini bus park
- 14 slaughterhouses; 2 meat vans
- 2 road improvement projects; 1 piece of road equipment
- 1 nursery school
- 2 refuse vehicles
- 1 feasibility study

Table 1 on the following page provides the value and status of the 56 non-shelter projects and 21 shelter projects in the 26 project towns: 23 completed, 18 under construction, and 34 in tender stage.

In Table 2, the magnitude of the project activity in each town becomes clear - investments in towns ranging from Ksh 2 million to over Ksh 23 million in towns ranging in population from 2,750 to 84,300. The project financed an average Ksh 10.5 million in towns with an average size of less than 14,900.

Table 1: Value and Status of Projects by Town, October 1988 (millions of Kenya Shillings)

| Town | Market | Bus Park | Slaughter House | Mini Bus Park | Roads | Nursery School | Truck Park | Refuse Vehicle | Meat Van | Feasibility Study | Road Equipment | Core Units | Serviced Plots | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Busia | | | | | | | 7.611[b] | | | | | 6.000[b] | | 13.611 |
| Eldama Ravine | 2.200[b] | | 2.400[b] | | | | | | | | | 1.200[b] | | 5.800 |
| Embu | | 3.000[b] | | | | | | | | | | 6.000[b] | | 9.000 |
| Isiolo | | 3.200[a] | 2.611[a] | | | .749* | | | | | | 7.375[a] | | 13.935 |
| Iten | 1.800[b] | | 2.400[b] | | | | | | | | | | | 4.200 |
| Kakamega | .600[a] | 5.961* | | | | | | .652* | | | | 8.901[a] | | 16.114 |
| Kapenguria | | 2.000[b] | | | | | | | | | | | | 2.000 |
| Kapsabet | [f]4.600[a] | | 2.500[b] | | | | | | | | | 7.200[b] | | 14.300 |
| Karatina | 9.779* | 5.446* | | | 8.000[a] | | | | | | | | | 23.225 |
| Kururi | 5.000[b] | | | | | | | | | | | | | 5.000 |
| Kerugoya/Kutus | | 4.500[b] | 1.800[b] | | | | | | | | | 2.400[b] | | 8.700 |
| Kiambu | | 3.635* | | | | | | | | .050* | | 4.048* | | 7.733 |
| Kitui | 2.673* | 3.190* | 2.183* | .829* | | | | | .430* | | | 1.775* | 6.482* | 17.562 |
| Londiani | 2.400[b] | | 2.400[b] | | | | | | .350[c] | | | | | 5.150 |
| Machakos | | [c]7.595* | [d].219* | | | | | | | | | 4.500[a] | | 12.314 |
| Malindi | 5.500[b] | 2.500[b] | | | | | | 1.831* | | | | 2.400[b] | | 12.231 |
| Maralal | | | 3.000[b] | | | | | | | | | 3.400[b] | | 6.400 |
| Meru | | 4.630[a] | | | | | | | | | | [f]12.170* | | 16.800 |
| Molo | 3.600[a] | [c]4.200[a] | | | | | | | | | | | | 7.800 |
| Murang'a | [c]4.400[a] | | | | 6.500[b] | | | | | | | 2.885* | | 13.785 |
| Naivasha | 3.516[a] | | | | | | | | | | | 3.360[b]<br>2.500[b] | | 6.876<br>2.500 |
| Nyahururu | [e]2.000[a] | 2.990[a] | 1.035* | | | | | | | | .739* | 4.740*<br>3.600[b] | | 11.504<br>3.600 |
| Nyamira | 2.400[b] | | 2.400[b] | | | | | | | | | | | 4.800 |
| Siaya | | 3.600[b] | 1.800[b] | | | | | | | | | 6.827[a] | | 12.227 |
| Vihiga | 1.500[b] | | 2.400[b] | | | | | | | | | | | 3.950 |
| TOTAL | 56.618 | 60.047 | 32.848 | .829 | 14.500 | .749 | 7.611 | 2.483 | .780 | .050 | .739 | 91.281 | 9.370 | 274.905 |

*construction completed, equipment purchased, units occupied; [a]under construction; [b]tender stage; [c]includes roads; [d]electrification only; [e]extension; [f]includes 4 plots.

Source: MHUD files

Table 2: Projects and Total Value by Town, October 1988 (millions of Kenya Shillings)

| Towns | Town Population (1979) | District Population (1979) | Projects Completed, In Construction, and Programmed | Total Value |
|---|---|---|---|---|
| Busia | 24,850 | 297,850 | truck park, 100 core units | 13.611 |
| Eldama Ravine | 3,950 | 203,800 | market, slaughterhouse, 20 core units | 5.800 |
| Embu | 16,000 | 263,200 | bus park, 100 core units | 9.000 |
| Homa Bay | 7,500 | 817,600 | market, bus park, slaughterhouse, 102 serviced plots | 13.788 |
| Isiolo | 11,300 | 43,500 | bus park, slaughterhouse, nursery school, 223 core units | 13.935 |
| Iten | 8,050[a] | 148,850 | market, slaughterhouse | 4.200 |
| Kakamega | 32,000 | 1,030,900 | market, bus park, refuse vehicle, 200 core units | 16.114 |
| Kapenguria | 2,750 | 158,650 | bus park | 2.000 |
| Kapsabet | 3,000 | 299,300 | market extension, slaughterhouse, 120 core units | 14.300 |
| Karatina | 3,000 | 486,500 | market, bus park, roads | 23.225 |
| Karuri | 11,400[a] | * | market | 5.000 |
| Kerugoya/Kutus | 3,550 | 291,450 | bus park, slaughterhouse, 40 core units | 8.700 |
| Kiambu | 3,650 | 686,300 | bus park, feasibility study, 56 core units | 7.733 |
| Kitui | 4,400 | 464,300 | market, bus park, slaughterhouse, mini bus park, meat van, 30 core units, 112 serviced plots | 17.562 |
| Londiani | 4,400 | 633,350 | market, slaughterhouse, meat van | 5.150 |
| Machakos | 84,300 | 1,022,500 | bus park with roads, slaughterhouse electricity, 87 core units | 12.314 |
| Malindi | 23,300 | 431,000 | market, bus park, refuse vehicle, 40 core units | 12.231 |
| Maralal | 10,250 | 76,900 | slaughterhouse, 50 core units | 6.400 |
| Meru | 72,050 | 830,200 | bus park, 223 core units, 4 serviced plots | 16.800 |
| Molo | 5,350 | ** | market, bus park with roads | 7.800 |
| Murang'a | 15,300 | 648,350 | market with roads, roads, 55 core units | 13.785 |
| Naivasha | 11,500 | 522,700 | market, 125 core units | 9.376 |
| Nyahururu | 11,300 | 233,300 | market extension, bus park, slaughterhouse, road equipment, 176 core units | 15.104 |
| Nyamira | 4,000[a] | 869,500 | market, slaughterhouse | 4.800 |
| Siaya | 4,000 | 474,500 | bus park, slaughterhouse, 150 core units | 12.227 |
| Vihiga | 5,000[a] | *** | 2 markets, slaughterhouse | 3.950 |
| Total | 386,150 | 10,934,500 | | 274.905 |

