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Resource allocation: experiences and challenges in County Governments

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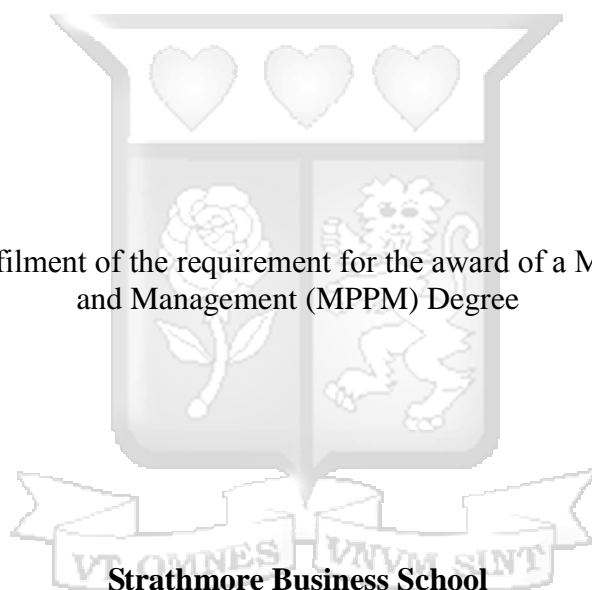
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Resource Allocation: Experiences and Challenges in County Governments

MOHAMED MUSA MOHAMED

MPPM/090655

Submitted in partial fulfilment of the requirement for the award of a Master's in Public Policy and Management (MPPM) Degree



APRIL 2018

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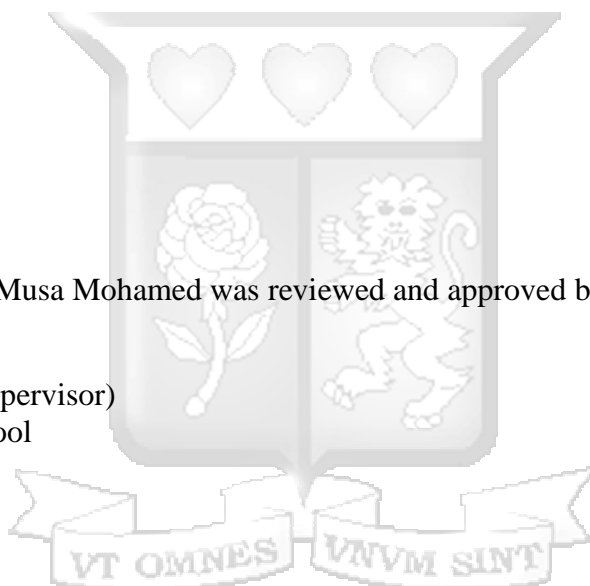
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ABSTRACT

This research paper examines the experiences and challenges of county governments in resource allocation by undertaking a budget analysis of 15 county governments. The study uses ‘resource allocation’ to mean the funds (monies) allocated to the three devolved functions of agriculture, health and water. The criteria on the selection of the counties included in the sample was the poverty index clustered into three namely 5 urban counties, 5 rich counties and 5 poor counties with specific focus on the three devolved functions of agriculture, health and water. The period of the study was the first term of devolution, the financial years 2013/2014 to 2017/2018. The study examined available secondary data from the Controller of Budget (CoB), the Commission on Revenue Allocation (CRA) as well as the Auditor General’s Reports on county spending. The above documents were reviewed against the Constitution of Kenya 2010 by examining the objects of devolution, compared them with the County Governments blue print on development, the County Integrated Development Plans (CIDP), the County Fiscal Strategy Papers and the actual budgets. The study findings indicate that there is consistency in allocation of resources to the three fully devolved functions of agriculture, health and water despite there being no formula for resource allocation to aid in budgeting and prioritization. In order of priority, there is more allocation to health followed by water and lastly agriculture. It was equally evident that there exists a challenge in achieving separation between the two levels of government. The national government continues to allocate significant sums to the devolved functions. On the availability of a national policy, the study found that there is no specific policy on resource allocation to the devolved function which should have guided counties on resource allocation when undertaking budgeting in their endeavour to fulfil the objectives of devolution. On the absorption rate, the study concludes that counties face a greater challenge largely due to slow exchequer release from the national government impacting programs and development negatively. The study recommends that counties should come up with own procedures and processes including a formula for resource allocation, the need for a national policy on the devolved functions and a deliberate effort to allocate more funds at the counties to the devolved functions compared to what the national government allocates to the same functions to realize overall efficiency in resource allocation.

TABLE OF CONTENTS

DECLARATION.....	II
ABSTRACT.....	III
TABLE OF CONTENTS.....	IV
LIST OF TABLES.....	VII
LIST OF FIGURES	VII
DEFINITION OF TERMS.....	VIII
LIST OF ABBREVIATIONS.....	IX
ACKNOWLEDGEMENT.....	X
DEDICATION.....	XI
CHAPTER 1: INTRODUCTION.....	1
1.1 INTRODUCTION	1
1.2 BACKGROUND OF THE STUDY	1
1.3 STATEMENT OF PROBLEM	4
1.3.1. Overall Study Objective	5
1.3.2 Specific Study Objectives	5
1.4 RESEARCH QUESTIONS.....	6
1.5 SIGNIFICANCE OF THE STUDY	6
CHAPTER 2: LITERATURE REVIEW.....	7
2.1 INTRODUCTION.....	7
2.2 RESOURCE ALLOCATION DEFINED	7
2.3 THEORETICAL LITERATURE REVIEW	7
2.3.1 Separation of Powers.....	8
2.3.2. Public Choice Theory	8
2.3.3 The Invisible Hand Theory.....	9
2.4 EMPIRICAL EVALUATION	10
2.4.1 Risk-Based Resource Allocation	10

2.4.2 Resource Allocation by Direct Democracy.....	11
2.4.3 Resource Allocation under Uncertainty.....	12
2.5 OVERVIEW OF LITERATURE REVIEW.....	13
2.6 CONCEPTUAL AND ANALYTICAL FRAMEWORK.....	14
CHAPTER 3: RESEARCH METHODOLOGY	17
3.1 INTRODUCTION.....	17
3.2 RESEARCH DESIGN.....	17
3.3 POPULATION AND SAMPLING.....	17
3.3.1 Selection of Counties to Study.....	17
3.3.2 Selection of County Functions to Study	18
3.4 DATA COLLECTION AND TOOLS	20
3.5 DATA ANALYSIS.....	21
3.6 DATA RELIABILITY AND VALIDITY	22
CHAPTER 4: DATA ANALYSIS	23
4.1 INTRODUCTION.....	23
4.2 ANALYSIS OF THE OVERALL ALLOCATION – BOTH COUNTY AND NATIONAL.....	24
4.2.1 Summary of Analysis of the overall allocation at both the County and National level.....	27
4.3 ANALYSIS OF ALLOCATION AT THE COUNTY LEVEL	28
4.3.1 Budgetary allocation to health at the county level	28
4.3.1.1 Trend Analysis for allocation in health	29
4.3.2 Budgetary allocation to agriculture at the county level	30
4.3.2.1 Trend analysis for allocation in agriculture	31
4.3.3 Budgetary allocation to water at the county level	32
4.3.3.1 Trend Analysis for allocation in water.....	33
4.3.4 Summary of analyses of allocations at the county level	34
4.4 ALLOCATION AT THE NATIONAL LEVEL	35
4.4.1 Trend Analysis for allocation at the national level	36
4.5 ANALYSIS OF ABSORPTION RATES AT THE COUNTY LEVEL	37
4.5.1 Absorption rates for health at the county level.....	37

4.5.1.1 Absorption rates for health: expenditure to budget.....	38
4.5.1.2 Absorption rates for health: expenditure to exchequer	39
4.5.2 <i>Absorption rates for agriculture at the county level</i>	41
4.5.2.1 Absorption rates for agriculture: expenditure to budget	41
4.5.2.2 Absorption rates for agriculture: expenditure to exchequer issued	43
4.5.3 <i>Absorption rates for water at the county level</i>	44
4.5.3.1 Absorption rates for water: expenditure to budget	44
4.5.3.2 Absorption rates for water: expenditure to exchequer	46
4.6 AVAILABILITY OF A FORMULA FOR RESOURCE ALLOCATION AS A TOOL FOR BUDGETING	47
4.6.1. <i>County budget framework</i>	47
4.7 NATIONAL POLICY ON ALLOCATION TO DEVOLVED FUNCTIONS BY THE NATIONAL GOVERNMENT	49
4.7.1 <i>Other legal and policy documents guiding county planning and budgeting</i> ...	51
4.8 SUMMARY OF FINDINGS, EXPERIENCES AND CHALLENGES	52
4.8.1 <i>Resource allocation</i>	52
4.8.2 <i>Absorption of the allocated funds to the three devolved functions</i>	55
4.8.3 <i>National policy on resource allocation</i>	58
4.9 KEY STUDY FINDINGS	58
CHAPTER 5: CONCLUSION AND RECOMMENDATIONS	60
5.1 INTRODUCTION.....	60
5.2 CONCLUSION	60
5.3 RECOMMENDATIONS	62
5.4 LIMITATIONS OF THE RESEARCH	63
REFERENCES.....	64

LIST OF TABLES

Table 1: Overall allocation to the three devolved functions (County & National) – 2014/2015 ..	24
Table 2: Overall allocation to the three devolved functions (County & National) - 2015/2016 ..	25
Table 3: Overall allocation to the three devolved functions (County & National) - 2016/2017 ..	26
Table 4: Allocations at the National Level to specific MDAs carrying out the three devolved functions.....	35
Table 5: Absorption rates for health at the county level	37
Table 6: Absorption rates for agriculture at the county level.....	41
Table 7: Absorption rates for water at the county level	44

LIST OF FIGURES

Figure 1: Analytical Framework	15
Figure 2: Budgetary allocation to health at the county level	28
Figure 3: Budgetary allocation to agriculture at the county level.....	30
Figure 4: Budgetary allocation to water at the county level	32
Figure 5: Budget absorption rates for health at the county level	38
Figure 6: Exchequer absorption rates for health at the county level.....	40
Figure 7: Budget absorption rates for agriculture at the county level.....	42
Figure 8: Exchequer absorption rates for agriculture at the county level	43
Figure 9: Budget absorption rates for water at the county level	45
Figure 10: Exchequer absorption rates for water at the county level	46
Figure 11: The Budget Cycle	47

DEFINITION OF TERMS

Average Deviation – this is a statistic used to measure the consistency of resource allocation and the absorptions during the period under study.

Exchequer Absorption – means what the counties spend out of what is disbursed to them by the national government.

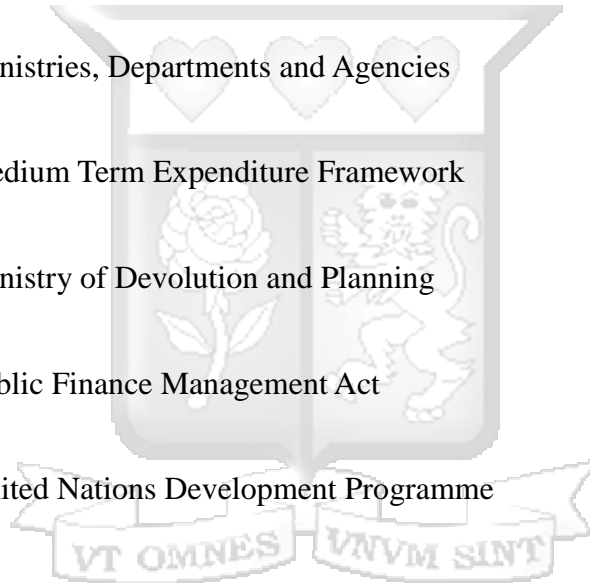
Exchequer Issues – means the funds disbursed/remitted to county governments by the national government for spending in line with their budgets.

Resource Allocation – means the funds ‘monies’ allocated by county governments through the normal budgeting process to the devolved functions as they execute on their mandate.



LIST OF ABBREVIATIONS

CIDP	–	County Integrated Development Plan
CoB	–	Controller of Budget
CRA	–	Commission on Revenue Allocation
FY	–	Financial Year
IFMIS	–	Integrated Financial Management Information System
MDAs	–	Ministries, Departments and Agencies
MTEF	–	Medium Term Expenditure Framework
MoDP	–	Ministry of Devolution and Planning
PFM Act	–	Public Finance Management Act
UNDP	–	United Nations Development Programme



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DEDICATION

To my beloved immediate family, my wife Hawaa, daughters Zubeda and Husna and Son Mukras. To the larger extended family - thank you so much. Your patience, support and understanding saw me through.



CHAPTER 1: INTRODUCTION

1.1 Introduction

The study is an assessment of allocation of resources in county governments in the first five years of devolution, the financial years 2013/2014 to 2017/2018. The research paper concentrated on the three fully devolved functions of health, water and sanitation and agriculture in 15 counties. The study is organized into five chapters. Chapter one reviews the background of the study, key historical highlights on evolution of decentralization since independence, statement of the problem, the research objectives, research questions and significance of the study. Chapter two of this study focuses on literature review to give us the background on decentralization and resource allocation theories as well as highlighting the research gaps in the literature overview. Chapter three of the study details the methodology used in data analysis as well as how data was collected and organized. Chapter four of the study highlights the findings of the study while the final chapter discusses the study findings, conclusion and relevant recommendations.

