CONTRIBUTION OF LOCAL AUTHORITY TRANSFER FUND TO DEBT REDUCTION IN KENYAN LOCAL AUTHORITIES

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ABSTRACT

Debt can be rewarding in cases of moderate use, but can be disastrous in cases of imprudence. Excessive debt has been a key challenge to Kenyan local authorities, constraining service delivery and undermining financial sustainability. The Government established and decentralized the Local Authorities Transfer Fund (LATF) to enable local authorities reduce the debt burden. The purpose of this study was to assess and document information on the contribution of LATF towards debt reduction at the Council, as well as identify institutional vulnerabilities that may perpetuate further indebtedness. We sourced primary data from 162 community members, including opinion leaders and civil servants. The study found that the debt portfolio had reduced steadily from KES 157.4 million in the 1999/00 to KES 98.4 million in the 2010/11, while allocations to the Council had increased from KES 11.7 million to KES 57.4 million over the same period of time. The analysis found that LATF allocation significantly correlated with outstanding debts, suggesting up to 99% chance that access to LATF resources may have contributed to debt reduction. To achieve financial sustainability, the Government must address various institutional vulnerabilities, including corruption (76.5%), procurement malpractices (59.3%), revenue collection inefficiency (58.0%), outdated accounting systems (54.9%), political influence (39.5%), nepotism (38.9%), and weak internal audit and control systems (30.9%). The study emphasizes that County Governments must take a bold step to enforce key legislations, including Public Officers Ethics Act, as well as the Anti-Corruption and Economic Crimes Act to dismantle corruption cartels, as well as initiate appropriate reforms programs.

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KEYWORDS: Local Authority, Transfer Fund, Decentralization, Fiscal Decentralization, Debt, Debt Vulnerabilities

INTRODUCTION

Excessive debt has been one of the key challenges constraining service delivery and financial sustainability among Kenyan local authorities. By the end of 2012, the local authorities had accumulated a debt of KES 17,281,183,162, in form of bank loans, salary arrears, among other statutory debts owed to the National Hospital Insurance Fund, National Social Security Fund, Pensions Fund, Kenya Revenue Authority, Savings and Credit Cooperatives, as well as suppliers (Limo, 2012). In response to the debt situation, the Government of Kenya (GoK) established the Local Authorities Transfer Fund (LATF) through the Local Authorities Transfer Fund Act, No. 8 of 1998 (GoK, 1999) to, among other objectives, enable local authorities reduce their debt stock and achieve financial sustainability (Kibua & Mwabu, 2008; Mboga, 2009). Debt is an inevitable phenomenon for all existing and functional entities, be they individuals, corporate bodies or public institutions (Karazijiene & Saboniene, 2009). Debt can be rewarding in case of moderate use, but can be disastrous in cases of imprudent use (Das, Papapioannou, Pedras, Ahmed, and Surti, 2010). In the public sector, over-borrowing or excessive accumulation of debt can lead to bankruptcy; thus, stifling the ability of public institutions to deliver essential services. For this reason, Cecchetti, Mohanty, and Zampolli (2011) metaphorically equate debt to a two-edged sword. Borrowing is important because it allows public institutions to smooth taxes in the face of variable expenditures (Barro, 1979). Without debt, economies cannot grow and macroeconomic volatility would be greater than desirable (Levine, 2005). As pointed out by Cecchetti et al. (2011), without debt, public institutions remain poor and may not cope with the growing population's demands. With debt, public institutions can invest even when their revenues would otherwise not allow. However, borrowing can create severe financial crises when debt ratios rise beyond a certain level (Reinhart & Rogoff, 2009). Debt accumulation is a risky economic circumstance that may stifle operations of public institutions and deny citizens essential services. In this regard, Cecchetti et al. (2011) note that as debt levels increase, borrowers' ability to repay becomes progressively more sensitive to drops in revenues as well as increases in interest rates. In the event of shocks, the higher the debt the greater the probability of defaulting, and heavily indebted institutions may suddenly become less creditworthy. The consequences may include non-completion of development projects, narrow revenue base, salary arrears, unmotivated workers, and industrial action, court cases, which may bear heavy fines and increase debt stock.