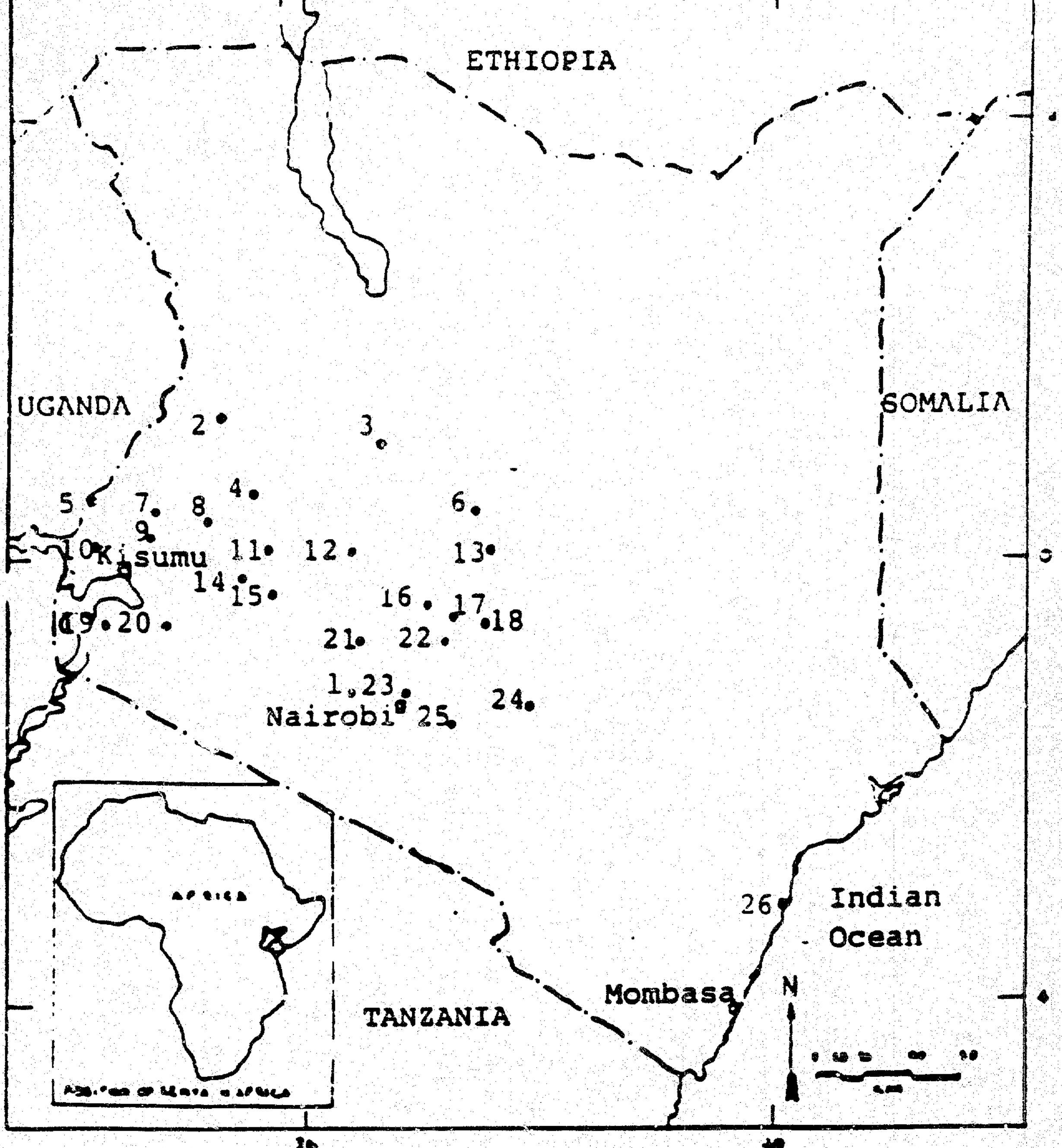
* same District as Kiamba
** same District as Naivasha
*** same District as Kakamega
[a] estimate

Projects in 26 Towns:

1,795 core units
218 serviced plots
16 markets
15 bus parks
14 slaughterhouses

14 slaughterhouses
1 mini bus park
2 road projects
1 nursery school

1 truck park
2 refuse vehicles, 2 meat vans
1 feasibility study
1 road equipment purchase




Kenya Towns Participating in Project

1. Karuri
2. Kapenguria
3. Maralal
4. Iten
5. Busia
6. Isiolo
7. Kakamega
8. Kapsabet
9. Vihiga/Mbale
10. Siaya
11. Eldama Ravine
12. Nyahururu
13. Meru
14. Londiani
15. Molo
16. Karatina
17. Kerugoya/Kutus
18. Embu
19. Homa Bay
20. Nyamira
21. Naivasha
22. Murang'a
23. Kiambu
24. Kitui
25. Machakos
26. Malindi

2. Selection of the Towns. The selection procedures have improved over time.

There is no evidence that the original selection of towns was based on any explicit socio-economic criteria. The team agrees with the views expressed by MLG, some Town Clerks, and RHUDO that national political considerations played an important part in the selection of the first set of towns. Nevertheless, the focus on small towns has proved to be appropriate.

Towns selected in subsequent years were subject to an objective analysis that, according to the MLG, involved the following criteria: good bookkeeping, good revenue collection experience, minimal or no arrears, management efficiency, good project experience, land availability, district headquarter relationship, regional balance, and rapid population growth rate. To those proper criteria, consideration should be given to the size of the population impacted by the town and the nature of the regional economic base.

The 26 small towns that have been selected and in which projects are completed or underway are centers of rapid economic development. The map on the previous page indicates the location of the participating small towns. The towns are growing largely on the basis of agricultural activities in their hinterlands. The 26 towns are geographically dispersed; they are located in 23 separate districts in which half of Kenya's population resides.

3. Impacts of the Projects. The development of the towns and their hinterlands is progressing partly because of the projects, but also because of agricultural policy adjustment and road improvements.

According to several sources interviewed by the team (Town Clerks, MLG, the World Bank, and the Ministry of Finance and Planning) growth in towns has in many instances been stimulated by agricultural policy reforms and improvements to main and feeder roads. Local financial institution managers confirmed this to be the case. The private sector in these towns is responding by establishing new processing and trading activities (currently met in other market towns and regional centers). This includes additional and expanded banking and financing activities. Property values are rising: they have doubled in the past two years in Karatina for example.

Improved roads have often been an important stimulus. Roads are important for the agricultural activities that dominate the towns' hinterlands. The World Bank study[1] found that one of the main causes of poor agricultural performance in Africa has been inadequate roads; some of the better improvements in agriculture, including Kenya's tea roads, are associated with road improvements. Before major investments are made in agricultural extension, local institutions for the operation and maintenance of feeder roads must be developed.

The kinds of projects and institutional reforms now being implemented as part of the Small Towns Project have had direct positive economic impacts on the towns and the regions they serve. The evaluation team

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[1] Agriculture and Infrastructure, Uma Lele, 1987

and an earlier evaluation team[1] interviewed business people who used the new facilities and who had businesses near the facilities. All reported significantly higher levels of economic activity.[2] Although some of the additional activity has been due to general economic growth or, for example, the upgrading of main and feeder roads to the town, all those interviewed pointed to the new facilities as a principal cause. It is significant that in every town visited banks are establishing new branches and existing branches are seeking larger premises. This improvement in the supply of credit will in turn accelerate still further business development.