1.2 Background of the Study

The promulgation of a new constitution in the country in 2010 ushered in a new political dispensation of devolved governance in Kenya. The creation of autonomous sub-national units, referred to as county governments, marked the dawn of a new era where the government would be much closer to the people.

The importance of proximity between the people and their government is a fundamental pillar of a democratic republic such as Kenya. This importance is highlighted in the very first article of the Constitution, which states that all sovereign power in Kenya belongs to the people of Kenya,

and that the three organs of the government are to function as agents through which the people exercise their sovereign power.

Devolution brings some core governmental functions and powers closer to the issues affecting citizens on a day to day basis. In principle, it shortens the bridge between the sovereign people and the government, and in so doing it allows the government to act with greater fidelity to the interests of its principal: the people. This principle is evident in the objects of devolution that are set out in Article 174 of the Constitution of Kenya (2010).

The objectives of devolution as stipulated in Article 174 of the Constitution of Kenya (2010) are to promote democratic and accountable exercise of power, to foster national unity by recognising diversity, to give powers of self-governance to the people and enhance the participation of the people in the exercise of the powers of the State and in making decisions affecting them, to recognise the right of communities to manage their own affairs and to further their development, to protect and promote the interests and rights of minorities and marginalised communities, to promote social and economic development and the provision of proximate, easily accessible services throughout Kenya, to ensure equitable sharing of national and local resources throughout Kenya, to facilitate the decentralisation of State organs, their functions and services, from the capital of Kenya and finally to enhance checks and balances and the separation of powers.

This constitutional provision ideally means that legitimate administrative power and resources were devolved to the 47 county governments who were then set on the journey of establishing the necessary structures to enable them to discharge their mandates in compliance with the Constitution. The Fourth Schedule of the Constitution specifies the functions that either level of government is responsible for, and in so doing it delineates what range of services either level ought to provide in the performance of their assigned functions. Its instruments define its area of authority and basis for representation on its political leadership platform with their own staff, budget and revenue generation capability (Kamolo, 2014). County governments therefore have legal authority to make executive and regulatory decisions in the interests of the citizens. They also have access to funds that are collected and availed for the express purpose of funding county budgets that enable county governments to implement these decisions.

County governments have two principal sources of funding for their budgets. The first source, funds from the National Government, is shared between the two levels of government from the total sharable revenues of the last audited accounts. The second source is their local revenues generated from services offered to the citizens as stipulated in the fourth Schedule of the Constitution of Kenya, 2010. The counties receive distributed revenue from the National Government and are empowered to generate and collect their own revenues locally as a means of empowering them to deliver on their mandates. The Public Finance Management Act (PFM), 2012 operationalized Article 201(a) of the Constitution of Kenya 2010 on the principles of public finance prescribing openness and accountability in financial matters.

The PFM Act 2012 further outlines the responsibilities of both levels of the government, the National Government and the County Governments in overall financial management. County

Governments therefore having been equally entrusted with public funds are expected to adhere to these principles as they deliver services to the public in their respective counties.

The promise of devolved government has already been mentioned in this section: efficient government that is closer to the people and therefore better able to identify and service their needs. This promise was voted as desirable by the public during the constitutional referendum that set in motion the establishment of devolution, and this study therefore frames this promise as the goal of devolution. Attainment of this goal is hinged on various aspects of the process of decision-making and implementation in public governance.

The study was an assessment of how county governments allocate resources to the three fully devolved function and offered insights into the best practice in resource allocation when budgeting in county governments and the need to prioritize.

1.3 Statement of Problem

The implementation of the New Constitution has been said to be amongst the greatest challenges encountered under the new dispensation (Christian Roschmann, 2012). Devolution, though holding the key to great development and transformation for the country, has been labelled the most complex and least understood aspect of the New Constitution of Kenya (Yash P. Ghai, 2011). The success of devolution is intrinsically tied to adequate resource allocation which then enables the levels of government to effectively perform their functions (Kangu, 2015). Moreover, stark issues in the devolution of services have emerged, the healthcare crisis for instance, serving as a clear indicator of a rough transition, and a possible complete failure of the devolution of health services (Oyugi B. O., 2015).

As the first term of devolution ended and the second term taking off, it is essential to assess the successes and failures of county governments in attaining the objects of devolution. Resource allocation within counties as a part of the process geared towards this realisation needed to be scrutinised and gain insights as to how the functions are funded. The study assessed resource allocation to the three fully devolved functions of health, water and sanitation and agriculture in order to determine how much is allocated to each of the functions, availability of a resource allocation formula as a budgeting tool as well as the absorption rate and finally whether a policy existed on resource allocation to the fully devolved function. The findings and recommendations of the study addresses the issue of effective implementation of devolution and the subsequent achievement of the objectives of devolution as envisioned by the constitution.

1.3.1. Overall Study Objective

The overall objective of this study was to assess the experiences of county governments and challenges encountered in resource allocation during the first term of devolution, the financial years 2013/2014 to 2017/2018.

1.3.2 Specific Study Objectives

The specific objectives of the study was to review:

1. Resource allocation at the county level (horizontal) and at national level (vertical) for the three devolved functions.
2. Whether counties have established a formula for resource allocation as a tool to aid in budgeting and prioritization.
3. The absorption of the allocated funds to the three fully devolved functions.

4. Whether the national government has developed a policy framework for the three fully devolved functions

1.4 Research Questions

The study sought to answer the following questions:

1. What is the level of resource allocation at the county level and at national level for the three devolved functions?
2. What formula is there for resource allocation in counties for budgeting and prioritization?
3. What is the absorption rate of the allocated funds to the three devolved functions?
4. To what extent has the national government developed a policy framework for the three fully devolved functions?

1.5 Significance of the study

The study is useful to various stakeholders – especially in county governments. For the county governments' management team, the study offers information on the best strategies for budgeting and resource commitment. The study also helps the county governments by shedding light on the shortcomings and oversights of the new constitutional dispensation as regards the empowerment of county governments towards the pursuit of their mandates.

The study equally offers some insights into the best practice in resource allocation when budgeting in view of scarce resources (own local revenues and the sharable revenue) and possible remedy as efforts to generate more own source revenue takes shape. Other organizations will equally benefit from the study as well since the findings can easily be replicated to fit into any organizational strategy that is influenced by county governance.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of relevant literature and information related and consistent with the objectives of the study. It determines the information that links the current study with past studies and what future studies should examine to improve on. Both empirical and theoretical frameworks on devolution, economics and strategic planning theories are reviewed.

2.2 Resource Allocation Defined

Public economic policy has three main objectives; efficient resource allocation, desirable distribution of income and wealth and lastly, stabilisation of employment and output (Musgrave, 1989). Resource allocation is therefore a central component of public finance (Dang, 2013). It is founded on the realisation that available resources are scarce, and therefore decisions need to be made as to how to apportion them to the many demands. Resource allocation is the process by which these scarce resources are distributed amongst competing needs. In the Kenyan context, resource allocation would refer to the plan counties implement in their use of scarce resources to achieve goals set in pursuit of the performance of their mandates. This study is premised on the notion that resource allocation policies of counties are expected to ensure that their processes of resource allocation are in furtherance of the promise of devolution.

2.3 Theoretical Literature Review

This section provides an overview of literature on key theories relevant to resource allocation. We use theories to help guide the study as they explain the basic principles and provide a model

to test the concept as well as providing the general framework for the study. Devolution and relevant economic theories are therefore discussed below.

2.3.1 Separation of Powers

A key theory used in the justification of devolution is that of separation of powers. Founded on the belief that power corrupts and absolute power corrupts absolutely, this theory states that governmental power ought not to be concentrated in one person but instead dispersed in various organs. Application of this theory, as propounded by French jurist Montesquieu, curbs the abuse of power and therefore prevents those in power from interfering with citizens' rights (John Osogo Amabani, 2014). Traditionally, this was understood to mean that the three arms of government; the judiciary, legislature and executive, ought to be distinct and independent of one another. Horizontal separation of powers is where the government is divided into separate arms with different and distinct functions. (Oluoch, 2015). Devolution is a type of vertical separation of powers, where power is vested in two levels of government as opposed to having a singular central government (Nigel Bowles, 2014). The devolved units are seen to be closer to the public (Oyugi L. , 2008). This bolsters the public participation of local communities, enabling them to cater to their specific needs and necessary developmental projects (Nhede, 2013).

2.3.2. Public Choice Theory

The public choice theory uses economic principles to analyze political action. It is not surprising that two disciplines; politics and economics, should converge and in this case, be used to justify devolution. Oyugi indeed notes that its justification '... has its foundations in normative theories of politics, management and economics' (Oyugi L. , 2008).

Public choice theory, as defined by Buchanan, is ‘politics without romance.’ Various considerations are made. First, the individual is considered to be the decision maker, and not the public in general. Secondly, each individual is seen as having their personal interests at heart (Eskridge, 1988).

2.3.3 The Invisible Hand Theory

The invisible hand theory is a conception by famed economist Adam Smith. The ‘invisible hand’ is defined as the economic forces which pull an economy towards equilibrium. (Holcombe, 1999) Smith used the invisible hand as a metaphor to demonstrate that in free markets, capital owners in making unencumbered use of their capital eventually translates to a benefit of the larger economy, thus serving public interest (Smith, 1776). Persky notes that this theory to a large extent applies only to domestic investments (Persky, 1989).

In summary, the above theories relate to the objects of devolution as set out in Article 174 of the Constitution of Kenya (2010). The theory on separation of powers and public choice theories reinforces the need for accountability and public participation in the county governments in resource allocation and relevant to the study analysis on resource allocation at the county level compared to what the national government allocates to the devolved functions. The invisible hand theory on the hand relates to efficiency in resource allocation, which is a fundamental question in resource allocation especially at the county level. The very fact that resources are scarce means that counties need to allocate resources where they derive the maximum benefit as examined by the study’s analysis on availability of a formula for resource allocation as a tool of budgeting and prioritization at the county. The study examines how counties allocate resources,

with a focus to the three fully devolved functions and if the same is fair and consistent as they deliver services to the citizens as mandated by the constitution.

2.4 Empirical Evaluation

2.4.1 Risk-Based Resource Allocation

Part 2 of the fourth schedule of the Constitution of Kenya (2010) enumerates the various government functions that are devolved to county governments. The ministries in charge of three of these functions—agriculture, health, and water—enunciate the importance of the services they provide in their policy statements and service distribution strategies.¹ Government agencies have limited resources at their disposal, and experiences of the federal scheme in the US show that prioritising essential services and necessary development projects is a necessary threshold for good and sustainable governance (Farrell, Gebre, Hudspeth, & Sellgren, 2013).

The different functions that county governments are charged with are all, in principle, essential and seek to maximise constituent satisfaction and minimise the risks threatening their wellbeing. The inevitable consequence of this is the development of several targets—all of which should be met, but some of which must be secured first because the cost of not meeting them, or risk, is too great to gamble. A risk-based allocation strategy allows agencies to determine the best way to allocate the limited resources they control to service and secure a broad range of risk exposures (Farrell, Gebre, Hudspeth, & Sellgren, 2013). It's proper implementation has the benefit of

¹ Ministry of Water and Irrigation (2007), The National Water Services Strategy (2007-2015).

securing the delivery of essential and fundamental services that allow citizens to live in safe and predictable conditions and form the foundation of which other targets can be pursued.

The challenge in a bicameral system of governance is allowing counties sufficient flexibility to identify the particular risks that are of the greatest concern. For effective resource allocation, there is a need to take variability between counties and regions into account, and to develop models that are based on region-level socioeconomic variables that determine risk (Moustaki, 2011).

2.4.2 Resource Allocation by Direct Democracy

Markets and government transfers are undoubtedly important allocation mechanisms of scarce resources. In many instances, resource allocation via markets and government transfers, although undoubtedly important, are not available or suitable in actual fact (D'Exelle & Reidl, Resource Allocations and Disapproval Voting in Unequal Groups, 2012). This is particularly true of many African countries—Kenya included—which have both weak governance structures and underdeveloped markets. In these cases, resources allocation through decentralized nonmarket channels such as direct democracy seems likely to be the best way to stimulate local economic growth (Hayumi & Godo, 2005). D'Exelle and Reidl point out a growing trend of development aid being distributed through community representatives, but point to a number of studies that identify the vulnerability to misappropriation of such distributions by local elites as an imposing challenge to such community-driven development (Alderman, 2001; Conning & Kevane, 2002; Platteau & Gaspart, 2003; Ravallion, 2003; D'Exelle, EExcluded Again: Village Politics at the Aid Interface, 2009). The public availability of information on resource allocation correlates with decreased disapproval and minimises exclusion of the marginalised minorities from resources.

Although Kenya has entrenched public participation in its devolved governance structure the influence of participation constrained by the limited participation of citizens (D'Exelle & Reidl, Resource Allocations and Disapproval Voting in Unequal Groups, 2012).