According to Bernanke and Gertler (1990), debt increases financial fragility and impairs financial stability; while Das et al. (2010) as well as Maana, Owino and Mutai (2008) warn that debt is bad for economic growth beyond a certain level. Cecchetti et al. (2011) suggest that public institutions should not have a debt stock beyond 85% of the Gross Domestic Products (GDP). In view of the consequences of heavy indebtedness, public institutions should have in place appropriate measures for debt management to prevent pile-up and facilitate the achievement of financial sustainability. In view of this, various pieces of literature indicate that Kenyan local authorities remain heavily burdened in excessive debts, which continue to rise by day (Ngunjiri, 2010; Nyangena, Misati & Naburi, 2010; Oywa & Opiyo, 2011; Limo, 2012). In 2010, a survey conducted by Transparency International ranked local authorities/Ministry of Local Government as the second most corrupt public institution after the Kenya Police (Ngunjiri, 2010).

In 2011, the National Taxpayers Association (NTA) revealed that the Government lost KES 444 million in Constituency Development Fund (CDF) and LATF in 28 constituencies and five local authorities. Siaya Municipal Council alone had a debt stock of close to KES 100 million. On the same note, Oywa and Opiyo (2011) indicates that many local authorities have been misusing LATF resources, while Limo (2012) points out that about 75% of the 175 local authorities in the country have been sinking in the abyss of indebtedness. A little earlier in 2007, an independent study on the impact of the LATF in Kenya indicated that local authorities were reeling under the burden of debts, which prevented some of them from securing statutory clearance letters, a prerequisite for accessing LATF resources (GoK, 2007). The Government's policy required local authorities to clear all debts by the year 2010; thenceforth, no institution would use LATF resources to pay debts. Nonetheless, there is little documentation about how LATF resources have contributed towards debt reduction and achievement of financial sustainability by local authorities. Even though a number of studies, including Smoke (2000), Institute of Economic Affairs [IEA] (2005), Kageri (2010), and Nyangena et al. (2010) have documented various issues associated with LATF, none has explicitly assessed the role of LATF in debt reduction and persistent vulnerabilities that may still fuel debt levels and further undermine the financial sustainability.

This study adopted a case study approach to assess the contribution of LATF towards debt reduction and vulnerabilities of Siaya Municipal Council to further indebtedness. Understanding debt vulnerabilities will enable County Governments, which have since taken over local authorities, to initiate appropriate measures to avert solvency issues in the future. The paper has four key sections, including literature review, data and methodology, results, as well as concluding comments, which culminates to limitations and recommendation for further research.

LITERATURE REVIEW

Local Authorities Transfer Fund (LATF) is one of the financing facilities that the Government has devolved to local authorities within the decentralization framework. Decentralization entails the transfer of authority and responsibility for public functions, which may be fiscal, administrative, political, or economic, from the central government to subordinate or quasi-independent public institutions as well as the private sector (Rondinelli, 1999; Cheema, 2007; Phillip, 2009). Public finance scholars have applied the concept in various fields, including public administration, economics, management science, law, and public finance, among others. Whatever the area of application, decentralization responds to limitations and challenges associated with centralized governance systems (Conyers, 2007).

Fiscal decentralization is one of the components of decentralized government functions, whose purpose is to improve efficiency in handling, management, expenditure, and accountability for public funds. Fiscal decentralization involves the passing of budgetary authority from centralized governance systems to elected sub-national governments in the form of the power to make decisions on matters revenue and expenditure (Menon, Mutero, & Macharia, 2008). Fiscal decentralization has four key attributes, including assigning clear expenditure and revenue responsibilities; intergovernmental fiscal transfer mechanisms from central to local governments; as well as authorization for borrowing and revenue mobilization through loan guarantees from the central government (Phillip, 2009).

According to Wachira (2010), governments pursue fiscal decentralization to facilitate the participation of citizens in identification of community priorities, planning and budgeting, implementation as well as monitoring and evaluation. Besides, Bonoff and Zimmerman (2010) notes that fiscal decentralization stems from the premise that local communities have the ability to prioritize projects in line with their needs, and that, local resources are easily accessible where community members are involved in development processes. In view of this, fiscal decentralization strengthens citizens' role in ensuring accountability and transparency in the management of public funds.