4. Financial Viability. The project was designed to support the GOK's decentralization and self-sufficiency goals by making the local authorities in effect responsible for repaying the loans. This aspect of the project has not been fully tested since grace periods are still operative on all the individual loans to the local authorities to date.

The HG loan is not a concessional loan; it is a loan at U.S. commercial terms. Interest rates on the first two borrowings were at variable rates; the third was at 10.0%. As is the case in most HG loans, the U.S. dollars go to the Ministry of Finance/Central Bank, where they are used for valuable foreign exchange. From there they go, in the case of this Project, to the NHC and the Local Government Loans Authority (LGLA) which is the credit source for local authorities.[3] Ultimately, the funds are lent to local authorities. The economic interest rate is higher than the rate actually charged, so that these loans carry implicit economic subsidies from the central to the local government. Nevertheless, the loans represent serious repayment obligations by the local authorities.

5. Project Implementation. Project implementation has been delayed for many reasons.

The limited technical and management capacity of GOK institutions resulted in a very slow start; RHUDO-supported technical assistance helped overcome this problem by directing institutional focus on specific policy issues and implementation procedures. Implementation suffered from the poor institutional coordination that occurs when several national institutions and many local authorities take on new and complex responsibilities. Policy discussions were lengthy -- not only between RHUDO and the GOK institutions, but among the GOK institutions; these took the form of meetings, conferences, workshops, joint management and review of analyses. It takes time to gather a consensus on new approaches to be applied to old problems. Beyond those causes of delay, national policy considerations unrelated to the project itself came into play. The Ministry of Finance was not satisfied that the interest rate offered on the HG loan was the lowest obtainable. As a result,

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[1]Matrix Development Consultants.

[2]This account is not readily quantified, but the anecdotal evidence is overwhelming. The kind of analysis needed to quantitatively prove (or disprove) these assertions is suggested later in this report.

[3]LGLA operations are discussed in Part V.

the third borrowing was delayed three months. Unfortunately, the consequence of this action is that the project benefits are not flowing as they could have.

These kinds of problems are to some extent inevitable, even predictable. The duration of the delays they cause, however, can be reduced by maximizing and sustaining the involvement of key individuals and institutions in project design and development.

By 1987, one of the RHUDO's concerns was that considerable time had elapsed since the project was authorized. Although this had been due largely to the fact that the initial borrowing did not occur until 1985, it was nevertheless decided to place a deadline for the expenditure of funds under the project. The deadline set was the end of 1990. Accordingly it was agreed with GOK that only those projects that were ready to start construction by October 1988 would be funded; excess funds would be reprogrammed. An agreement was reached between RHUDO and GOK (involving the MLG, NHC, and the Nairobi City Commission) to reprogram $1.45 million from the Small Towns Project for use in the Umoja project.[1] In addition, the devaluation of the Kenya shilling nearly doubled the amount of shillings available to the Small Towns Project from the same HG loan amount. As a result, the $16 million HG for 11 towns under the Small Towns Project became a $14.55 million HG in 26 towns.

## B. Project Components

1. Revenue Generating Projects. The most successful component of the project has been the implementation of revenue generating projects. The concept here is simply that local authorities can earn money by collecting fees from users of facilities for which the authorities have traditional responsibility. Fees collected can serve to not only pay capital costs and debt service on the loan borrowed from the Local Government Loans Authority, but also to increase the general revenues of the local authority. These projects have included markets (extensions, new construction, drainage, indoor, outdoor, etc.), bus parks (paving, relocating, fencing, controlling, etc.), and slaughterhouses (new construction and equipment).

Markets, bus parks, and slaughterhouses that have been appropriately designed and located are popular with their users and are generating revenue for the local authorities, generally making a net surplus. Even those facilities that are not now generating sufficient revenue to cover operating costs, repay the loans and provide surplus funds for the local authority, will do so as the small towns grow.

Many of the individual projects implemented as part of the Small Towns Project are proving to be financially viable. The revenue from Karatina market rose from Ksh 890,000 in 1985/86 to Ksh 1.3 million in 1986/87 and to Ksh 2.4 in 1987/88; the new market was handed over to the council in January

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[1] While RHUDO was managing the implementation of the Small Towns Project, it was also managing another HG project, the construction of 4,400 units at Umoja in Nairobi (615-HG-005).

1987. The 1987/88 surplus, after provision for loan repayments, is expected to be Ksh 480,000. Kakamega's bus park is projecting an annual surplus of Ksh 236,000; revenues are now 60% higher than for the old bus park. Karatina's new bus park is much busier than the old one, but revenue collection problems have resulted in a Ksh 280,000 deficit.

Revenue generating projects are only as effective as the local authorities' ability to collect that revenue. Karatina has been most creative in dealing with this problem. The issues related to the bus park revenue problems are being confronted: should the local authority collect the fee per bus entry, which has the appearance of being a reasonable fee?, or should it collect the fee on a monthly basis, which is regarded by the users as too high? The local authority determined that the per-entry fee was too high in management costs (on-site personnel) and was open to abuse. At the same time, the local authority recognizes the importance of a public relations campaign to convey the message that the monthly fee is no more than the sum of the per-entry fee.

Other revenue collection ideas from Karatina include privatizing some collections, that is, hiring a firm (law firms are being considered) to manage the collections. Evidence elsewhere suggests that even with the firm taking its percentage fee, the local government's resources collected will increase. This kind of private "consulting" assistance (as well as local professional assistance in, for example, the preparation of feasibility studies), paid for by local authorities should be supported by RHUDO.

The individual projects' failures are themselves instructive. Some of the projects developed in the early phases were either poorly designed or located. This was a consequence of a lack of proper feasibility studies, the utilization of inappropriate designs and design standards from similar projects around the country, and the influence of local politics at the expense of sound analysis. Some of the design errors are so obvious that there is no reason to suppose that carefully sited and appropriately designed facilities should not be financially viable in the future.

The market at Kitui is quite inappropriately designed for the type of marketing activity it is supposed to serve; it is heavily overbuilt and far too enclosed for local preference. This is in part due to the fact that it is a market upgraded from the one on the site of the traditional "African" market, about one and one-half kilometers from the center of the town and from the existing bus park and market (both of which continue to flourish). This location and facility are proving to be unacceptable; the market is being boycotted by vendors.

In contrast, Karatina's market people themselves were involved in the design of their market; two changes to the design of the concrete stalls were made as a result of this interaction. The Karatina market is basically an open paved area with roofed stalls only around the edges. And even that design has been criticized for being too "heavy" and therefore reducing profits. The Matrix report concludes that if there were only wooden stalls and not concrete ones the surplus could be Ksh 635,000 instead of Ksh 480,000. As it is, the fact that more than 1,300 people applied for 288 new market stalls is a good measure of the market's usefulness.

The more successful market places have tended to be sited adjacent to the old market or to a bus park, or both, and have been constructed with minimal superstructure, which not only reduces costs but is preferred by most market people. Even in Karatina, which has the least covered area, market women move from the covered area to the open area on market days to maximize their contact with potential customers. The most important feature of markets in towns of this size is clearly the paving and drainage provided, not the covered, concrete stalls, which are more appropriate for larger urban areas or towns on major transportation networks.

There has been an important synergy between the implementation of the revenue generating projects and improvements in the financial management of local authorities, although much remains to be done in this regard. The better managed local authorities, which have benefited most from the training offered as part of the project,[1] understand the importance of introducing projects that are financially feasible, of keeping proper project accounts, and of setting aside funds to repay the LGLA loans.