Additionally, disapproval voting is far more likely to induce representatives to misappropriate rather than to act in more prosocial ways. The researchers however propose that current structures of county governments should champion institutionalizing participation. The institutional structure sets the status quo, and the status quo has a pronounced effect on the desired resource allocation scheme of voters (what they already have versus what they think is possible) (Romer & Rosenthal, 1978).

2.4.3 Resource Allocation under Uncertainty

Allocation under uncertainty occurs when the outcome of an allocation is not discernable at the point of input. (Arrow, 1962) The biggest challenge in planning and orchestrating research allocation is the need to balance the uncertainty affecting long-term decision making with the benefits a long-term focus holds for development (Trinkl, 1975). Disparate programs collectively contribute to a multitude of objectives which may not only be in conflict but also may not have clearly discernible outcomes. Systematic analysis of the connection between inputs and outcomes might provide information that decision makers can use to understand the necessary rate and scale of resource allocation to preferred programs.

In summary, various resource allocation strategies have been identified by scholars as discussed above. Moindi discusses the use of these strategies in selected county governments (Moindi, 2014). Kerich looks at the transfer dependency counties place on national governments together with the counties' expenditure performance (Kerich, 2017). Ambetsa on the other hand discusses

the legal framework on county government funding, together with challenges facing these sources of funding (Ambetsa, 2014). None of these attempts to analyse resource allocation strictly within the counties as a key factor in implementing devolution objectives.

2.5 Overview of Literature Review

From the above literature, it is evident from the theories that the object of devolution is to bring government services closer to the public and encourage their participation in decision making. This aligns with the objectives of devolution as enumerated in Article 174, including promoting accountability, self-governance and enhancing checks and balances and the separation of powers. Resource allocation plays a vital role in ensuring that this is achieved, as it is the method through which resources are shared among different tiers of government and within those tiers. Within counties, resource allocation refers to the sharing of the resources available to the county among the devolved functions.

Most empirical studies reviewed above on the other hand concentrate on resource allocation between the two levels of government. None of the studies attempt to analyse resource allocation strictly within the county, for the county functions and specifically to the three fully devolved functions as a key factor in implementing devolution objectives. The study therefore addresses this gap by analysing specifically how counties allocate resources to the three fully devolved functions in fulfilling the objects of devolution. This includes identifying allocation formula employed in the counties as a tool for budgeting and prioritization, if any and if the national government has put in place a policy framework for the three devolved functions. The study also compares allocation at the county level with the allocation at the national government level to the same functions. There is also no literature on the experiences and challenges faced in resource

allocation within counties specifically during the entire first term of devolution in Kenya. This study addresses the above gap with a view of providing insights on how the objectives of devolution can be achieved through effective resource allocation.

2.6 Conceptual and Analytical Framework

The conceptual framework as represented in figure 1 below shows the relationship between the Overall Resource Allocation and National Government Allocation, County Budget Allocation, Revenue Allocation Formula and the Absorption Rate of allocated resources to the devolved functions.

The allocation from the national government refers to the transfers out of the sharable revenues allocated to counties as stipulated by Article 202 of the Constitution of Kenya allocated to county governments through the provision of County Allocation Revenue Act. This includes shareable revenue at 15% of the last audited Accounts, Conditional Grants, Development Partners Funds and any Balance brought forward from the previous year. The study sought to establish how much is allocated by the national government to the devolved functions and related this with allocation at the county level.

Secondly, the study establishes how much is allocated to the devolved functions within the counties in order to establish if they comply with the constitutional requirement of allocating 30% of the resources to development expenditure as stipulated by fiscal responsibility principles under section 107 of the Public Finance Management Act of 2012.

The third aspect in the study establishes if a Revenue Allocation Formula is available and considered as one of the mechanism in counties to determine how much to allocate to what functions during budgeting. The fourth aspect on absorption rate establishes expenditure performance on allocated funds to the devolved functions. Finally, the study establishes how the interaction of the four variables explained above and policies put in place by the national government, if any, affect the overall resource allocation.

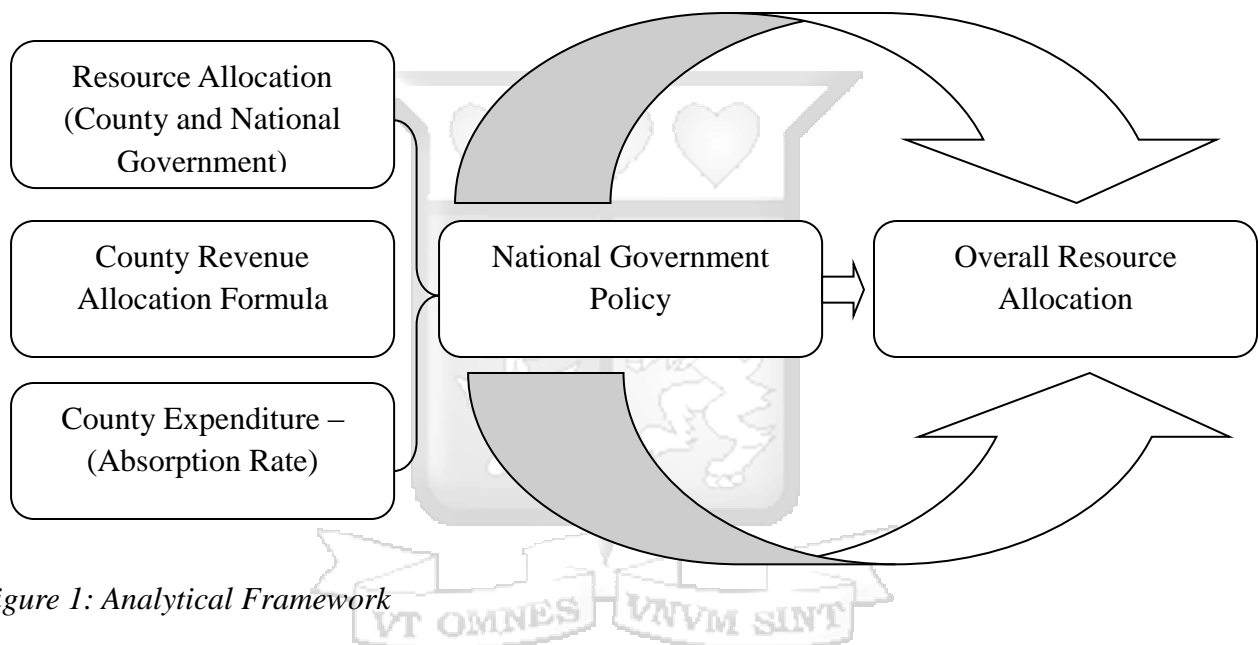


Figure 1: Analytical Framework

The study used the following in the analytical framework which are defined and explained as follows:

1. Resource Allocation:

This refers to budgetary allocation at both the county and the National government level to the three devolved functions. This enabled us to carry out an assessment of how much county governments allocates to the three devolved functions, from their own local revenue and funds from the National Government – from Equitable Share of Revenue as well as examine what the national government allocates to the line ministries responsible for the devolved functions.

2. County Revenue Allocation Formula:

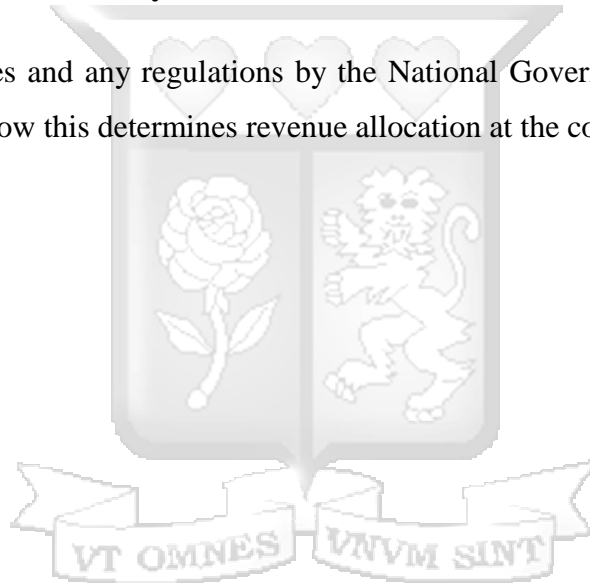
This means the formula used to guide in resource allocation as a budgeting tool to determine how much of the total budget goes to the devolved functions at the county level.

3. County Expenditure/Absorption Rate:

This means the actual expenditure at the end of the financial year compared to the allocation of the resources as budgeted at the beginning of the year as approved by the Office of the Controller of Budget.

4. National Government Policy

This means the guidelines and any regulations by the National Government that relates to the devolved functions and how this determines revenue allocation at the county.



CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on the research design, sample selection, data sources and methods of data analysis. In the discussion, the rationale behind the approaches taken in each are explained in light of the objectives of the study.

3.2 Research Design

This study employed a mixed-methods approach whereby qualitative information is used to complement quantitative research. The study focused on 15 counties during the first term of devolution in Kenya covering the financial years 2013/2014 to 2017/2018. The data was extracted from various reports covering the years under study. This included budgetary reports from the Controller of Budget, the National Treasury, and the Commission on Revenue allocation. The data of interest, based on the study objectives was the national government allocation, county allocation to the devolved functions as well as the absorption rate of the budgetary allocation to the devolved functions. Data for availability of a formula for resource allocation was obtained through telephone interview. The data collected was then captured in an excel sheet for further analysis.

3.3 Population and Sampling

3.3.1 Selection of Counties to Study

The study focused on 15 counties. They were selected according to the following criteria: 5 urban counties; 5 rich counties; and 5 poor counties. Each grouping forms a cluster which was

studied as a whole. Data from the Kenya National Bureau of Statistics was used in determining which counties belong to these designations.

The 5 urban counties were selected based on population. The 5 most populous cities and towns according to the 2009 Kenya Population and Housing Census, are Nairobi, Mombasa, Nakuru, Kisumu, and Eldoret. The richest and poorest counties were selected using data from the Kenya County Fact Sheets released by the Commission on Revenue Allocation (CRA) in June 2013. The fact sheets provide information on the poverty gap index of each county. The index is an estimation of how far, on average, the poor in each county are from the poverty line.

According to the CRA, this same poverty index is reflected in the criteria used in allocating the equitable share of national revenue between counties. The use of the poverty gap index in that application makes the index particularly relevant to the objectives of this study.

According to the fact sheets, the 5 richest counties based on the poverty gap index are Kajiado (2.5%), Kirinyaga (5.9%), Meru (6.2%), Lamu (6.3%), and Kiambu (6.5%). The poorest counties based on the poverty gap index are Turkana (67.55%), Mandera (45.7%), Samburu (42.4%), Marsabit (42.2%), and Wajir (38.1%).

The above formed a representative sample that was then used to draw conclusions and recommendations cutting across all 47 counties.

3.3.2 Selection of County Functions to Study

The fourth schedule of the constitution of Kenya 2010 clearly separated national and county functions. The county functions listed are Agriculture, Health, Pollution control, Cultural activities, County transport, Animal control and welfare, Trade development and regulation,

County planning and development, Pre-primary education, village polytechnic, homecraft centres and childcare facilities, County public works and services including water and sanitation, Fire and disaster management, drugs control and pornography and citizen participation at the local level. This study focused the analysis of county resource allocation to only the fully devolved functions of health, water and sanitation and agriculture in order to facilitate in-depth critical investigation. Discussion of all the devolved function either would be an unreasonably taxing endeavour or would lead to an unacceptably superficial analysis of the subject. These three county functions, of the provision of county health services and of water and sanitation services and agriculture were selected for two important reasons.

Firstly, both functions are fully devolved and central to the quality of day-to-day life and livelihoods for Kenyans, and in so doing have a direct effect on prospects for socioeconomic development. Secondly, under the previous constitutional dispensation, the provision and regulation of water and sanitation services was the docket of local municipal governments, while health and agriculture was a central government function under the Ministry of Health and the Ministry of Agriculture respectively.

Studying the three functions, which are now both under county governments, can therefore lead to valuable insights as to the effect of decentralising previously centralised functions vis-à-vis historically decentralised functions.

This study recognises that the challenges and experiences county governments face differ from county to county, but that a general commentary on the same that is applicable to all can be arrived at in discussing policy.

3.4 Data Collection and Tools

The study primarily used secondary data with a small component of primary data. The mixed-methods approach used means qualitative information was used to complement quantitative research. Quantitative research entails “the collection of numerical data and exhibiting the view of relationship between theory and research as deductive a predilection for natural science approach, and as having an objectivist conception of social reality” (Bryman and Bell, 2005). This study fits this description as it entails the empirical analysis of secondary data. The focus of the study, being the formula for resource allocation and the methods and practices counties engage in their use of allocated resources, necessitated extensive reviews of budgetary reports from the Controller of Budget, the National Treasury, and the Commission on Revenue allocation.

The reviews were for the purpose of identifying and extracting key figures and statistics from sources ranging from the national budget to county reports. As such, the data collected and analysed consisted principally figures and statistics, and the study was therefore essentially quantitative in nature. Analysing this data furthered the objectives of this study by providing an objective picture of how the practice of resource allocation equips county governments to serve the people. Additionally, as this study also sought to shed light on the experiences of county governments, phone interviews were held with key informants.