In Kenya, the pursuit of decentralized development started soon after independence in 1963. In this regard, the Government first proposed the decentralization agenda in the Sessional Paper No. 10 of 1965 on *African Socialism and its Application to Planning in Kenya*, with a view to strengthening the fight against poverty, disease and illiteracy (Chitere & Ireri, 2008). The Sessional paper marks one of the key initial attempts to decentralize development agenda and resources to the districts and local government authorities across the country (Kibua & Mwabu, 2008; Chitere & Ireri, 2008). In 1983, the Government introduced the District Focus for Rural Development (DFRD) mechanism as its official decentralization policy (Alila & Omosa, 1996; Chitere & Ireri, 2008). Under the DFRD framework, districts became the planning units for decentralized service delivery. However, performance of the strategy was constrained by various factors including limited involvement of communities in project cycle management (Chitere & Ireri, 2008). As noted by Kibua and Mwabu (2008), decentralized development initiatives brings forth numerous benefits including, better governance, improved equity in resource sharing, improve the quality of government service delivery, as well as enhanced accountability in the administration of public resources. More recently, decentralization was revisited in the *Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) 2003-2007*, which stands out as the policy document providing a clear framework against which devolved funds are leveraged (Kibua & Mwabu, 2008; GoK, 2003). Fiscal decentralization framework is further set out in the *First Medium Term Plan (MTP) 2008-2012* (GoK, 2008), as well as *Kenya's Vision 2030* (GoK, 2010).

These policy efforts culminated to the establishment of various devolved funds, including LATF, which draws from the national revenues - 5% of the annual national income tax collection (Kibua & Mwabu, 2008; Mboga, 2009). The Government designed allocation criteria to ensure consistency, fairness and transparency, as follows: a basic minimum lump sum of KES 1.5 million (6.6%) is shared equally among the country's 175 local authorities, while 60% of the fund is disbursed according to relative population sizes of local authorities. The Government allocates the remaining 35.4% subject to local authorities meeting specified accountability criteria (Kibua & Mwabu, 2008; Mboga, 2009). The money disbursed through LATF supplements local authorities' revenues; it forms about one-quarter of local authority revenues (Kibua & Mwabu, 2008; Mboga, 2009).

In order to access LATF resources, local authorities are required to have action plans, known as Local Authority Service Delivery Plans (LASDAP), which are prepared through participatory processes, involving stakeholder groups and communities. LASDAP specifies prioritized projects and activities for which the Government and local authority funds should finance. The participatory approach amplifies local communities' voice in project identification, planning, monitoring, evaluation, and accountability processes, as well as nurture ownership of LATF projects (Kibua & Mwabu, 2008; Menon et al., 2008; Bonoff & Zimmerman, 2010). Furthermore, LASDAP anchors on key pillars focusing on poverty reduction in line with the *Poverty Reduction Strategy Paper (PRSP)* and the *Economic Recovery Strategy (ERS)* whose priority areas include health, education, and infrastructure and upgrading of informal settlements (Mboga, 2009). The concept behind the LASDAP is to match all expenditure by local authorities to the needs of target communities; thus, avoid spending scarce resources on activities that are not addressing the immediate need so of target beneficiaries (IEA, 2005).

Local authorities adopt completed plans as a resolution, before submitting to the Ministry of Local Government (MoLG). It is however, the responsibility of stakeholders to hold councilors and chief officers accountable for LASDAP's implementation; hence, the primacy of their monitoring role (Kibua & Mwabu, 2008; Mboga, 2009). The MoLG encourages accountability and transparency by disbursing 60% of LATF upon submission of necessary budgetary and technical proposals. The Ministry further emphasizes performance by distributing the remaining 40% of the funds based on LASDAP's performance metrics, such as revenue enhancement strategies (Bonoff & Zimmerman, 2010). In the event of delayed delivery of reports, local authorities are subject to penalties: 15% loss of allocated funds for late filing of returns of up to 30 days, 40% of allocations for lateness of between 31 and 60 days late, and complete loss of LATF for local authorities whose documents are more than 60 days late (GoK, 1999; Bonoff & Zimmerman, 2010). Furthermore, MoLG requires local authorities to publicize funds received from the Government each year in national newspapers. Besides, local authorities should to hold annual budget days in the month of June, which provide forums to discuss revenues and expenditures for previous financial years and planned budgets for subsequent financial years with citizens (GoK, 1999; Bonoff & Zimmerman, 2010).