The implementation of the project as a whole has been correctly focussed on first improving financial discipline together with the introduction of projects that most directly generate revenue for the local authority before moving on to less obvious revenue generating projects. The local authorities that have benefited in this way are now well placed to introduce other types of projects without incurring financial deficits.

2. Non-revenue Generating Projects.[2] Projects such as road upgrading and improvements in water supply and sanitation, or even health and educational facilities, may be more important in some cases for economic development than markets, slaughterhouses, bus parks, and housing that have characterized the first sets of towns. The non-revenue generating category of projects are in a sense more basic; they bring direct benefits to a large proportion of the population and businesses: good water supply, sanitation, roads, and possibly electrical power supply are prerequisites for effective markets, bus parks and slaughterhouses.

Projects for the second set of towns include more of these "basic infrastructure" types of projects than the first towns. Such projects should only be undertaken once local authority financial management is improved sufficiently to recover costs, including loan repayments, on the more obviously revenue generating projects, since the "social" projects will generally have to be financed out of revenue surpluses obtained from the "economic" projects and enhanced property taxation. It is even more important to carry out and pay attention to careful feasibility studies for the "social" projects than for the "economic" projects, since benefits are more difficult

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[1] The Government Training Institute (GTI) in Mombasa, with significant RHUDO support, provided much of the local authority skill and management training for this project. Time constraints have precluded a close review of this project component by the evaluation team.

[2] These types of projects are not really "non-revenue generating"; more correctly, they are "non-surplus generating", and projects from which it often proves to be difficult to collect user charges fully.

to identify and estimate.

Careful feasibility studies will help to quantify financial and economic benefits. Improved infrastructure will increase property values by increasing the profitability of businesses located adjacent to the improved roads or benefiting from better basic services. The same is true for residential areas with better access to places of employment and water supply and sanitation. And improved water and electricity, for instance, provides the opportunities for "incubator" facilities for fledgling businesses that can benefit from the economies of a jointly operated facility. The incremental increase represents an economic benefit and increased property taxation potential. In addition, water fees collected help repay the costs of the capital improvements. Road upgrading and water and sanitation projects should not therefore be given a lower priority simply because it is more difficult to identify their benefits.

Thus far only Karatina has undertaken a substantial road upgrading project, which well complements the improved market and bus park facilities. The local authority plans to recover the costs of the upgrading from a) increased property rates: Karatina proposes to increase the levy on the market value of property from 6% to 7%; b) higher property valuation: Karatina plans to establish new values in 1989 for all properties in the town, not only those located on the improved road; this will be the first new valuation in five years; and c) surpluses earned from bus parks and markets (and the market fees may be increased to be more in line with other similar markets): Karatina intends to use such general revenues to finance roads.

3. Housing. The Small Towns Project in its original conception was largely a shelter project in which the physical outputs of the HG lending were to include upgrading of existing substandard neighborhoods, serviced sites, core units, home improvement or construction loans, rental units, community facilities, serviced sites for small businesses, etc. In fact, the HG will have financed nearly 1,800 starter, or core units in 17 towns and two other projects totaling 218 serviced plots.

It has proved difficult to introduce shelter projects that will be affordable by low-income families in the small towns. The NHC, originally a housing finance institution, has also acted as a developer for 15 years. Although the NHC is technically competent, its practices reflect its own unique interpretation of GOK/MLH policies. As a consequence, there have been enduring negotiations between NHC and RHUDO over median income data and the consequent maximum permissible cost of the units. Although the NHC aims to construct units for lower-income groups, the programs that it has actually introduced only benefit the 40th to 50th percentile of income groups.[1] In the context of other GOK policies and programs now targeted for lower-income beneficiaries, it would be useful to encourage the MLH as well to exercise its perogative as the housing policy-maker; it could provide the direction the NHC

[1] It should be noted, however, that in some respects NHC is promoting more appropriate standards than other such agencies in the region. NHC's 120m$^2$ plots are among the smallest undertaken by housing authorities in African countries. In Zimbabwe, for example, standard plot sizes for housing for low-income families increased from 200m$^2$ to 300m$^2$ in 1983.

needs to target lower-income groups.

The effect of the NHC practice of serving households earning the median income and above is that much of the housing is being occupied by civil servants who, though not well paid, do receive housing allowances and are generally able to afford housing on the "open market". Although it is important to be able to attract civil servants to small towns as part of the District Focus, it is equally important to meet the needs of the large proportion of the population who contribute significantly to the towns' economic base - the families whose income is below the median.

The consequence of the failure to accommodate low-income households is that their shelter needs are being met by the informal private sector. The problem is that in many cases, private informal residential areas have poor access to essential, affordable infrastructure - potable water, sewerage, drainage, roadways. Nevertheless, these services are frequently better and more than those provided by the formal private and public sector. The formal sector's inability to serve this group is exacerbated by unrealistic, unaffordable building standards.

At earlier stages of the project, many local authorities expressed interest in sites and services projects and low cost units with pit latrines, but NHC persuaded them to favor tenant purchase core units with waterborne sanitation, higher cost solutions than necessary or affordable. NHC claims that this demand choice reflects the need for immediate shelter of people newly-arrived in towns, that having come to towns for new jobs, often with families remaining in the rural home, they have no time for self-help housing. This argument ignores the fundamental issue of affordability. In any case, this component of the project cannot now be readjusted since tendering has already taken place for the balance of the housing units financed under this project.

In future larger programs, housing components should focus on upgrading infrastructure in areas that have already been developed by the private sector, informal and formal. To deal with sites that are already occupied or soon will be is to follow the locational principle of the Project and Sessional Paper Number 1 that development should be promoted where there are strong indications that activity levels (residential activity, in this case) are already rising. This will involve collaboration between the local authorities and the private sector. NHC need not be involved.

4. <u>Income-Generating Projects.</u> There is a need to improve access to credit for those not now accommodated by the formal financial sector based in small towns - generally small scale business people with ideas for new or expanded economic activities but without the collateral needed to satisfy the banks. Urban-based business people in this category are not participating in small scale credit schemes. Yet there is clear evidence in Kenya and elsewhere that small enterprises have as good or better repayment record as larger borrowers. Indeed, some commercial banks in Kenya make loans to such small borrowers now.

The project's intended income-generating component, in which credit would be provided to existing and new small businesses to encourage growth and job creation, was not implemented. Although many local authorities and business people expressed interest in gaining better access to credit, there was neither confidence that local authorities were appropriate institutions to implement this function, nor that MLG itself was the correct national institution to manage it. No other suitable means were identified. In addition, local authorities did not consider this type of project a priority relative to housing, markets, and roads. In fact it was wise that this component was not forced where it could not succeed. The evaluation team found no harmful consequences of this omission.

In order to stimulate the local authorities to work with local private sector interests in job creation and economic development, RHUDO promoted the efforts of a U.S. Volunteer to develop and implement one-day workshops. The increased awareness of the opportunities in private/public collaboration in business promotion is important to the ten local authorities that took advantage of these workshops. Nevertheless, no local Economic Development Committee is now functioning.

Some rural programs for small scale and micro enterprises exist and it is important to apply them in urban areas. While there is no evidence that RHUDO and USAID planned that USAID's employment generation and credit programs would provide mechanisms to serve the needs identified in the Small Towns Project, such programs do fill that gap.