The responses of the key informants, who were county officers of the 15 counties studied in this paper, constituted the qualitative data collected and analysed in this mixed-method study. Semi-structured interviews were employed with the aid of guiding questions that were formulated in preparation of the interview to ensure uniformity across all interviews.

This study was designed to correlate quantitative and qualitative data regarding resource allocation to produce a holistic picture of the reality of the devolved government. Raw data was organized in an excel spreadsheet for analysis.

3.5 Data Analysis

The analytical framework of this study was guided by the research questions. The study utilized existing reports and government published documents to determine if the national government has a policy in place on the devolved functions – this was then correlated to the overall resource allocation to establish how this affected the actual allocation in counties. In order to determine the allocation by the national government to the devolved functions, relevant data was extracted from the annual government budget estimates for the financial years 2013/2014 to 2017/2018. This was then compared with actual data of allocation by county governments to establish how the allocation at the national level affects final resource allocation at the county.

To gain insights as to how much of the allocated funds actually gets absorbed, a comparison of actual allocation was done with the final spending as reported by the Controller of Budget's annual county budget reviews. The study further assessed if the absorption rate affected subsequent years budgetary allocation to the devolved functions. The study sought to establish if a resource allocation formula existed as a tool for budgeting through a simple questionnaire and correlated this with the final resource allocation. The study examined if the resource allocation formula, addressed the pertinent issues as regards marginalized areas within the county.

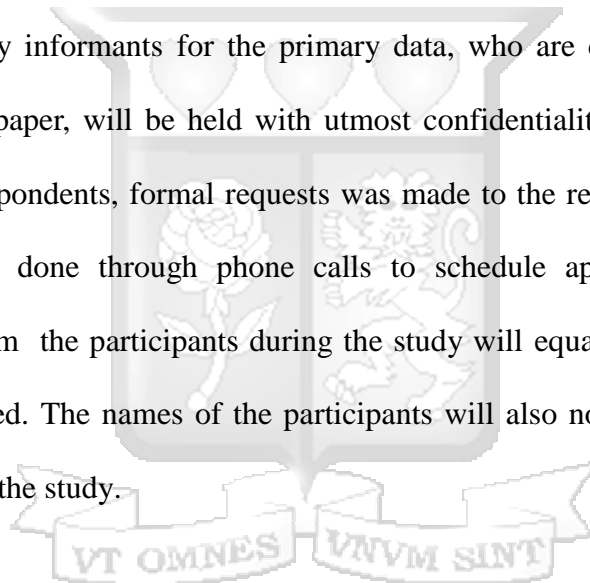
Lastly, insights gathered from county administrators through the questionnaires was collated and addressed in the discussion of the experiences they have with resource allocation.

3.6 Data Reliability and Validity

The secondary data used by the study was obtained from official published reports from the Kenya National Bureau of Statistics, the Office of Controller of Budget, Commission on Revenue Allocation, Kenya Law Review and from the National Treasury IFMIS System. This study was therefore conducted and concluded in confidence that the data sources and collection methods are valid and reliable for use in this study.

3.7 Ethical Consideration

The responses of the key informants for the primary data, who are county officers of the 15 counties studied in this paper, will be held with utmost confidentiality. Prior to obtaining any information from the respondents, formal requests was made to the relevant departments in the counties and follow up done through phone calls to schedule appointments. The private information obtained from the participants during the study will equally be held in confidence and their consent obtained. The names of the participants will also not be disclosed to anyone anytime during and after the study.



CHAPTER 4: DATA ANALYSIS

4.1 Introduction

This chapter presents an analysis of the data collected as follows: analysis of resource allocation to the three devolved functions at the county and national levels (allocation analysis) and analysis of the budget to expenditure and exchequer issue to expenditure absorption rates (absorption analysis). Lastly, it analyses the policy on devolved system of government, 2016.

Section 4.2 presents analysis of overall allocations both at the county and at national level while 4.3 presents analysis of allocation at the county level to facilitate comparison of allocation for the two levels of government. Section 4.4 presents an analysis of allocation at the national level compared to other departments and agencies. Section 4.5 presents analysis of the absorption rates in the county government level while section 4.6 presents an analysis of the availability of a formula for resource allocation as a tool for budgeting. Section 4.7 presents analysis on the national policy on allocation to the devolved functions while section 4.8 presents the summary of findings, experiences and challenges. Finally, section 4.9 presents the key study findings.

Trend analyses of both allocation and absorption highlight changes in the respective figures during the period under study. Pursuant to this, two key statistics were highlighted. The first is the net change over the period of the study. This is calculated as the difference between the figures of the final financial year (FY 2016-2017) and the figures of the first financial year (FY 2014-2015). The second key statistic is the average deviation of the figures. This is calculated first by finding the mean of the figures corresponding to the three financial years in each section. The absolute difference, or deviation, between the figures of individual financial years and the mean are then calculated, and the average of these deviations is then calculated and reported. The

average deviation was used to measure the consistency of allocations and absorptions during the period under study.

4.2 Analysis of the overall allocation – both County and National

This section analyses the overall budgetary allocation to the three devolved functions of Health, Agriculture and Water at both the counties as well as at the national government level.

Table 1: Overall allocation to the three devolved functions (County & National) – 2014/2015

County	Health		Agriculture		Water	
	Total Allocation	% of Total	Total Allocation	% of Total	Total Allocation	% of Total
Kajiado	636.81	11.23	176.51	3.11	305.95	5.4
Kiambu	3,393.69	32.73	544.5	5.25	403.16	3.89
Kirinyaga	499.95	12.19	92.99	2.27	0	0
Kisumu	2,127.10	26.79	308.22	3.88	198.63	2.5
Lamu	567.26	22.6	102.33	4.08	324.3	12.92
Mandera	1,471.80	13.06	513	4.55	1,220.51	10.83
Marsabit	862.41	15	248.77	4.33	635.85	11.06
Meru	1,785.07	23.06	473.22	6.11	577.31	7.46
Mombasa	2,109.93	21.38	291.82	2.96	762.1	7.72
Nairobi	4,921.66	19.23	307.25	1.2	1,005.83	3.93
Nakuru	3,875.53	34.95	493.6	4.45	0	0
Samburu	630.59	15.23	323.78	7.82	960.09	23.19
Turkana	2,058.00	15.69	1,129.00	8.61	1,129.00	8.61
Uasin Gishu	1,068.38	15.42	517.23	7.46	0	0
Wajir	1,263.89	17.39	468.83	6.45	1,116.60	15.36
	27,272.07	19.7	5,991.05	4.84	8,639.33	7.52
National	47,362.00	4	37,224.00	3	50,809.00	2

Table 1 indicates the 15 counties under study allocated a total of Kes 27.2 Billion, Kes 5.9 Billion and Kes 8.6 Billion to the three devolved functions of Health, Agriculture and Water respectively in the financial year 2014/2015. The same financial year, the national government allocated a total of Kes 47 Billion to Health, Kes 37 Billion to Agriculture and Kes 50 Billion to

Water. The data also indicates that the total allocation averaged 19.73% of total budget for health, 4.84% for Agriculture and 7.52% for Water. The national government's allocation on the other hand averaged 4% for Health, 3% for Agriculture and 2% for Water out of the total budget

Table 2: Overall allocation to the three devolved functions (County & National) - 2015/2016

County	Health		Agriculture		Water	
	Total Allocation	% of Total	Total Allocation	% of Total	Total Allocation	% of Total
Kajiado	1,562.07	22.89	302.55	4.43	480.2	7.03
Kiambu	4,050.35	35.28	565.75	4.93	445.2	3.88
Kirinyaga	1,450.61	30.35	314.49	6.58	0	0
Kisumu	2,364.70	24.53	460.47	4.78	317.14	3.29
Lamu	889.05	27.96	122.29	3.85	351.42	11.05
Mandera	1,597.62	13.89	565.83	4.92	1,784.19	15.51
Marsabit	1,109.30	17.69	301.22	4.8	904.02	14.42
Meru	2,169.52	26.39	485.68	5.91	637.51	7.76
Mombasa	2,420.17	24.25	216.82	2.17	738.84	7.4
Nairobi	6,305.95	21.68	319.95	1.1	1,866.95	6.42
Nakuru	4,515.53	32.3	771.37	5.52	905.9	6.48
Samburu	697.43	15.67	331.28	7.44	957.2	21.51
Turkana	1,381.86	10.22	1,311.83	9.7	1,311.83	9.7
Uasin Gishu	1,450.30	19.23	567.17	7.52	457.89	6.07
Wajir	1,437.43	17.38	335.5	4.06	1,184.72	14.33
	33,401.89	22.7	6,972.20	5.18	12,343.01	8.99
National	59,000.00	4	60,000.00	2	63,000.00	1

Table 2 indicates the 15 counties under study allocated a total of Kes 33.4 Billion, Kes 6.9 Billion and Kes 12.3 Billion to the three devolved functions of Health, Agriculture and Water respectively in the financial year 2015/2016. The same financial year, the national government allocated a total of Kes 59 Billion to Health, Kes 60 Billion to Agriculture and Kes 63 Billion to Water. The data also indicates that the total allocation averaged 22.653% of total budget for health, 5.18% for Agriculture and 8.99% for Water. The national government's allocation on the

other hand averaged 4% for Health, 2% for Agriculture and 1% for Water out of the total budget during the financial year under study.

Table 3: Overall allocation to the three devolved functions (County & National) - 2016/2017

County	Health		Agriculture		Water	
	Total Allocation	% of Total	Total Allocation	% of Total	Total Allocation	% of Total
Kajiado	1,865.24	26.61	307.52	4.39	502.47	7.17
Kiambu	4,392.80	35.43	526.57	4.25	476.56	3.84
Kirinyaga	1,560.77	29.79	361.5	6.9	0	0
Kisumu	2,484.85	26.43	406.04	4.32	270.41	2.88
Lamu	1,030.47	32.1	112.98	3.52	352.03	10.97
Mandera	1,904.73	15.83	570.82	4.74	2,483.17	20.64
Marsabit	1,374.86	20.16	297.14	4.36	777.36	11.4
Meru	3,082.44	30.4	605.81	5.97	613.91	6.05
Mombasa	2,428.25	20.84	142.84	1.23	285.66	2.45
Nairobi	6,298.28	18.11	534	1.54	2,832.00	8.14
Nakuru	5,424.48	35.95	804.07	5.33	1,089.52	7.22
Samburu	744.83	15.95	261.26	5.59	909.07	19.47
Turkana	2,018.35	14.05	1,537.02	10.7	1,537.02	10.7
Uasin Gishu	1,658.18	21.48	792.74	10.27	611.03	7.91
Wajir	1,372.82	15.82	734.83	8.47	1,143.79	13.18
	37,641.35	23.9	7,995.14	5.44	13,884.00	8.8
National - GoK	60,269.90	4	46,544.20	2	88,999.40	2

Table 3 shows the 15 counties under study allocated a total of Kes 37.6 Billion, Kes 7.9 Billion and Kes 13.8 Billion to the three devolved functions of Health, Agriculture and Water respectively in the financial year 2016/2017. The same financial year, the national government allocated a total of Kes 60.2 Billion to Health, Kes 46.5 Billion to Agriculture and Kes 88.9 Billion to Water. The data also indicates that the total allocation averaged 23.93% of total budget for health, 5.44% for Agriculture and 8.80% for Water. The national government's allocation on

the other hand averaged 4% for Health, 2% for Agriculture and 2% for Water out of the total budget during the financial year under study.

4.2.1 Summary of Analysis of the overall allocation at both the County and National level

Both tables 1, 2 and 3 indicate that the National Government allocated significantly higher amounts compared to what the Counties under study cumulatively allocated. During the financial year 2014/2015, the 15 counties under study allocated a total of Kes 27.2 Billion, Kes 5.9 Billion and Kes 8.6 Billion to the three devolved functions of Health, Agriculture and Water. The same financial year on the other hand, the national government allocated a total of Kes 47 Billion to Health, Kes 37 Billion to Agriculture and Kes 50 Billion to Water.

During the financial year 2015/2016, the 15 counties under study allocated a total of Kes 33.4 Billion, Kes 6.9 Billion and Kes 12.3 Billion to the three devolved functions of Health, Agriculture and Water respectively. The same financial year, the national government allocated a total of Kes 59 Billion to Health, Kes 60 Billion to Agriculture and Kes 63 Billion to Water.

The financial year 2017/2017 saw counties under study allocating a total of Kes 37.6 Billion, Kes 7.9 Billion and Kes 13.8 Billion to the three devolved functions of Health, Agriculture and Water respectively in the financial year 2016/2017. The same financial year, the national government allocated a total of Kes 60.2 Billion to Health, Kes 46.5 Billion to Agriculture and Kes 88.9 Billion to Water.

The three functions under study all received relatively higher allocations by the national government compared to the total cumulative allocation by the 15 counties under study in all the years. The higher allocations as evidenced by the data indicate that the national government

continues to allocate more funds to the three functions despite being fully devolved contrary to the expectation that the allocations should have been higher for the counties and relatively low at the national Government level.

The expectation going forward is that Counties should progressively allocate more funds to those functions as they discharge their mandate of fulfilling the object of devolution. The national government on the other hand should gradually reduce their allocation to this fully devolved functions for efficient resource utilization as they continue to discharge their mandate of policy formulation.