DATA AND METHODOLOGY

We applied the cross-sectional survey design to guide the research process, including planning, training and pretesting, data sourcing, data processing and analysis, as well as reporting. The study targeted community members, opinion leaders and civil servants in Siaya Municipality. For a period of 10 days, we contacted up to 200 potential participants. However, only 162 (81.0%) met the inclusion criteria; we issued them with self-administered questionnaires. We collected primary data in the month of June 2011 and the process involved identification and prequalification of potential participants, consenting, questionnaire issuance and follow-up. Whereas some participants completed the questionnaires on the spot, others took two days to provide their perspectives on institutional vulnerabilities that may push the Council into further indebtedness. We applied purposive and snow-ball sampling procedures to select potential participants. In this regard we selected key opinion leaders and civil servants who demonstrated awareness about Local Authority Transfer Fund (LATF) and who had either participated in Local Authorities Service Delivery Plan (LASDAP) planning and budgeting processes or had engaged in formal business with the Council, in their capacity as government officers or personal capacity as suppliers of goods, services or works. As part of prequalification for participation, we engaged participants in informal interviews to gauge their knowledge about operations of the Council. We used a self-administered questionnaire with structured and semi-structured questions to source the data. Furthermore, we employed quantitative and qualitative techniques to process and analyze the data. Quantitative analysis generated frequency distributions with percentages and cross-tabulations. We also transcribed, clustered into nodes and explored qualitative data for patterns about institutional vulnerabilities to further indebtedness. Detailed description of the design and methods that we used in this study are available in the following publications: Nachmias & Nachmias, 1996; Bryman & Cramer 1997; American Statistical Association, 1999; Owens, 2002; Rindfleisch, Malter, Ganesan & Moorman, 2008.

RESULTS

We sourced the requisite information from 162 community members, including opinion leaders and civil servants. We present the results under three sub-sections, including information on participants' background profile in the first sub-section, contribution of LATF to reduction of the Council's debt stock in the second sub-section as well as institutional factors predisposing the Council to further indebtedness in the third sub-section. Table 1 provides a summary of participants' socio-economic profile. The results shows that participants included 120 (74.1%) men and 42 (25.9%) women, suggesting that men were probably more aware and more involved in LATF activities, as well as business with the Council than women. The participants were aged between 25 and 65 years, with majority, 56 (34.6%) being in the 40-49 years bracket and about one-third, 49 (30.2%) falling between 30 and 39 years.

The results further show that most participants had attained at least secondary education. More specifically, 81 (50.0%) reported having college training, 56 (34.6%) had attained secondary education, while 22 (13.6%) were university graduates. Regarding occupation type, the results show that most participants, 72 (44.4%), were businessmen and women, while 21 (13.0%) were politicians, including serving and retired councillors. Participants reported various occupations. In this regard, the results show that 12 (7.4%) participants were civil servants sampled from MoLG, Municipal Council of Siaya, District Treasury, Ministry of Water and Irrigation, District Tender Committee and Ministry of Health. Participants also included 12 (7.4%) primary and secondary school deputy and head teachers, 10 (6.2%) farmers, 8 (4.9%) health facility staff, and 7 (4.3%) faith leaders, among others. This shows that the study captured views of a wide spectrum of community members. Furthermore, participants reported average monthly incomes ranging from KES 18,000 to KES 166,000. More specifically, 46 (28.4%) participants stated average incomes of at least KES 100,000, 44 (27.25) were in the KES 40,000 to 69,000 income group, while 34 (21.0%) stated average incomes ranging between KES 20,000 and 39,000. These results suggest that the study included participants with good educational, income background, as well as general awareness about functions of the Council vis-à-vis the debt accumulation.

We sourced secondary data on LATF allocations and the Council's debt stock from the MoLG. The data show that the amount allocated has increased from KES 11.7 million in the FY 1999/00 to KES 57.4 million in the FY 2010/11, with significant increment noted between the years 2004/05 and 2005/06. Contrastingly, the data indicate that debt portfolio has reduced steadily from KES 157.4 million in the FY 1999/00 to KES 98.4 million in the 2010/11 FY. Although the Council had not fully paid its debts, participants affirmed that access to LATF contributed significantly to the reduction of debt stocks, as indicated in Table 2.