One such program is the USAID Private Enterprise Program in which the private sector deals with the private sector. Under one part of the program, funds are disbursed ultimately to NGOs active in rural areas; the NGOs in turn make small loans to entrepreneurs. Another part of the program promotes the disbursement of loans through commercial banks. Such mechanisms should be investigated for the small towns that will be the focus of the Kenya Market Development Program. The Jua Kali program is also suitable for credit to microenterprises in small towns. These programs are intended to deal with the lack of collateral that is a common constraint facing borrowers.

There are other appropriate vehicles for the provision of credit - small, medium, and large; agricultural related, small business, manufacturing, industrial - that are available in small towns. Their effectiveness depends to a great extent on sound promotion and targeting. A growing local bakery operation, for instance, located in a wheat-growing region, could benefit from cheaper, more easily available flour if there were a mill operating in the vicinity; an animal feed store could benefit from credit to be able to produce its own feed, rather than having to depend on the unreliable delivery, at high prices, to its town.

The project nevertheless generated income and employment. As stated earlier, business people indicated that the new markets and bus parks in particular have generated higher levels of business activity in the the towns. Investments in road improvements and water supply will do the same. Of course, the labor force employed in the project-financed construction represents a significant, albeit temporary, job creation.

### C. Institutional Development

One of the principal aims of the project has been to achieve a better urban-rural balance by strengthening local government. The objective has been to develop at the local level the capacity to identify, design, and implement the projects required to stimulate private sector activity in the towns and their hinterlands, and to raise the funds necessary for those projects. Training, technical assistance, and the practical experience of implementing the revenue generating projects have been the means used to achieve this objective.

Considerable progress has been made in some local authorities. Of the towns visited by the team, Karatina is the most notable success. The council's senior staff clearly understand the Project's objectives and concepts and have themselves implemented successful projects. Among the first set of towns, Karatina is the only local authority to have implemented a roads upgrading project. Importantly, the council has a clear idea of how that expenditure will be funded from surpluses on other projects and from the rates, based on revalued property.

Success at Karatina shows that the Project's institutional development objectives can be achieved. Few other councils, however, have achieved Karatina's level of self-sufficiency. All, including Karatina, have depended heavily on technical assistance from MLG, Peace Corps, NHC, and RHUDO. Even now, in Naivasha where the new market is nearing completion, the local authority is unconcerned with its potential economic rent, and in fact expects MLG and RHUDO to calculate the monthly stall fees.

Peace Corps Volunteers in particular have been instrumental in the preparation of most of the Local Authority Development Programmes. In Nyahururu, the Peace Corps Volunteer, with the support of the Mayor and Council, played an important part in planning and implementation of an innovative, low cost housing project. Technical assistance has also been provided by expatriate consultants. MLG staff and GTI training are the preferred assistance resources, even though good training courses do not necessarily lead to effective management practices. Some training, for instance, has supported streamlined bookkeeping, yet archaic, laborious, undisciplined systems persist.

One reason for the lack of effective technology transfer to most local authorities has been the inevitable conflict between implementing physical projects (short term, expediting disbursements) and institutional development (long term, less visible). In RHUDO's determination to disburse HG funds and utilize budgeted technical assistance, project construction has been given greater emphasis than institutional strengthening. Peace Corps Volunteers frequently suffered from this dilemma -- misused skills, too many bosses, and frustrations over the dichotomy of teaching versus doing. The problems were exacerbated by the serious delays in starting the project. Nevertheless, it is more realistic to assume that institutional development objectives will take many years to achieve.

Technical assistance from the central government to the local authorities has been an important component of the project. There has also been technical assistance <u>to</u> the central government to improve the quality of its assistance to the local authorities. Long term expatriate advisors were located at the national level. This has resulted in more institutional development at the national level than in the small towns. A cadre of skilled people now exists in the MLG and the MLH, but they have few counterparts at the local authority level. Future technical assistance should be directed more to local authorities. Local authorities could benefit from training in how to use the private sector, not only in collaborative development projects, but in providing technical management skills. Local authorities should learn to contract and manage consultants in engineering, planning, budgeting, accounting, etc. Inter-council technical assistance could become more important; even now, other councils receive help from Karatina.

Some kinds of projects will continue to present institutional problems for local authorities; water and sanitation projects are an example. This may mean that they should be postponed until local authority management capacity has been substantially enhanced. Local authorities can only recover the costs of sanitation improvements from the water rates. This generally means that they should take over responsibility for water supply and sanitation from the Ministry of Water Development by establishing a municipal water authority. Some have already done so, and others plan to do so. Nevertheless, the smaller towns tend to lack the managerial capacity to undertake such a new responsibility. Karatina is one town preparing to deal with its own water supply and sanitation needs. In order to recover costs from improvements in sanitation, Karatina has recently received parliamentary approval to set up a Municipal Water Authority that will enable the town to pay for the improvements out of the water rates.

D. Project Management

Overall policy decisions and project coordination is carried out by the Interministerial Steering Committee (ISC) and the Programme Management Unit (PMU), with its Technical Advisory Team (TAT). The ISC is chaired by the Ministry of Lands and Housing and includes representatives from MLG, NHC, Ministry of Finance and Planning, Commissioner of Lands, and RHUDO. It has served an important purpose and should continue to function but it need not have the kind of operational responsibilities it had earlier. Without the flow of HG funds for this project, the ISC has been rather moribund, not having met since November 1987.

The TAT includes representatives from NHC, MLH, MLG, and RHUDO technical advisors. At its most active stage, meeting every two weeks, the TAT played an important role in project implementation: providing assistance to local authorities, reviewing Local Authority Development Programmes, and programming appropriate seminars and workshops. Like the ISC, the TAT has met infrequently during the time when HG funds were not forthcoming.

The PMU, currently located in the Ministry of Lands and Housing, has ceased meeting with any regularity also because it is felt that without project funds, there is nothing to talk about nor actions to take. Since the project has much more of a focus on local government than on housing, the proposals to move the PMU to the MLG should go forward. Such a move would be an important but not a dramatic change, since the capable key staff would remain the same.

While the responsibility for project implementation rests with the MLG and NHC, significant support depends to a great extent on close RHUDO monitoring and approvals. To carry out this role, RHUDO benefited from considerable professional resources: two long-term resident advisors placed in GOK institutions, Peace Corps Volunteers both roving and stationary in participating towns and national institutions, long-term training and financial advisors serving the entire region but who spent a large part of their time on the Small Towns Project, and short-term consultancies in specific analyses from Kenyan and U.S. firms.

It is difficult to calculate the amount that was expended on this assistance, but including training operations and small amounts of commodity purchases, the dollar amount greatly exceeded the originally programmed $665,000 in the grant component of the Project. Applying other USAID and PRE/H resources to the grant, probably about $1.0 million has been spent in technical support to this Project. As could be expected, the degree of technical assistance success varied. Probably the most effective assistance provided were the manuals on preparing local authority development programs, on undertaking feasibility studies, on project implementation, on bus parks, and on markets. In addition, assistance from one town to another - through workshops and other exchanges - have been valuable. When local authorities must analyze the feasibility of an investment or prepare a design for a project, they need outside assistance; AID grant funds were able to support this kind of assistance.

Despite occasional ambiguity of purpose and operational confusions, the results of RHUDO management are generally quite favorable. Technical and policy assistance has been provided (not always taken), dialogue has been maintained at a high substantive level, projects have been constructed, local authorities are aware of their responsibilities and opportunities. These impacts are a direct consequence of effective management of many resources.