4.3 Analysis of allocation at the county level

This section analyses the trend in resource allocation within the county governments to the three devolved functions.

4.3.1 Budgetary allocation to health at the county level

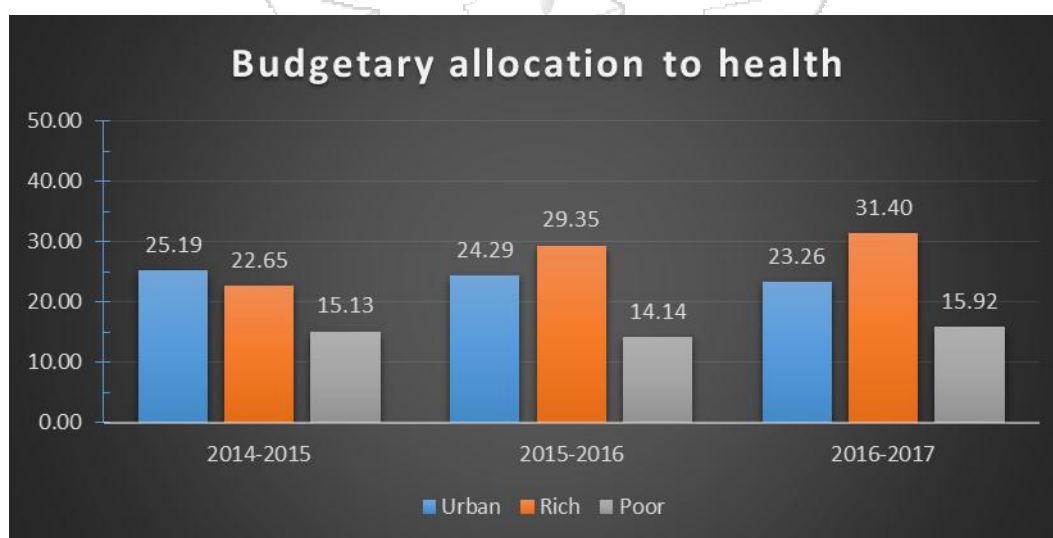


Figure 2: Budgetary allocation to health at the county level

Budgetary allocation to health at the counties for the financial years 2014/2015-2016/2017 are shown in figure 2 above. In 2014/2015, 2015/2016 and 2016/2017, urban countries allocated 25.19%, 24.29% and 23.26% of their budgets, respectively, to health. Rich counties allocated 22.65%, 29.35% and 31.40% respectively. Poor counties allocated 15.13%, 14.14% and 15.92% respectively.

On average, the rich counties allocated a larger portion to the function of health, followed by urban counties. The poor counties allocated the least percentage of their county budgets to health in all the years. The above skewed allocations mean that the poor counties will continue to lag behind in provision of healthcare compared to both urban and rich counties contrary to the desire for equitable service delivery at the counties as envisioned by the objects of devolution. There are several reasons that could explain the minimal allocation. These includes the national government's allocation of both sharable and equitable revenues to the poor counties based on the CRAs formula and poor planning among others.

4.3.1.1 Trend Analysis for allocation in health

Allocation to the function of health in the urban counties was regular, with a slight decrease of 0.9% between 2014/2015 and 2015/2016 and 1.03% between 2015/2016 and 2016/2017. This amounts to a **net decrease of 1.93%** within the period under study. The average allocation was 24.25% with **an average deviation of 0.66%**. The regular allocation ensures consistency in provision of healthcare services which is inline with the objectives of devolution.

Unlike in the urban counties where there is a slight decrease annually in allocation to health, rich counties show a significant increase from year to year. There was a 6.7% increase in allocation between 2014/2015 and 2015/2016 and a 2.5% increase in allocation between 2015/2016 and

2016/2017. This means that the percentage of allocations to the function of health in rich countries **increased by 9.2%** within the period under study. The average allocation was 27.8% with **an average deviation of 3.4%**. The continued increase in allocation is a good indicator of good planning and prioritization of healthcare as a critical function in fulfilling the objectives of devolution.

The allocation is irregular in poor counties, with a 0.99% drop between 2014/2015 and 2015/2016 and a 1.78% increase between 2015/2016 and 2016/2017. This amounts to a **net increase of 0.79%** in allocations to health in the poor counties within the period of study. The average allocation was 15.1% with **an average deviation of 0.62%**. The inconsistency in allocation means poor planning, which will continue to impact negatively provision of healthcare in poor counties.

4.3.2 Budgetary allocation to agriculture at the county level

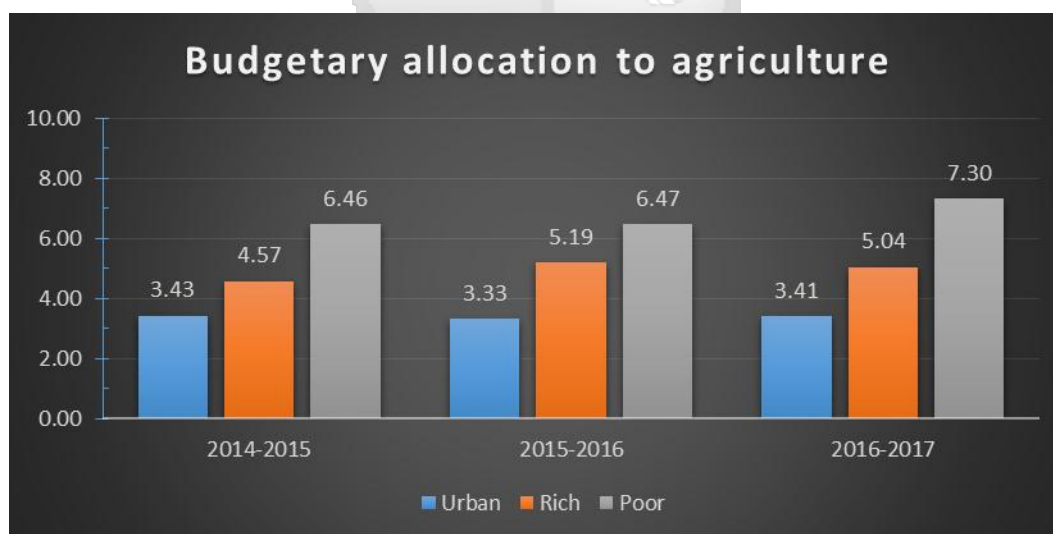


Figure 3: Budgetary allocation to agriculture at the county level

Figure 3 above shows the allocation at county level to agriculture for the financial years 2014/2015 to 2016/2017. Allocation ranges between 3.33% and 7.30%. The poor counties have the highest allocation, followed by rich counties and urban counties respectively. In 2014/2015, 2015/2016 and 2016/2017, urban countries allocated 3.43%, 3.33% and 3.41% of their budgets, respectively, to agriculture. Rich counties allocated 4.57%, 5.19% and 5.04% respectively. Poor counties allocated 6.46%, 6.47% and 7.30% respectively.

From the analysis above it is evident that poor counties continue to prioritize agriculture year on year more compared to the urban and rich counties respectively.

4.3.2.1 Trend analysis for allocation in agriculture

The allocation to agriculture in urban counties is low but largely constant, with 3.43% being the highest and 3.33% being the lowest. Allocation to agriculture decreased by 0.1% between FY 2014/2015 and FY 2015/2016 and increased by 0.08% between FY 2015/2016 and FY 2016/2017 for a **net decrease of 0.02%**. The average allocation was 3.39% with an **average deviation of 0.04%**. The low allocation in agriculture is an indicator that urban counties do not prioritize agriculture in as much as the function is fully devolved.

The allocations to agriculture for rich counties are higher than those observed in urban counties. There was a 0.62% increase in allocation between 2014/2015 and 2015/2016 and a 0.15% decrease in allocation between 2015/2016 and 2016/2017. This means that the percentage of allocations to the function of agriculture in rich countries **increased by 0.47%** within the period under study. The average allocation was 4.93% with an **average deviation of 0.24%**. The minimal increase in allocations means that urban counties consider the function as low priority

despite the fact that it is fully devolved. Some of the reasons for the low priority could be availability of land and change of user for existing land in urban counties among others.

The allocation for poor counties increased by 0.01% between the financial years 2014/2015 and 2015/2016 and increased by 0.83% in FY 2016/2017. This amounts to **a net increase of 0.84%** in the period under study. The average allocation to agriculture in poor counties was 6.74% with **an average deviation of 0.37%**. The data indicates that poor counties prioritize agriculture as a function more than both urban and rich counties, a good indication that they are living up to the expectations of the objectives of devolution.

4.3.3 Budgetary allocation to water at the county level

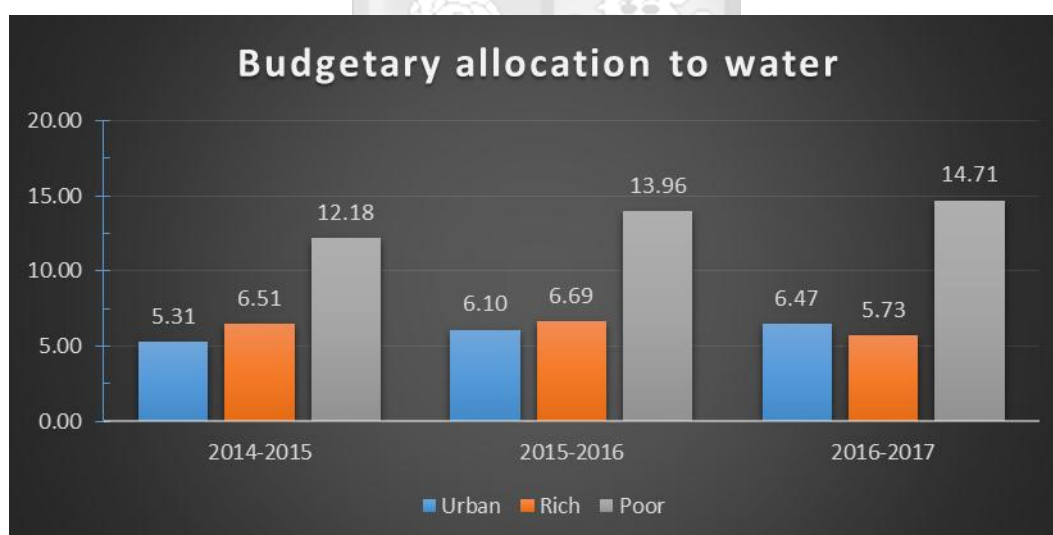


Figure 4: Budgetary allocation to water at the county level

Figure 4 shows the budgetary allocations to water at the county level in the financial years 2014/2015, 2015/2016 and 2016/2017. In 2014/2015, 2015/2016 and 2016/2017, urban countries allocated 5.31%, 6.10% and 6.47% of their budgets, respectively, to water. Rich counties allocated 6.51%, 6.69% and 5.73% respectively. Poor counties allocated 12.18%, 13.96% and 14.71% respectively.

14.71% respectively. Poor counties had the highest allocation throughout, followed by rich counties with the urban counties having the lowest budgetary allocations to water. The high allocation in poor counties is a good step in ensuring sustainable service delivery in the water sector. The state of water infrastructure has been relatively poor in the poor cluster of counties compared to the rich and urban counties which could also explain the high allocations.

4.3.3.1 Trend Analysis for allocation in water

There was a steady increase in allocation in urban counties over the study period. The year 2015/2016 recorded a 6.10% allocation, which was a 0.79% increase from the 5.31% allocation in the previous year. In 2016/2017, there was a 0.37% increase in allocation to 6.47% of the budget. This amounts to a **net increase of 1.16%** in allocations to the function of water in urban countries within the period of study. The average allocation was 5.96% with **an average deviation of 0.43%** across the three years. The steady increase in allocation is a good indication that water is considered a priority area hence the need to ensure service delivery is sustainable. It is commendable that there is a deliberate effort to gradually increase allocation in the function being a basic necessity such that county citizens enjoy quality life, a key objective of devolution.

There was a 0.18% increase in allocation for rich counties between the FY 2014/2015 and 2015/2016 from 6.51% to 6.69, followed by a 0.88% drop in 2016/2017 to 5.73%. This amounts to a **net decrease of 0.78%** within the period of study. The average allocation to water in rich counties was 6.31% with **an average deviation of 0.39%**. The general decline in allocation for the rich counties is an indication of lack of prioritization of the function despite this being a very critical service as a basic need.

Allocation to water in poor counties is much higher than in the urban and rich counties. Allocation to water in this cluster of counties increased by 1.78% between FY 2014/2015 and FY 2015/2016 and increased by 0.75% between FY 2015/2016 and FY 2016/2017 for **a net increase of 2.53%**. The average allocation was 13.62% with **an average deviation of 0.96%**. The higher allocation in the poor counties is an indication that this is a high priority area as they endeavour to deliver on their mandate. The continued increase in allocation will also ensure sustainable development in the water sector for this cluster of counties.

4.3.4 Summary of analyses of allocations at the county level

From the above analysis, we observe that allocations to the three county functions were consistent in the period of study with average yearly deviations of 0.79%. The average deviation in allocations to health in rich counties, at 3.4%, was much higher than the rest of the allocations. Excluding this anomaly, average yearly deviations drop to 0.46%.