Table 1: Socio-Economic Profile of Participants

Participants attributes	Frequency	Percent
Gender		
Male	120	74.1
Female	42	25.9
Total	**162**	**100.0**
Age		
20-29 years	37	22.8
30-39 years	49	30.2
40-49 years	56	34.6
50 years+	20	12.3
Total	**162**	**100.0**
Education level		
Primary	3	1.9
Secondary	56	34.6
College	81	50.0
University	22	13.6
Total	**162**	**100.0**
Occupation		
Civil servants	12	7.4
Business	72	44.4
Faith leaders	7	4.3
Politicians	21	13.0
Teachers	12	7.4
Farmers	10	6.2
Lecturers	3	1.9
Healthworkers	8	4.9
Retired civil servants	6	3.7
Community health workers	7	4.3
NGO worker	4	2.5
Total	**162**	**100.0**
Average monthly income		
<KES 20,000	5	3.1
KES 20,000-39,000	34	21.0
KES 40,000-69,000	44	27.2
KES 70,000-99,000	33	20.4
KES 100,000+	46	28.4
Total	**162**	**100.0**

Presented in this Table is the distribution of participants about socio-economic attribute, such as gender, age, educational attainment, occupation, and average income level. Participants included insiders such as Ministry of Local Government staff, Council staff as well as serving and retired councilors. The purpose is to show the caliber of the people whose perspectives about the financial management and accountability systems existing at the time of the study, we have documented in this paper.

Table 2: Amount of LATF Allocations and Outstanding Debts (1999/00-2010/11)

Financial year	LATF Allocations	Outstanding Debts
1999/00	11.7	157.4
2000/01	14.1	154.4
2001/02	16.6	141.2
2002/03	17.5	138.7
2003/04	19.6	135.3
2004/05	21.0	129.9
2005/06	28.0	126.2
2006/07	31.0	117.6
2007/08	39.3	115.1
2009/10	45.2	110.0
2010/11	57.4	98.4

Table 2 shows the data obtained from the annual LATF reports about amounts allocated to Siaya Municipal Council. The data show that the amount allocated has increased from KES 11.7 million in the FY 1999/00 to KES 57.4 million in the FY 2010/11, with significant increment noted between the years 2004/05 and 2005/06. The data further indicates that debt portfolio has reduced steadily from KES 157.4 million in the FY 1999/00 to KES 98.4 million in the 2010/11 FY

We performed Pearson's Correlation Coefficient analysis between LATF allocations and outstanding debts, the results of which we present in Table 3. The analysis obtained a correlation coefficient of -0.950, which is significant at 0.05 error margin; thus, suggesting up to 99% chance that LATF allocation significantly correlated with outstanding debts. This suggests that access to LATF resources may have contributed to the observed reduction in the Council's debt stock.

Table 3: Pearson Correlation Results

Correlations			
		LATF Allocations	**Outstanding Debts**
LATF allocations	Pearson Correlation	1	-0.950**
	Sig. (2-tailed)		.000
	N	11	11
Outstanding debts	Pearson Correlation	-0.950**	1
	Sig. (2-tailed)	.000	
	N	11	11

**. Correlation is significant at the 0.01 level (2-tailed). *This Table presents the summary of Pearson Correlation Coefficient. The analysis obtained a correlation coefficient of -0.950, which is significant at 0.05 error margin; thus, suggesting up to 99% chance that LATF allocation significantly correlated with outstanding debts. This suggests that access to LATF resources may have contributed to the observed reduction in the Council's Debt stock.*