That said, however, there have been some defects. Quarterly reports from GOK institutions, so important not only to project monitoring but also to institutional capacity building, were regularly prepared in the early years, but are no longer forthcoming. The GOK saw no need themselves for such reports, and sensed no demand for them from the RHUDO. Analyses of the financial capacity and resources of certain local authorities, undertaken quite professionally and in a timely manner, seemingly did not influence management decisions regarding town selection and conditions in the first set of towns. The same can be said about the feasibility studies of specific projects; inadequate attention was paid, for instance, to the findings of the 1984 analysis of the market and slaughterhouse in Kitui. The training effort suffered from a lack of overall strategy and separate budget resources, the consequences of which included inadequate coordination, lost opportunities, and the inability to monitor and evaluate training efforts and impacts.

Nearly all the RHUDO resources devoted to the Project have been expended. Though training and technical assistance are still needed, it is probably fortunate at this stage in Project implementation that the national and local governments are not inundated by RHUDO assistance. From this minimal assistance point, the institutional strengths and weaknesses will become clear, so that similar future projects, if any, will be able to focus assistance more effectively.

## IV. RECOMMENDATIONS AND LESSONS LEARNED

Although RHUDO's direct involvement in the Small Towns Project is ending, the Government of Kenya and many local authorities continue to implement specific project components and many project ideas. At the same time, USAID is developing with the GOK an agricultural program focusing on market towns of the kind participating in the Small Towns Project. The experiences of this project suggest several lessons for its continued implementation as well as new program development.

### A. Small Towns Project

1. <u>Effective decentralization of responsibilities is a gradual process that will take many years.</u>

Institutional development has always and correctly been an important part of the Project, even in the early years when few institutional adjustments had taken place. In the remaining years of the project and in similar subsequent projects, even greater emphasis should be given to the realization of institutional development objectives. There should be a clear understanding on the part of all institutions involved that to establish "self-sufficient" or "self-sustaining" local authorities will take a long time. Formal training will be only be a beginning. The real lessons will finally be learned when local authorities have had some years of experience in implementing all types of projects from their own resources, human and financial.

In taking this long term view, there should be a clear appreciation of the dynamics of the project, as illustrated by its actual progress to date.

**Types of projects.** In the early stages, it is reasonable to concentrate on clearly "revenue generating" projects. This helps to introduce the cost recovery discipline for projects that few could claim were "social" or "basic" and therefore potentially suitable for some subsidies (although even that may be a mistaken view in most instances). The next step is to move on to the "basic" types of projects (road, upgrading, water supply and sanitation) for which cost recovery -- desireable and possible -- is more difficult. The local authorities visited by the team had introduced the first category of projects, but only one was now beginning to implement the second category. One reason for this sequence is that it is likely that surpluses can only be raised on the first category of projects and that these surpluses may be required either to finance the "basic" projects or to provide limited subsidies. This is the view of Karatina's Town Clerk.

**Training.** Many of the local authorities staff lack some basic management and accounting skills. It is appropriate in the Project's early stages for staff to be sent to basic skill development courses; this happened under this project. However, once the more senior staff have a better appreciation of the project's institutional development objectives and of the characteristics of an effective local authority, there should be more in-house, on-the-job training with impact on entire departments. All the department managers and Town Clerks interviewed by the team expressed appreciation for the courses they were able to attend, but requested the second type of training in the future.

**Financial management.** From the start, the Project correctly emphasized improvements in local authority (and central government) finances and financial management. This has been achieved by an appropriate blend of project experience with revenue generating projects and formal training. The process has been and will continue to be a gradual one. The dynamics suggest that as local authorities improve their financial performance based upon revenue generating projects, they can move on to more difficult "basic" infrastructure projects.

**Technical assistance.** During the early stages of the Project, there was the inevitable dependence on technical assistance to the local authorities from MLG and Peace Corps Volunteers. Basic formal and on-the-job training reduce this dependence over time. Local authorities, however, are unlikely to ever have the complete range of skills needed to carry out feasibility studies and prepare Local Authority Development Programmes for example. Eventually, the local authorities must learn how to contract for private sector services to do these tasks rather than continue to depend on central government. The Project has shown that the local authorities that have decided to use private contractors have needed MLG help to manage the contractors.

**Loan management.** As a general rule, local authorities do not know how to manage capital budgets based upon borrowed funds. They have to rely on the central government (LGLA) to calculate repayments, interest, etc. In fact, most of the local authorities visited by the team had not yet given this matter much attention, largely because their LGLA loans were still in their grace periods. (The one exception is setting aside funds in special accounts to make the repayments.) The local authorities should now learn how to manage their own loans and treat them as serious obligations. It should be noted that the LGLA is not the only resource of a local authority. The Karatina council has borrowed and repaid a commercial bank for the purchase of trucks.

As outlined above, the sequence is: first, revenue generating projects, and then non-revenue generating; first, formal training, and then on-the-job training; gradual improvements in financial management; first, heavy dependence on outside technical assistance, and then directly benefiting from the experience of other small towns, and eventually help from local consultants hired using the councils' revenue surpluses; first, dependence on central government for loans and to calculate fees, loan repayments, etc., and then independent capacity to do so.

Although one of the local authorities visited by the team is well along this learning curve, it should be appreciated by the designers of future projects similar to the Small Towns Project that it will take many years for most local authorities to make that kind of progress.

2. Training should coincide with job enhancement.

During the rest of the Small Towns Project and in the Market Development Program, care should be taken so that training coincides with job enhancement at the local authority level. Job enhancement is expanding the scope of the job to fit the newly acquired skills of the person concerned. This may require adjustments in the ways in which local authorities are managed and staffed, as well as the way training is provided. Many of the beneficiaries of the training have not had the time, authority, or equipment to apply their training on their return to the local authority. Officials all too often return from a training course to their old jobs and operating procedures, where they are frustrated that they are unable to put into practice what they have learned.

The mixed success of the Project's training program argues for more specific, practical training. It suggests that training should be undertaken in the targeted small town itself, and for an entire functional office in that town or in combination with other nearby towns. If the Peace Corps Volunteers are to continue working on these kinds of projects, consideration should be given to their assignment as providers of assistance to local authority staff that had already taken training courses. As a kind of circuit rider, Volunteers could provide the vital on-site follow-up now missing.

Among the many reasons for the relative success in Karatina is the effective professional management team in the local authority there. Though some of this is a consequence of personalities, it is also an intentional management style from which other local authorities could benefit. Management in the three other towns visited by the evaluation team -- Kitui, Nyharuru, and Naivasha -- has also improved simply by a vastly increased awareness of planning. For example, the lesson is learned in Kitui of the consequences of design decisions, and all of the towns appreciate the importance of the financial viability of a project. Thus, in organizational management workshops as well as planning and programming courses, Karatina and other experienced local authority staff should be utilized.

3. <u>There should be a gradual reduction of the need for central government approval for so many local authority actions.</u>

Local authorities still have to obtain central government approval for many of the decisions that should be left to local authorities if they are to be given any real autonomy. Both local and central government officials feel that while local authorities appear to be involved in municipal infrastructure decisions, in fact, they are not. The Ministry of Local Government controls many of those kinds of decisions. Many design and siting decisions made under this project, such as the market in Kitui and the housing in Naivasha, were out of the hands of local officials and, according to those officials, politically motivated.