In both cases, county allocations to the three devolved functions of health, agriculture and water during the period of study deviated on average by less than 1%. This means that the counties largely allocated the same proportions of their budgets to these functions even as county budgets increased year on year. The overall consistency in allocation to the functions is a good indication that counties realize the importance of the function which will ensure sustainable development as they deliver on their mandate in fulfilling the objectives of devolution.

4.4 Allocation at the national level

The three county functions of health, agriculture and water appear not to be fully devolved as the government commits a significant amount of funds to the Ministry of Health and the State Departments of Water and of Agriculture. This section analyses the trend in allocation by the national government to these entities compared to the overall allocation to other national government departments.

The table below shows the total amount of revenue (in billions) released to the various ministries, departments and agencies (MDAs) under the national government between the financial years 2014-2015 and 2016-2017. The total amounts released to all other MDAs are compared to the amounts released to the three MDAs that carry out functions at the national level that are analogous to the county functions of health, agriculture, and water. These are the Ministry of Health, the State Department for Agriculture, and the State Department for Water.

Table 4: Allocations at the National Level to specific MDAs carrying out the three devolved functions

	FY 2014/2015	FY 2015/2016	FY 2016/2017	Average allocation	% avg. dev
Min. of Health	34.04	42.17	56.5	44.23	18.49
State Department for Agriculture	27.32	19.37	20.42	22.37	14.75
State Department for Water	17.5	16.61	22.82	18.97	13.5
Issues to other MDAs	831.74	975.31	1,114.36	973.8	9.73

The table shows an increase in the amounts allocated to the Ministry of Health (18.49% on average), the State Department for Agriculture (14.75% on average) and the State Department for Water (13.50% on average) during the period under study. The amounts allocated to all other MDAs increased at an average rate of 9.73% in the same period.

4.4.1 Trend Analysis for allocation at the national level

The FY 2014/2015 the allocation to health, agriculture and water was 4%, 3% and 2% respectively which for only 9% of all allocations to MDAs in the same financial year.

The FY 2015/2016 the allocation to health, agriculture and water was 4%, 2% and 1% respectively accounting for only 7% of all issues to MDAs in the same financial year. The State Department for Agriculture and the State Department for Water each experienced a 1% decrease from FY 2014/2015. This illustrates a marginal decrease to the prioritisation of these functions by the national government as compared to the previous financial year. Allocations to the Ministry of Health remained the same.

The FY 2016/2017 the allocation to health was 4% and 2% for both agriculture and water accounting for only 8% of all issues to MDAs in the same financial year. The State Department for Water each experienced a 1% increase from FY 2015/2016. This illustrates a marginal increase in prioritisation of this function by the national government as compared to the previous financial year while allocations to the Ministry of Health and to the State Department for Agriculture remained the same.

The percentage allocated to the three functions of health, agriculture and water remained fairly constant between FY 2014/2015 and FY 2016/2017. There was a net decrease of 1% in the national government allocations to the State Department of Agriculture during the period under study. This change is, however, marginal, and therefore the national government allocations to health, agriculture and water were generally constant during the period under study. The previous section also found a constant trend in county budget allocations to health, agriculture and water despite the functions being fully devolved.

4.5 Analysis of absorption rates at the county level

This section analyses the absorption rates of funds for the three devolved functions at the county level. The absorption rates are a yardstick for efficiency of spending at the county level, and therefore an indicator of growth or lack of it and ultimately, whether service delivery is effective or not. This section analyses the absorption rate based on both budgetary allocation and actual exchequer issues.

4.5.1 Absorption rates for health at the county level

Table 5: Absorption rates for health at the county level

HEALTH						
	2014/2015		2015/2016		2016-2017	
County cluster	Expenditure to exchequer	Expenditure to budget	Expenditure to exchequer	Expenditure to budget	Expenditure to exchequer	Expenditure to budget
Urban	183.61	61.56	102.34	67.9	85.79	114.83
Rich	91.31	72.31	85.43	71.71	83.8	69.97
Poor	80.96	71.29	94.87	85.04	97.16	92.56
Ave	118.63	68.37	94.21	74.88	88.92	92.45

The table above shows the absorption rate for Health during the financial years of 2014/5 to 2016/2017. The absorption rate when comparing expenditure to exchequer was 118.63%, 94.215% and 88.92% during the financial years 2014/2015, 2015/2016 and 2016/2017 respectively. The absorption rate when comparing expenditure to budget was 68.37%, 74.88% and 92.45% during the financial years 2014/2015, 2015/2016 and 2016/2017 respectively. The gradual increase in absorption rate is a good indication that funds budgeted for continue to be utilized hence improved service delivery.

4.5.1.1 Absorption rates for health: expenditure to budget

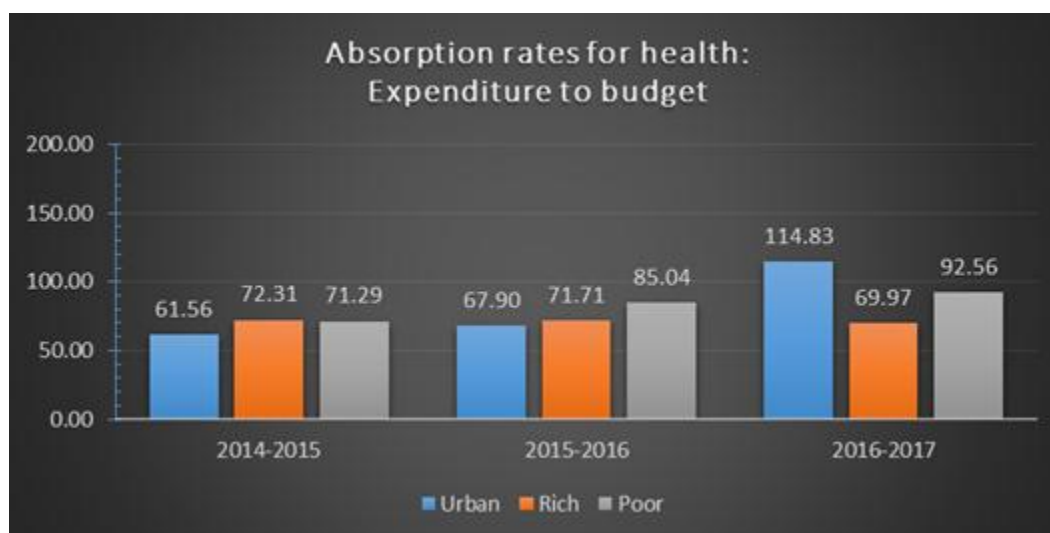


Figure 5: Budget absorption rates for health at the county level

Figure 5 above shows the absorption rates for health in the years 2014/2015, 2015/2016 and 2016/2017. There is a general improvement of absorption rates annually as discussed below.

4.5.1.1.1 Trend Analysis for absorption rate for health (expenditure to budget)

There is a steady increase in the absorptive capacity in urban counties through the years, with 2016/2017 having an absorptive rate of 114.83. This is in contrast to the budgetary allocation of counties to the function, which are 25.19%, 24.29% and 23.26% respectively. The increase in absorption year on year is an indication that counties are slowly becoming efficient in resource utilization despite the perennial delays in remittances by the national government. The increased absorption should also translate to improved service delivery at the counties.

There is a slight decrease annually for the rich counties, with 2014/2015 recording a rate of 71.31% and 2015/2016 and 2016/2017 having an absorption rate of 71.71% and 69.97%

respectively. The decline in absorption for rich counties cluster means service delivery in healthcare is negatively impacted.

There is a consistent increase in the rate of absorption for the poor counties cluster. The poor counties enjoy higher and more consistent absorption rates than rich and urban counties on average, despite having lower percentages of allocation to the function. This is a good indication that the poor cluster of counties prioritize this function and a good trend to ensure improved healthcare service delivery.

4.5.1.2 Absorption rates for health: expenditure to exchequer

This section analyses the expenditure to exchequer absorption rates for health in the counties. This absorption rate is often different from the budget to expenditure rate due to disparities between the budget and funds disbursed from the national government.

Figure 6 below shows a consolidated analysis of exchequer absorption rates for health in urban counties, rich counties and poor counties. This is further analysed by examining the trend in each cluster of counties as indicated below.

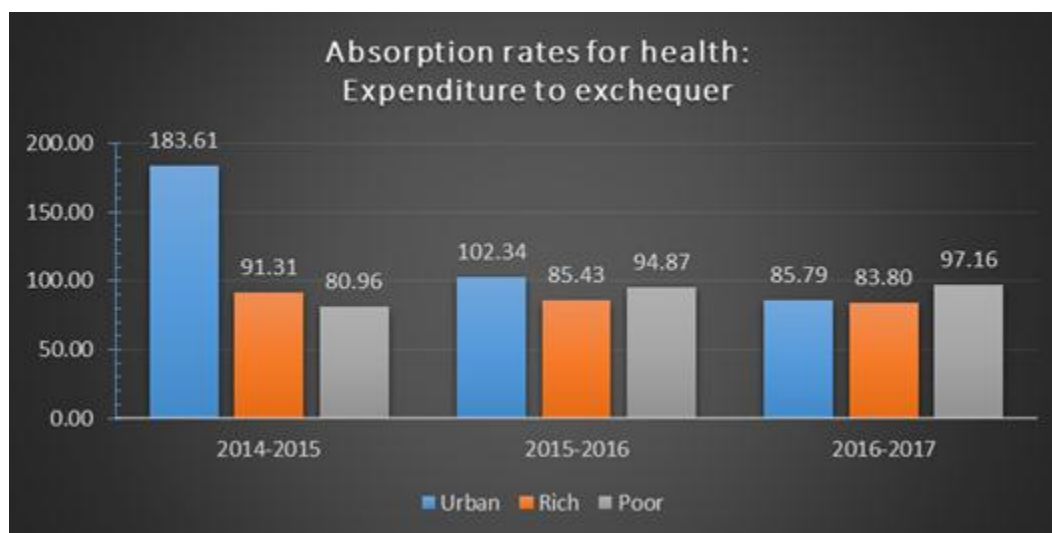


Figure 6: Exchequer absorption rates for health at the county level

4.5.1.2.1 Trend analysis for absorption rate for health (expenditure to exchequer)

The urban counties cluster in 2014/2015 and 2015/2016 had an absorption rate of 183.61% and 102.34 respectively an indication of spending above the exchequer issue. 2016/2017 had an absorption rate of 85.79 which signifies spending within the exchequer issue but a failure to utilise 14.21% of the funds received hence negatively impacting healthcare service delivery.

During all the years, the rich counties spent within the amount disbursed from the exchequer. The absorption however has a downward trend which points at a reduction in efficiency at the county level with negative impact on healthcare service delivery.

The poor counties have a consistent upward trend for absorption and experienced an average absorption rate of 90% meaning more efficiency in resource utilization which should have a positive impact to healthcare service delivery.

4.5.2 Absorption rates for agriculture at the county level

This section analyses the absorption rates for agriculture in the counties.

Table 6: Absorption rates for agriculture at the county level

AGRICULTURE						
County cluster	2014/2015		2015/2016		2016-2017	
	Expenditure to exchequer	Expenditure to budget	Expenditure to exchequer	Expenditure to budget	Expenditure to exchequer	Expenditure to budget
Urban	282.89	78.8	90.45	62.38	99.78	67.73
Rich	90.4	85.26	90.1	71.72	104.82	66.91
Poor	80.66	69.51	92.51	79.58	87.25	82.51
Ave	151.32	77.86	91.02	71.23	97.28	72.38

The table above shows the absorption rate for agriculture during the financial years of 2014/5 to 2016/2017. The absorption rate when comparing expenditure to exchequer was 151.32%, 91.02% and 97.28% during the financial years 2014/2015, 2015/2016 and 2016/2017 respectively. The absorption rate when comparing expenditure to budget was 77.86%, 71.23% and 72.38% during the financial years 2014/2015, 2015/2016 and 2016/2017 respectively.

4.5.2.1 Absorption rates for agriculture: expenditure to budget

This section analyses the expenditure to budget absorption rates for agriculture in the counties.

Figure 7 below shows a consolidated analysis of budget absorption rates for agriculture in urban counties, rich counties and poor counties. Only poor counties enjoy a consistent increase in budget absorption rate for agriculture. Rich counties experienced a consistent decrease in budget absorption rate while urban counties experienced an irregular trend of a sharp decline followed by a substantial rise.