Despite the achievement, participants identified various institutional factors that were likely to drive the Council back to excessive indebtedness, which we present in Table 4. The results show that up to 124 (76.5%) participants cited corruption as the main factor increasing the Council's vulnerability to further indebtedness. Participants also identified various forms of corruption at the Council, including embezzlement (30.8%), bribery (26.3%), extortion (24.8%), and patronage systems (18.0%). Participants affirmed that corruption led to loss of Council resources and properties, affecting the completion of development projects, as well as the payment of bank loans, salaries, and suppliers' fees, among other statutory debts. Arguably, local authorities may be more susceptible to corruption because interactions between private individuals and officials happen at greater levels of intimacy and with more frequency at more decentralized levels. Thus, the need for the Government to enforce necessary legal frameworks, including the Public Officers Ethics Act of 2003, as well as the Anti-Corruption and Economic Crimes Act of 2003. Closely associated to corruption is the public procurement, which is the main process through which local authorities spend public funds. In Kenya, public procurement accounts for over 10% of the GDP, making it a large market for suppliers and contractors. With this amount of resource, public procurement tops the list of sectors with high opportunities for corruption. In this study, the results in Table 2 show that up to 98 (59.3%) mentioned procurement malpractices as a key institutional vulnerability towards excessive indebtedness.

Table 4: Institutional Vulnerabilities to Further Indebtedness

Valid responses	Frequency	Percent of Responses	Percent of Cases
Corruption	124	21.4	76.5
Procurement malpractices	96	16.6	59.3
Political influence	64	11.0	39.5
Outdated accounting systems	89	15.3	54.9
Nepotism	63	10.9	38.9
Internal audit and control systems	50	8.6	30.9
Revenue collection inefficiencies	94	16.2	58.0
Total	**580**	**100.0**	**358.0**

This Table presents factors that may push Siaya Municipal Council to further indebtedness, including corruption, procurement malpractices, political interference, outdated accounting system, nepotism, weak internal audit and control systems, as well as revenue collection inefficiencies. The third column presents percentages of each response based on total responses (580), while the fourth column presents percentages of participants mentioning a particular factor based on the sample size (162).

In addition, the participants identified various procurement malpractices that were rampant at the Council at the time of the study. This included emergency procurement, where senior Council officers created emergencies to justify immediate sourcing of goods and services without going through the long tendering process as provided for in the Procurement Regulations. Malpractices also included tender splitting, where senior Council officers spilt tenders into small amounts that fall within their threshold to authorize, without necessary going through the District Tender Committee. Other issues that participants cited include designing tender documents to fit particular bidders, as well as collusion with particular politically connected bidders to inflate the prices of goods and services. Participants indicated that the Council generated revenues through housing rents, land rates, trade license fees, burial permits, parking fees, bus park fees, and market cess, among others. They pointed out that the revenue base was not only narrow but also deficient in terms of appropriate control measures to prevent revenue loss in the hands of Council officers. Table 4 shows that 94 (58.0%) participants mentioned revenue collection inefficiency as one of the vulnerabilities that may force the Council to further indebtedness. This implies that non-expansion of the revenue base as well as failure to initiate appropriate reforms in revenue collection may compel the Council to continue operating on deficit budgets, which will inevitably, perpetuate indebtedness.

For decades, local authorities in Kenya have been following the colonial British municipal accounting system. At the time of the study, the Council was in the process of upgrading the accounting and financial reporting system under the Kenya Local Government Reform Program. Table 4 shows that 89 (54.9%) participants cited outdated accounting system as a key vulnerability to further indebtedness. Participants associated the existing accounting systems with numerous shortcomings, including the ease of manipulation by deliberately making wrong entries, as well as altering or transposing figures.Even worse was that such manipulations were often so hidden that they escape the attention of external auditors, particularly because of bulkiness and untidiness of file storage facilities. Participants also pointed out that the existing accounting system lacked appropriate security safeguards, making the files accessible to Council officers who may have ill motives. Based on this, some participants asserted that so long as the accounting system is not upgraded, the Council remains vulnerable to loss of public resources by existing and future cartels; thus, increasing the risk of indebtedness.

The results in Table 4 further shows that up to 64 (39.5%) participants cited political influence, which the closely linked to corruption and procurement malpractices. Political influence manifested itself through deliberate diversion of funds to non-prioritized projects with the aim of rewarding specific communities perceived to be politically loyal; as well as influence of the procurement process to favour political loyalists, business associates or family members. Participants noted that projects that were politically-driven were often never completed or if completed, provided evidence of poor workmanship. In some cases, political leaders harassed, intimidated, assaulted and even manipulated the system to have professional MoLG staff standing on their way transferred to other stations. Under such circumstances, professional found it extremely difficult to fulfil the interests of political leaders without breaching formal internal control systems and overspending. Political influence remains one of the key factors likely to push the Council into further indebtedness.