It is of course difficult to be sure that design and siting decisions are made by local officials. One way to maximize local decision making is to reduce the political component of the LGLA. It should become a true parastatal, with a healthy participation of the private sector. Also, the District Development Committees, still relatively new, do represent the local community better than the Ministries, and will be treated more seriously over time.

4. <u>The preparation of the Local Authority Development Programmes will help local authorities to establish priorities.</u>

In order to encourage local authorities to think in a systematic way about their priorities, the MLG now requires each authority to prepare a five-year investment plan that includes a development strategy and a basis for central government assistance to the council. These documents are called Local Authority Development Programmes (LADP), and have already become an important part of some local authority planning. The preparation of the LADP itself has helped in bringing together the many participants in urban development to discuss the problems of overcrowded markets, chaotic bus parks, sprawling informal housing and business areas, flooding due to poor drainage, days or weeks without water, health hazards resulting from inadequate sanitation, potholed roads, and so on. Most local authorities, however, remain dependent on outside help to prepare a meaningful plan.

5. Feasibility studies will also help local authorities to select and implement appropriate projects.

The growing appreciation of the need for feasibility studies will help local authorities and the MLG make appropriate locational and design decisions. The Matrix report showed that the Karatina market, for example, could have earned a 50% greater surplus for the local authority if the less popular concrete stalls had been eliminated.

Feasibility studies should undertake the difficult but important analysis of the economic impact of projects, not only their financial viability. These do not have to be elaborate, overly-technical analyses; simple manuals similar to the current MLG set could be prepared. Feasibility studies, by providing hard facts and objectivity, help to remove these decisions from the political arena and provide a disciplined decision-making process. In fact, some feasibility studies have shown a proposed project to be unsound, and MLG approval has been denied or the projects have been modified. The more successful facilities have been sited and designed in collaboration with current and potential users, and not based on a nationally standardized design.

Very few local authorities are able to carry out feasibility studies or even write the terms of reference for consultants. Those studies that have been done were carried out with MLG staff or Peace Corps Volunteer assistance. As good as that assistance was, the longer-term and lasting solution is a local authority staff capable of undertaking feasibility studies, or equally important, of contracting and managing local consultants to carry out the studies. The MLG could prequalify firms available for this work, and even provide them with some standard training in these kinds of analyses.

6. Local authorities should be encouraged to seek support from private consultants.

The case for improving technical assistance capacity in the MLG in order to help local authorities is based upon the need to economize on the use of scarce skills. Most local authorities are too small to justify the full-time employment of say, a qualified engineer or urban planner. An alternative to this reliance on technical assistance from central government would be to encourage the local authorities to hire consultants who would report to them. Some do so now. This means that the councils initially have to be given assistance to prepare terms of reference. Such an approach would stimulate the private sector consulting practice in Kenya as well as add to the independence of local authorities. As long as financial discipline is maintained, the councils would not tend to overdesign and overspend on facilities.

It may be that over the next few years only the larger or particularly well managed local authorities can actually achieve the self-sufficiency envisaged under the government's decentralization policy. Only they have the necessary agglomeration economies to afford the technical staff required to prepare feasibility studies, action plans or even terms of reference for consultants. Technical staff from MLG will continue to have a role to play in assisting the smaller towns. The institutional objectives can best be achieved in the larger secondary towns, with the lessons learned from that process subsequently transferred to the smaller towns.

7. <u>Local authority training should be restarted.</u>

The training component of the Small Towns Project, so important for several years, has virtually ceased. That included not only staff and contractors, but strong support for the Government Training Institute in an attempt to build an important local training capacity.[1] Almost no training has taken place since RHUDO's training experts and staff departed in early 1987. The project's Technical Advisory Team should discuss ways to restart this component. Council and MLG staff benefited from earlier training and there is a continued desire that staff receive training, particularly designed to deal with very practical problems, such as revenue collection and accounting. The several manuals now available from the MLG are excellent and can become the main tool around which training is focused.

8. <u>The Local Government Loans Authority should be reformed.</u>

The Local Government Loans Authority (LGLA) is not operating as it should. Many local authorities do not treat their repayment obligations seriously because they are seen as intergovernmental transfers. Decisions made by the LGLA have been too heavily politicized, to the detriment of judgments based on economic and financial viability. The LGLA should be detached from the civil service and really operate as the parastatal it is. The LGLA was established to be owned partly by the local authorities, but is not. Its staff is currently seconded from the Ministry of Local Government. It is supposed to be self-financing (as is NHC), but has not yet achieved that goal.

According to the MLG view, a distinction between two types of LGLA loans should be made - those for revenue generating projects and those for non-revenue generating projects. The MLG suggests that a lower rate of interest be charged for the latter than the former, and that two separate lending authorities be established for each type of loan. Thus, a Municipal Development Bank would operate for the revenue generating projects, while the LGLA continues to deal with non-revenue generating loans. Though this may be appropriate, it is noted that none of the facility and infrastructure investments implemented or planned under the Small Towns Project are in

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[1]GOK funding for GTI also has been greatly reduced.

reality non-revenue generating. Road improvements, for example, increase property values and ultimately increase revenues from the rates. Karatina plans to recover its road improvement costs in this way. A single LGLA or Municipal Development Bank may therefore be sufficient.

These issues are currently being studied and discussed by the MLG; options for a reformed LGLA are currently being reviewed. Consideration is being given to, among others, the following:

- setting up a Municipal Development Bank registered under the Companies Act;
- leaving the LGLA within the MLG but making its operations more efficient;
- lending by the LGLA at commerical rates;
- establishing a soft loan window for poor local authorities or "socially" essential but not financially viable projects;
- improving LGLA capacity for project appraisal;
- basing lending only on the overall financial viability and management quality of the local authority;
- establishing a creditworthiness rating system;
- lending to the local authority based on its capacity, rather than on appraised individual projects.

Whichever institutional options and operating modes are finally selected, the confusing debt situation must be addressed. The non-payment of debt by local authorities to government and parastatals and vice versa greatly reduces the likelihood for efficient financial management.

9. <u>The RHUDO should maintain a continuing role in the achievement of the institutional development objectives.</u>

With respect to the RHUDO role in the remaining implementation, a training and technical assistance strategy should be developed quickly. Since RHUDO has inadequate resources for these purposes, there is all the more reason that such activities be carefully targeted for maximum impact. With all HG funds now committed, long term institutional development, not expeditious construction completion, should be the abiding principal in decision-making.

RHUDO should continue its monitoring not only through regular meetings with the MLG and NHC, but with visits over time to all 26 towns. Such visits provide the opportunity to reinforce project concepts and approaches to national and local authority personnel. In addition, the discussions during visits may lead to new solutions. From the evaluation team's visit to Kitui, for example, emerged a problem with important consequences for the finances of the Kitui local authority. The completed and unused market will be a major financial burden on the local authority unless serious consideration is given to alternative uses. With the adjacent bus park, it may be an ideal facility, if not location, for start-up small-scale manufacturing and businesses that can collectively be promoted in such an "incubator" facility.