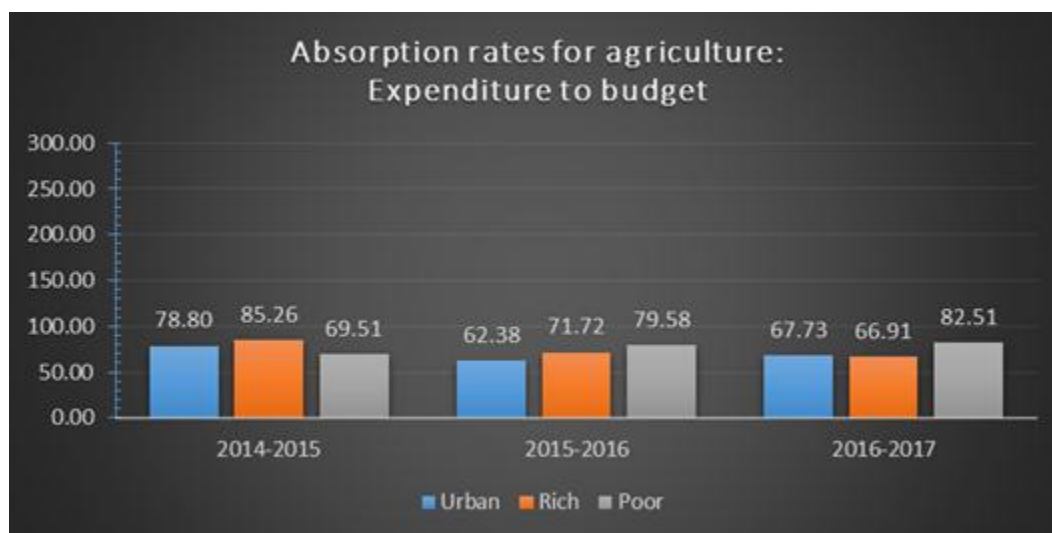


Figure 7: Budget absorption rates for agriculture at the county level

4.5.2.1.1 Trend analysis for absorption rate for agriculture (expenditure to budget)

The trend is inconsistent for urban counties, with a 16.42% decrease between 2014/2015 and 2015/2016 but a 5.37% increase in 2016/2017. The 67.73% attained in 2016/2017 is however still 11.07% less than what was attained in 2014/2015. The trend shows a lack of prioritization by the urban counties in this sector.

There is a consistent downward trend for rich counties. 13.54% decrease from 2015/2016 followed by a further 4.81% decrease in 2016/2017 further indicating the low priority and lack of focus on agriculture by the rich counties cluster which is not sustainable into the future.

The poor cluster of counties recorded an upward absorption trend with an average absorption rate of 77.2%. This is a good indicator of high priority for this function such that the exchequer releases are utilized within budget.

4.5.2.2 Absorption rates for agriculture: expenditure to exchequer issued

This section analyses the expenditure to exchequer absorption rates for agriculture for urban counties, rich counties and poor counties. The absorption rates here vary with the budget absorption rates due to factors such as late disbursement of funds from national treasury.

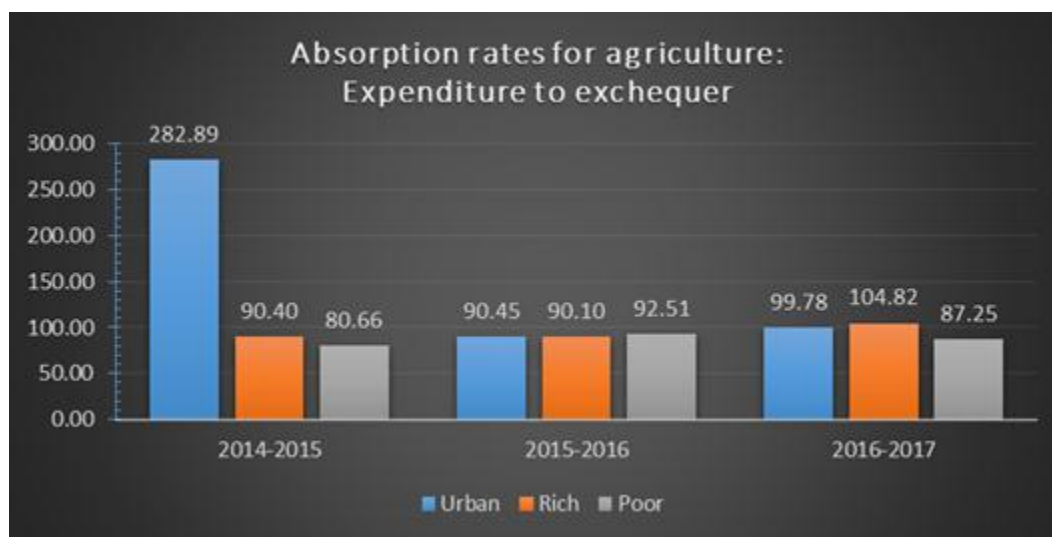


Figure 8: Exchequer absorption rates for agriculture at the county level

4.5.2.2.1 Trend analysis for absorption rate for agriculture (expenditure to exchequer)

For the urban counties, the year 2014/2015 recorded an abnormal absorption rate of 282.89% indicating problems in disbursement and compliance to CRA regulations. The subsequent years showed more less normal results, but still contrary to the budget absorption rates.

For rich counties, the FY 2014/2015 and FY 2015/2016 had an average absorption rate of 90.25%. The FY 2016/2017 slightly increased to the rate of 104.82%.

The poor counties recorded the lowest absorption rates unlike in budget absorption, where they recorded the highest absorption rate.

4.5.3 Absorption rates for water at the county level

Table 7: Absorption rates for water at the county level

WATER						
	2014/2015		2015/2016		2016-2017	
County cluster	Expenditure to exchequer	Expenditure to budget	Expenditure to exchequer	Expenditure to budget	Expenditure to exchequer	Expenditure to budget
Urban	157.55	70.14	102.43	59.08	110.84	67.18
Rich	105.17	79.01	92.17	78.35	96.3	80.86
Poor	105.77	90.2	91.03	81.9	88.82	83.87
	122.83	79.78	95.21	73.11	98.65	77.3

Table 7 above shows the absorption rate for agriculture during the financial years of 2014/5 to 2016/2017. The absorption rate when comparing expenditure to exchequer was 122.83%, 95.21% and 98.65% during the financial years 2014/2015, 2015/2016 and 2016/2017 respectively. The absorption rate when comparing expenditure to budget was 79.78%, 73.11% and 77.3% during the financial years 2014/2015, 2015/2016 and 2016/2017 respectively.

4.5.3.1 Absorption rates for water: expenditure to budget

Figure 9 below shows the expenditure to budget absorption rates for water at the county level for urban counties, rich counties and poor counties. Poor counties lead in this category, followed by rich and urban counties respectively.

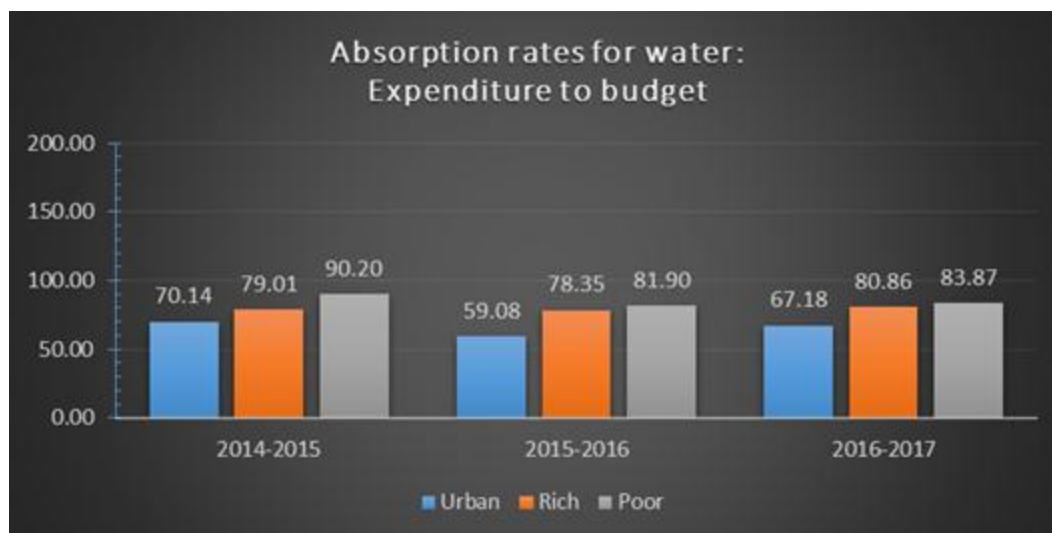


Figure 9: Budget absorption rates for water at the county level

4.5.3.1.1 Trend analysis for absorption rate for water (expenditure to budget)

There was no consistency in the absorptive capacity of urban counties despite a consistent increase in budgetary allocation. There was a decline of 11.06% between 2014/2015 and 2015/2016 and an 8.1% increase between 2015/2016 and 2016/2017. The average absorption rate was 65.47%.

For the rich counties, there was a slight decrease of 0.66% and an increase of 2.51% in 2015/2016 and 2016/2017 respectively. The average absorption rate was 79.41% an indication that the counties are spending most of the funds budgeted even where disbursements delay.

For the poor counties, there was an 8.3% decrease in 2015/2016 and a 1.97% increase in 2017/2017. The average absorption rate was 85.32%, the highest when compared to both the urban and rich counties clusters. The high absorption to budget is a good indication of sustainable development in the water sector in poor counties hence improved service delivery.

4.5.3.2 Absorption rates for water: expenditure to exchequer

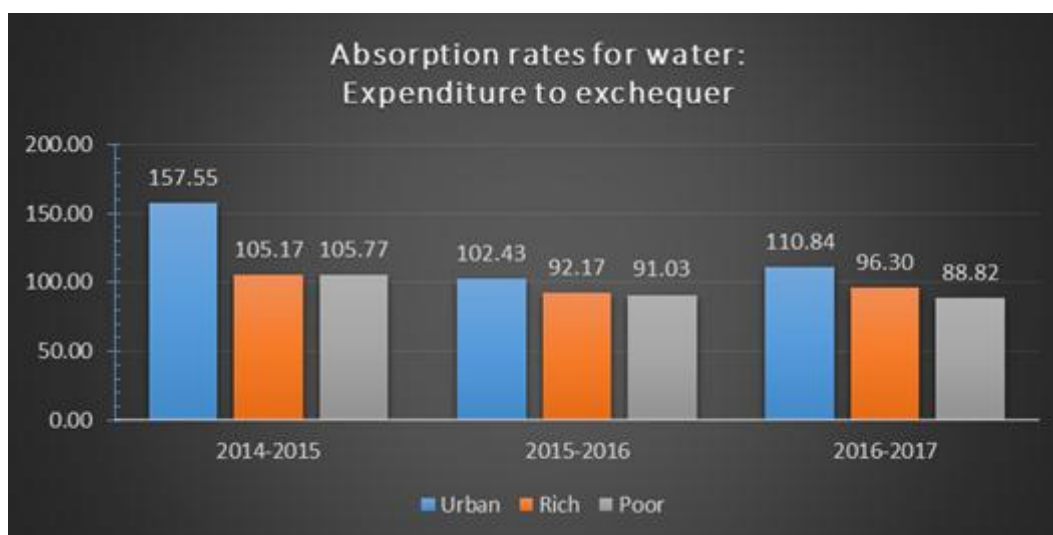


Figure 10: Exchequer absorption rates for water at the county level

4.5.3.2.1 Trend analysis for absorption rate for water (expenditure to exchequer)

In all years under study, the absorption rate exceeded 100% in urban counties with the lowest being 102.43% in 2015/2016 and the highest 157.55% in 2014/2015. This is a good indication that the urban counties are efficient hence able to fully utilize what is disbursed.

For the rich counties, the FY 2014/2015 had a rate exceeding 100% while 2015/2016 and 2016/2017 had a rate of 92.17% and 96.30% respectively. This significant drop in the absorption rate means late disbursement such that the counties are not able to utilize fully what is disbursed prior to the close of the financial year. The delays in disbursement will eventually impact water service delivery negatively negating the essence of devolving the function in the first place.

For the poor counties cluster, in the FY 2014/2015 they exceeded 100% at 105.77. This rate reduced to 91.03% in 2015/2016 and to 88.82% in 2016/2017. The drop in absorption rate means delays in disbursement similar to rich counties hence affecting service delivery.

4.6 Availability of a formula for resource allocation as a tool for budgeting

The study utilized a simple questionnaire, which sought to establish if counties have internal processes and procedures in allocating resources other than the CRA's guidelines and prescribed expenditure ceilings. All the 15 counties interviewed said they had no formula as a guide for budgeting neither did any of them have internal processes for resource allocation. It was therefore not clear how prioritization was being done but they explained that they use the existing county budget process. The county budget framework is briefly explained below.

