

THE PUBLIC FINANCE CONFERENCE

2024 | SETTING THE AGENDA

SESSION PAPER NO. 5

Strengthening Devolution for Equitable Resource Allocation and Development

Devolution remains a key pillar of Kenya's development strategy, aimed at promoting equity and fairness across the country. While significant progress has been achieved in the first decade of devolution, several challenges continue to hinder the full realization of its objectives. This session will focus on the importance of intergovernmental relations, which are crucial for supporting and providing the support, funding and oversight to both national and county governments to ensure the effective functioning of devolution.

Authors: Bajeti Hub, URAIA, The Intergovernmental Relations Technical Committee, The Institute for Public Finance, Council of Governors.



Background

Kenya's journey to embrace a devolved system of government, as enshrined in the 2010 constitution, is in its third cycle. The constitution serves as a beacon for progressive development, rectifying historical injustices and addressing the marginalization of communities and regions. It prioritizes equitable and inclusive processes and outcomes for all its citizens. Central to this constitutional framework is the devolution of power from the national government to 47 county governments and the distribution of functions and mechanisms for resourcing these functions.

Assignment of functions and resources has been a continuous and often complex part of the policy and political discourse since the inception of devolution in March 2013. While both the national and county governments are now fully established and operational, some of their roles remain somewhat unclear, and resource allocation remains a challenge. Additionally, after a decade of devolution, the intergovernmental relationship dynamics have become apparent, bearing significant implications for the success of devolution. This period has tested the policies and institutions that govern these interactions, revealing areas that require streamlining and alignment with the practical realities of these ten years.

As the country marks a decade of devolution, it is essential to take stock of the progress made on these issues. More importantly, it is vital to reflect on the role of both levels of government especially on policy, structural and also service-oriented roles that are meant to support devolution and its cardinal goals of bringing services closer to the people and dealing with historical marginalization in the country. This session in the conference comes at a point when the Commission on Revenue Allocation is designing the 4th generation formula for sharing revenue between county governments, the Intergovernmental Relations Technical Committee (IGRTC) is reviewing the functions that still need to be devolved among other key tasks meant to improve the intergovernmental relations role in support of devolution.

Objectives of the Session

Devolution remains a cornerstone of Kenya's development strategy, designed to promote equity and fairness. While notable progress has been made in the first decade of devolution, several challenges persist in fully realizing its objectives. This session will reflect on intergovernmental relations, which are essential for both supporting and providing oversight to national and county governments to ensure that devolution functions effectively.

Key aspects of intergovernmental relations include revenue-sharing structures, the clarity of functions and their associated costs, cash flow management, monitoring budget execution, and ensuring equity and inclusion are mainstreamed in governance. The conference will seek to answer: What is working, and why? What is not working, and why? What needs to be rethought or restructured to foster a more efficient relationship between the national and county governments?

By addressing these questions, the session aims to provide actionable insights into improving Kenya's devolution model, promoting better resource allocation, and enhancing service delivery across all levels of government.

Key Questions:

- 1. What are the key factors contributing to the success of revenue sharing in fiscal decentralization in Kenya, and how does the Equalization Fund play a role in this process?**
- 2. How do functional analysis and assignment affect efficiency in service delivery within public institutions?**
- 3. What is the impact of devolution on public resource management and service delivery in Kenya?**

4. What case studies illustrate effective intergovernmental cooperation in public finance within Kenya?

Key Challenges/Opportunities to be Addressed

UNCLEAR ROLES AND RESPONSIBILITIES:

Challenge: The delineation of some functions between national and county governments remains unclear, leading to overlaps, conflicts, and inefficiencies. Recent reforms have created further confusion on what roles are being role by each level of government. This challenge is often reviewed at a national institution level, but it also affects the service delivery level where county and national level officials and agencies operate in the same space and context.

Opportunity: Review and clarify the division of responsibilities through regular intergovernmental dialogues and take advantage of policy reforms to achieve the objective. Creating comprehensive frameworks for specific functions can help minimize conflicts and ensure more efficient governance, allocation of funds and service delivery.

RESOURCE ALLOCATION AND REVENUE-SHARING DISPUTES:

Challenge: The distribution of resources remains contentious, with disagreements over revenue-sharing mechanisms like those from the Commission on Revenue Allocation (CRA). This is also indicative of low trust in the fairness of the process and principles behind the revenue-sharing proposals at all levels of government.

Opportunity: Develop a more agreeable approach to vertical and horizontal revenue-sharing mechanisms that are connected by shared principles among the key stakeholders including citizens. Strengthening the CRA's role in continuous consultation with county governments, national government agencies, intergovernmental agencies and non-state actors especially civil society organizations and development partners.

CASH FLOW AND BUDGET MANAGEMENT:

Challenge: Delays in cash flow management have been a sticky point since the first year of devolution and a significant challenge in the timely execution of county budgets and service delivery. There are contextual issues that have led to this challenge. However, ten years after devolution there is a need to understand why the problem persists even when the causes have been identified.

Opportunity: Improved financial planning and monitoring, along with establishing a national-county financial liaison team, can enhance smooth fund flow and budget execution. This can be accompanied by more robust and realistic cash flow forecasting and management systems that would support predictable and timely disbursements.

COORDINATION, ACCOUNTABILITY, AND INSTITUTIONAL MISALIGNMENT

Challenge: Weak coordination, accountability gaps, and misalignment between policies and practical governance realities affect the success of devolution.

Opportunity: Strengthen intergovernmental institutions like the Intergovernmental Budget and Economic Council (IBEC) and enhance monitoring mechanisms. Improved coordination, with regular performance reviews and policy realignment based on county needs, can drive more effective collaboration and accountability.

Key Themes to be Discussed

Theme 1: Functional analysis and costing. The now and the next steps.

Theme 2: Funding of devolution and sharing of revenue vertically and horizontally.

Theme 3: Intergovernmental relations and the service delivery level.

Theme 4: Citizen voices and inclusive governance

Importance of the Topic in Today's Context

Decentralization reforms around the world are often meant to improve allocational efficiency by ensuring the lowest level of government that can provide a service is responsible for its provision. In Kenya, county governments are responsible for some basic services such as health and early childhood development. However, the delivery of such services is not a role that can be fully run by the sub-national units and there are elements of national and intergovernmental levels that support them. These include aspects such as the division of revenue between national and county governments but also horizontally among the 47 units. It also includes areas such as the cash transfer processes to the counties, and monitoring of budget execution by the Office of the Controller of Budgets among others. In, there is still a process of defining what functions of government need to be devolved and what are the necessary resources that should accompany them. This is more urgent as wide sector reforms in areas such as health, education, agriculture and social protection are being implemented by the government.

Expected Outcomes of the Session

5. Annual state of functions reports that can progressively update the public and government agencies on the state of clarity of functions and funds meant for their implementation.
6. A timeline to implement a set of guiding principles that will help national and county governments in their revenue-sharing processes in an interdependent fashion.