10. <u>An examination of what families really can and do afford is required.</u>

The debate over housing unit cost limits revolves around the fundamental issue of affordability. An affordability analysis determines the household income percentile, selects the target group, establishes the percentage of family income that can be spent on shelter, applies the terms under which money can be borrowed, calculates the amount that family can afford, and then determines what "solution" that amount can buy. In the absence of such an orderly process, it is too easy to make decisions based on what is desireable, rather than what is affordable. Even now, as the debate on housing unit cost limits continues between RHUDO and NHC, it would be useful to undertake that analysis where there is sufficient experience to see whether the provided solutions are in fact affordable by their occupants. This effort would not be to verify whether eligibility criteria have been met, but rather to look at family incomes, affordability, and housing costs in completed projects so that appropriate changes to NHC-permitted ceiling costs, if any, may be made.

B. Kenya Market Development Program

USAID is developing a major new program with the GOK. This Kenya Market Development Program will be designed to promote development through more efficient marketing systems. With its focus on activities and investments in several market towns, the program's design and implementation can benefit from the experience of the Small Towns Project.

1. <u>The Small Towns Project has laid the foundations for the achievements of the institutional objectives of the Market Development Program.</u>

The GOK has embarked on important policy reforms regarding decentralization and institutional development. The MLG now has a better appreciation of decentralization and a willingness to promote it than it had in the past. Developmental linkages between major urban and market towns are better understood. The institutionalization of LADPs will ultimately contribute to local authority autonomy. The GOK recognizes that the LGLA needs restructuring. Whether these changes are a direct result of the Small Towns Project or not, such national actions help justify and support investments in small towns. In the context of the Market Development Program, the sequence that national policies lead infrastructure and other investments - that is, the phasing of such investments - is in large measure already occurring.

2. <u>Care should be taken in the selection of the towns for the program.</u>

The local authority institutional development objectives can best be achieved if a smaller number of larger towns are selected. It will be more appropriate to focus training and the associated enhancement of local authority responsibilities on the local authorities themselves rather than on central government as a source of technical assistance to the local authorities.

The criteria that will be applied to select towns and their marketing regions may include economics, geographic diversity, social equity, and politics, among others. Beyond those, however, serious attention should be paid to local authority management capacity. Local authorities that are managed well, that have benefited from training, and that have had successful project implementation experience should be rewarded for such efforts.

3. There is evidence that investment in the kinds of facilities to be financed by the program will increase levels of economic activity and employment in small towns and their hinterlands.

The marketplaces and bus parks are busier than ever; businesses in the vicinity of those facilities have more customers; activities of financial institutions are increasing; banks are planning on larger offices. This is a good time to focus a project that aims to promote agricultural development on "market towns" since these towns are growing rapidly. The forward momentum will bring good economic and institutional returns.[1]

4. Complementary improvements in roads linking small towns to larger towns and to farms and villages are very important.

Businessmen and local administrators reported to the evaluation team that transportation improvements have done more than anything else to stimulate the towns, helping greatly to encourage farmers to grow cash crops to be marketed in the town.

5. Investments in small towns have an impact on the "spatial dynamics"[2] that will help to advance development.

For example, the improvements to Karatina market have resulted in fewer local people going to Nairobi to buy what they need or to sell their produce. In fact, buyers now come from Nairobi to Karatina (many using the upgraded bus park). The residents and farmers of Nyahururu, a town further down the spatial hierarchy, who now go to Karatina will switch to the new market in Nyahururu. And buyers may even come from Karatina to Nyahururu for some produce (using the new bus park).

6. As well as having a positive economic impact, investments in small towns can be financially viable.

Although this is not true for some of the facilities that have been

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[1]The AID-sponsored study of "Rural Urban Exchange in Kutus Town and its Hinterlands" demonstrates the very closest linkages between market towns and their hinterlands.

[2]"Spatial dynamics" refers to the changing relationship over time among settlements, and between settlements and their hinterlands, that leads to higher levels of development through increased specialization.

constructed, it is true for those that have been sited and designed with due regard for local needs. The overdesign of markets and their siting away from centers of economic activity, for example, could be avoided if proper feasibility studies are carried out.

7. Even more attention should be paid to strengthening local government administration and finance.

On-site training programs and technical assistance should be complemented by organization development and job enhancement. In fact, the management and financial capability of local authorities is an appropriate topic for the policy reform agenda under this program.

8. These institutional strengthening tasks should begin now, during the project preparation phase.

New training and institutional assessment programs should be designed as soon as possible. The early start on these tasks means that the towns should be selected in the next few months.

9. Further research is required to demonstrate quantitatively a direct relationship between investments in market towns and increases in agricultural productivity.

The Kutus study referred to above demonstrates the strength of rural/urban linkages for a single small town and its hinterland. Broader based research should be carried out. There are two ways to approach such an analysis. One is to collect cross sectional data: information on the infrastructure and services available in a large number of towns and on the productivity of agriculture in those towns' hinterlands. The other way is to collect baseline data on infrastructure and agricultural productivity and then collect the same data, in say, five years time. That would at least provide important inputs to evaluations of this unique program.

It might, however be possible to take a closer retrospective view of the impact of the Small Towns Project. Karatina's bus park and market became operational two years ago. Both were well designed and sited. A survey of their impact could be carried out now. Such a study could be supplemented by a more systematic survey of the impact of urban infrastructure on farmers and urban business people than was possible as part of this evaluation. This would involve interviewing farmers and business people in and around a number of small towns, and possibly including the World Bank's larger towns.

# APPENDIX A

## LIST OF CONTACTS

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J. M. Kitheka, Planning Section

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Julius Malombe, Senior Projects Officer, Programme Management Unit (PMU)

National Housing Corporation (NHC)

Eric Andwati, Managing Director
Joseph Njuguna, Financial Manager
Mrs. Maida Povoden Nginja, Technical Manager
Joseph Shikumo, Senior Architect
J. M. Munyoki, Senior Quantity Surveyor

Naivasha Town Council

Jaafar Bidu, Town Clerk
J.M. Mwangi, Acting Building Superintendent

Mr. Kamau, Accountant-in-Charge, Agrarian Building Society
Mr. Kabaiko, Owner, Kabaiko Stores

Nyahururu Municipal Council

H.K. Kimemia, Assistant Town Clerk
J.K. Nyanjui, Treasurer
P.M. Gathimba, Chief Accountant

P.G. Kairu, Manager, Agricultural Finance Corporation
Fred Bichage, Assistant Manager, Kenya Grain Growers
Co-operative Union Ltd.
Mrs. Ndunja, Owner, Ndunja Bakery

Town of Karatina

R.K. Mwangi, Town Clerk
Mr. Karanja, Treasurer
Mr. Karira, Engineer

C.R. Mwangi, General Manager, Kenya Commercial Bank

Town of Kitui

Francis Kiettie, Town Clerk and Treasurer

Jim Richmond, Peace Corps Volunteer

RHUDO

Michael Lippe
Richard Martin
Joel Kolker
Chuck Mohan

USAID

Steve Sinding
Larry Hausman
Peter Weisel
Jerry Tarter
Al Smith

Others

Ana Haines, Former Peace Corps Volunteer
Sara Wakeham, Matrix Development Consultants
Graham Alder, Matrix Development Consultants
Paul Smoke, Regional Planning Advisor, Ministry of Planning and National Development
Fred M. O'Regan, Programme Director, Kenya Rural Enterprise Programme
Howard Digby-Johns, Price Waterhouse
Michael Mills, World Bank
Peter Ginnings, Deloitte Haskins & Sells

## APPENDIX B

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