The results in Table 4 show that up to 63 (38.9%) participants identified nepotism as one of the factors making the Council vulnerable to further indebtedness. Participants further revealed that nepotism had led to the flooding of lower cadres of support staff without appropriate and comprehensive job descriptions. Reportedly, most workers in the lower cadres were relatives of either senior Council officers or serving and past civic leaders, as well as influential persons in Siaya District. Moreover, nepotism encouraged the proliferation of ghost workers. In this regard, key decision makers filled the payroll with names of non-existent workers, who drew salaries from the Council; thus, contributing huge wage bills, pushing the Council into debts. Participants confirmed that ghost workers was still a reality at the Council at the time of the study and their number would increase in future if appropriate preventive measures are not initiated. Internal control systems are useful in controlling and minimizing chances of fraud. The results in Table 4 shows that up to 50 (30.9%) participants cited weak internal audit control system as one of the factors likely to push the Council into further indebtedness. Participants argued that internal control systems could be effective in environments where the rule of law prevails as well as environments that are devoid of political influence and impunity. However, the Council presented an environment in which internal control systems remain vulnerable to manipulation by senior Council officers and political leaders. Without proper checks, the system may not be useful in preventing fraud and safeguarding Council resources.

CONCLUDING COMMENTS

The purpose of this study was to assess and document information on the contribution of LATF towards debt reduction at Siaya Municipal Council, as well as identify institutional vulnerabilities that are likely to perpetuate further indebtedness. The study found that the debt portfolio had reduced steadily from KES 157.4 million in the FY 1999/00 to KES 98.4 million in the 2010/11 FY, while the amount allocated to the Council had increased from KES 11.7 million to KES 57.4 million over the same period of time.

Based on this, the study found that LATF allocation significantly correlated with outstanding debts (computed $r^2 = -0.950$, p-value = 0.000); thus, suggesting up to 99% chance that access to LATF resources may have contributed to the observed reduction in the Council's debt stock. However, financial sustainability may not be achieved until various institutional vulnerabilities are fully addressed, including corruption (76.5%); procurement malpractices (59.3%), revenue collection inefficiency (58.0%), outdated accounting systems (54.9%), political influence (39.5%), nepotism (38.9%) and weak internal audit and control systems (30.9%). The results show indications that access to LATF resources may have contributed to the reduction of the debt burden for the Council. However, stakeholders must note that LATF has not fully addressed the debt challenge. As County Governments take over local authorities, there is no doubt that, they are going to inherit the debt baggage, which regrettably, may slow down their take-off. Stakeholders should not mistake the takeover of local authorities for a reform process, as the old systems, the corruption cartels, decision-makers remain the same.

Hence, this study emphasizes that County Governments must take a bold step to enforce key legislations, including Public Officers Ethics Act of 2003, as well as the Anti-Corruption and Economic Crimes Act of 2003 to dismantle existing corruption cartels, as well as initiate appropriate programs to reform the accounting system, revenue collection and internal control systems. Only then can LATF achieve its objectives of helping local authorities to reduce accumulated debts and enable local authorities to achieve financial sustainability.

This study relies on secondary data from the Ministry of Local Government and Siaya Municipal Council regarding LATF allocations and outstanding debts. However, we noted inconsistency between the information obtained at the two sources, due to incomplete financial records and high turnover of technical staff, which created information gaps. To cope with the challenge, we used indirect methods for estimating missing data, such as interpolation to generate accurate data. Again, the study relies on community perspectives about institutional vulnerabilities that my perpetuate indebtedness at the Council. The challenge arising from this approach is that perspectives are vulnerable to distortion by political affinity, as well as socio-economic circumstances; thus, leading to inaccurate and biased findings. Although we contacted 200 community members during data collection, up to 38 (19.0%) indicated lack of awareness about LATF; leading to their exclusion from the study, but which, may have implications on the representativeness of the findings. Kenya has 175 local authorities; however, this study purposively focused in Siaya Municipal Council. Hence, the findings reported in this paper should be treated with caution, because it may not provide an accurate national picture regarding the contribution of LATF to debt reduction among Kenyan local authorities. In view of this, there is for future research activities to scale-up the study to cover at least one-third of the Kenyan local authorities.

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