4.6.1. County budget framework

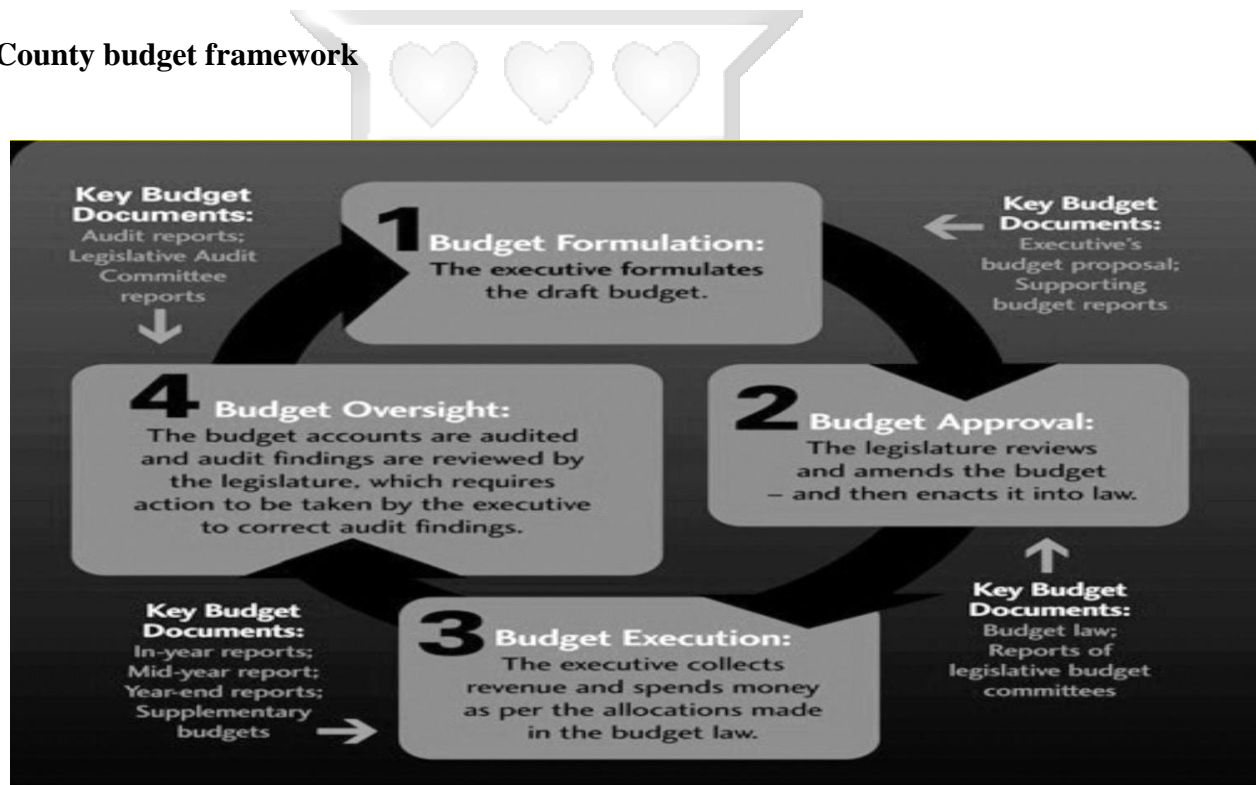


Figure 11: The budget cycle at the county

The above figure represents the four critical steps that county governments go through from budget formulation to budget oversight. The Public Finance Management Act 2012 requires both the county and national government to engage the public in the budget process.

In order to comply with the requirement above, counties conduct Pre-budget public sector consultative forums where the citizen are invited to deliberate on the inputs for the new financial year's budget. The deliberations through the forums culminates in the budget draft proposal that is presented by the county executive to the assembly for approval. The budget is guided by the county fiscal strategy paper which lays down broad plans and aspirations for the specific budget year including economic trends and estimates of overall spending and revenues. The county assembly's budget and appropriation committee is the one mandated to examine the fiscal strategy paper and evaluate tax estimates, economic and budgetary policies and programmes with direct budget outlays before the same is passed for implementation.

The budget process is aligned to the medium term expenditure framework (MTEF) – a three year rolling budget framework that links policy making with planning, budgeting and implementation of programs and projects and at the same time ensuring fiscal discipline as well as expenditure prioritization.

The budget draft as presented by the executive is then discussed by the budget committee of the assembly to ensure the budget adhere to the Fiscal Responsibility Principles as set out in the PFM Act 2012. The budget is then amended or passed into law to enable the county executive implement the plans. The executive will embark on executing the budget by collecting revenues and spending in strict compliance with the law. The budget implementation goes through continuous reviews that are later discussed by the audit committee of the assembly and changes or adjustments done during implementation or the lessons learnt used in the next budget cycle.

The counties under study confirmed that they use the above budget making process in allocating resources but the study was not able to establish how effective this was. As explained above on the PFM requirements for citizen participation, the study did not dwell on ascertaining how this is done hence our objective to determine if a formula existed to compliment the already existing framework to ensure prioritization and efficient allocation of resources.

4.7 National policy on allocation to devolved functions by the national government

This research set out to look into the extent to which the national government had developed a policy on allocation to the three devolved functions. The Ministry of Devolution and Planning (MoDP) unveiled the ‘Policy on Devolved System of Governance’ in 2016. The Policy was foreshadowed by the Policy Paper on Devolved System of Governance, 2012. The United Nations Development Programme (UNDP) has identified the approval of the policy as a milestone for devolution in Kenya, stating that in good governance, policy should precede legislation.

The MoDP’s policy identifies several areas of concern in the implementation of devolution, amongst them resource allocation. The policy therefore sets out to address these concerns so as to ensure better implementation and service delivery. This is done in three thematic areas as follows: institutional, resources and inter-governmental relations. Under the ‘resources challenges’ section, policy issues and gaps in several areas are identified.

The two areas relevant to this study are fiscal decentralisation and, budgeting and development planning. Under fiscal decentralisation, the gaps identified include an absence of guidelines to clarify a cohesive oversight framework for fiscal flows between the national and county

governments. Under budgeting and development planning, the policy noted that there is lack of synchrony between counties and the national government budget cycles.

There also exists no legal and policy framework to give effect to Article 220 (2) and the Fourth Schedule of the Constitution, which assigns the function of national economic policy and planning and coordination of planning of the county governments to the national government. This gap means that there is no effective coordination between the two levels of government, rendering service delivery inefficient.

The policy in identifying the gaps discussed above goes ahead to set objectives and strategies geared toward addressing the said issues. Objective 8 is to strengthen the management of fiscal decentralisation. Strategies put in place in this vein include to develop and implement guidelines to clarify a cohesive oversight framework for fiscal flows between the two levels of government, to develop policy and enabling legislation to guide County Governments' Own Source Revenue and to develop regulations for the Public Procurement and Asset Disposal Act, 2015. The policy fails to put in strategies addressing resource allocation towards the devolved functions at both levels of government.

Objective 10 sets out to strengthen national economic planning and coordination of county government plans by the national government. One of the strategies is to establish a mechanism to improve alignment between the two levels of government in budgeting. It also aims to identify the areas that require policy or legal revamping. There is however no mention of any specific measure to be taken toward marginalised areas, except for the guiding principles which include protection of the marginalised.

4.7.1 Other legal and policy documents guiding county planning and budgeting

There are several other legal and policy documents that guide county governments in planning and budgeting. These are discussed below,

The first one is the County Government Act passed in 2010 which provides that county governments prepare development plans. The plans include the popular five years County Integrated Development Plan (CIDP), a ten-year programme based county sectoral plan as component parts of the CIDP, county spatial plans and cities and urban areas plans. These plans forms the basis for all budgeting and spending in the county without which the county cannot proceed with allocation of resources.

The second key document is the Public Finance Management Act, which has been extensively mentioned in the previous chapters. The act in summary makes it a requirement that the budget process of county governments in any financial year to consist of integrated development planning. These include both long-term and medium-term planning as well as financial and economic priorities for the county over the medium-term. Section 126 of the Act clearly stipulates that county government must prepare a development plan and budgets would then be based on projects and other expenditure contained in the plan.

The third one is the The Urban Areas and Cities Act, 2012 which emphasizes the need for five year integrated development planning by county governments and the need to align county annual budgeting to the plan.

The last key document is the Intergovernmental Relations Act, 2012 which provides for the establishment of a framework for consultation and cooperation between national and county governments, and among county governments. The Act establishes the National and County Government Coordinating Summit which is the apex body for intergovernmental relations. Intergovernmental relations is very important especially in addressing issues of common concern such as funds disbursement that directly impact service delivery.

4.8 Summary of findings, experiences and challenges

The study sought to answer the research questions as set out in the study objectives. The summary of the study findings has been discussed below.

4.8.1 Resource allocation

There is no formula guiding resource allocation in the counties to the three functions under study. The study did reveal, however, that there is a discernible trend in allocation in the period under study. On average, the counties allocated roughly the same percentage of their budgets to the three functions from year to year. The low average deviation in resource allocation in the years under study, reported in Section 4.2 of this study, shows that county governments have been consistent in how they prioritise allocations to the functions despite the lack of a formula. This consistency is key to stability and commitment to long-term development objectives, which is in line with the desirable objective of stabilising the employment and output of resource allocation (Musgrave, 1989).

The average allocation to health in all counties and financial years under study was 22.37%. Health in the rich and urban county clusters had greater budgetary allocations at 24.25% and 27.80% respectively, while the poor county cluster had a significantly lower allocation at 15.07%. The average deviation was a stable 1.57%, although allocation in the rich county cluster saw a more significant deviation of 3.43%. Average allocation to agriculture in all counties and periods under study was 5.02%.

Allocations were highest in the poor county cluster at an average of 6.74%, while urban counties averaged 3.39% and rich counties averaged 4.93%. The average deviation of year-to-year allocations was a very stable 0.22%. Lastly, average allocation to water in all counties and periods under study was 8.63%. Allocations were highest in the poor county cluster which had an average of 13.62%, while urban counties averaged 5.96% and rich counties averaged 6.31%. The average deviation was a stable 0.59%, although deviation in allocation in the poor county cluster was higher at 0.96%.

The data shows that the budgetary allocations were rather constant over the period under study peaking at 1.57% with deviation for allocations to health largely due to the 3.39% deviation in rich counties. In the absence of a concrete enforced formula for resource allocation, the fairly consistent allocations are a positive sign of stability in the planning and funding of the health, agriculture and water sectors within the counties.

The data also shows that the three county clusters allocated different portions of their budgets to the three functions, although the counties generally prioritised health as first, water as second and agriculture as third in their budgets. The difference in the precise prioritisation of these functions across the county clusters is expected due to the difference in the needs of counties at different

levels of social and economic development. Another of the objectives of resource allocation Musgrave discusses is the desirable distribution of income and wealth, which entails prioritisation of allocations based on the requirements of a specific section of the public (Musgrave, 1989). This is in line with the individualistic consideration of needs that are essential in the public choice theory of resource allocation (Eskridge, 1988).

As voices of the local population and caretakers of their specific needs, the difference in prioritisation reflects the localised scope of concern that county governments have as they are closer to the county population (Oyugi L., 2008).

The lack of a nationally prescribed or such kind of rigid formula for resource allocation allows counties to target the needs that they identify within their jurisdictions. This self-determinism in allocation is critical to the principle of vertical separation of powers which is important to devolution's goal of efficient and effective attention to the needs of Kenyans at the grassroots level (Oyugi L., 2008; Nigel Bowles, 2014).

The adherence of county resource allocations to the principle of the vertical separation of powers is not only an object of devolution under Article 174(i) of the constitution but also a sign of adherence to the prescriptions of the Public Finance Management Act. However, resource allocation is an important component in ensuring the effectiveness of devolution and must therefore be guided by principles and must not be arbitrary. The reliance on the budget making process as stipulated in 4.6 is not enough to guarantee sufficient resource allocation to the devolved function such that it will be important that counties make a deliberate effort to come up with own guidelines to supplement already existing regulations.

4.8.2 Absorption of the allocated funds to the three devolved functions

The third objective of public economic policy proposed by Musgrave is efficient resource allocation, which is realised when resources are allocated where needed and utilised in service of these needs (Musgrave, 1989). The interplay between county and national governments is key here: the counties identify and budget for the needs of their people and the national government funds these budgets through exchequer issues.

The research conducted here has revealed two challenges to efficient allocation of resources. The first is a significant discrepancy between the sums planned for in county budgets and those received from the exchequer. The second is the related issue of counties spending more in development and recurrent expenditure than they were issued by the exchequer.

On average, counties absorbed 100.59% of the exchequer issues to health, or 78.57% of what they had planned to spend in their budgets. Urban counties expended as much as 183.61% of the issues they received in 2014-2014, which was merely 61.56% of their budgetary allocation in the same financial year. The average is therefore significantly skewed by very high exchequer absorption rate that occurred in urban counties early in the period of study. As for agriculture, counties absorbed an average of 113.21% of the exchequer issues to agriculture, or merely 73.82% of what they had planned to spend in their budgets. Urban counties expended as much as 282.89% of the issues they received in 2014-2014, which was still only 78.80% of their budgetary allocation in the same financial year. The average is therefore significantly skewed by very high exchequer absorption rate that occurred in urban counties early in the period of study. Lastly, counties absorbed 105.56% of the exchequer issues to water, or merely 76.73% of what they had planned to spend in their budgets.

Urban counties expended as much as 157.55% of the issues they received in 2014-2014, which was only 70.14% of their budgetary allocation in the same financial year. The rich and poor county clusters also had exchequer absorption rates higher than 100% in 2014-2015 but this dropped below 100% in the subsequent years. However, the high rate in urban counties did not drop below 100% during the period under study. The high exchequer absorption rate that occurred in urban counties early in the period of study is therefore not as anomalous as it was for health and agriculture.

The discrepancy between county budget requirements and actual issues by the government exchequer is antagonistic to the object of giving powers of self-governance to the people through devolution embodied in Article 174(c) of the constitution. Although the Controller of Budget is not bound to the budgetary requirements of individual counties, the constitution delineates the authority and basis for representation by county governments of their constituents (Kamolo, 2014). In exercising their delineated authority and representing their constituents, county governments must be empowered to make and implement plans for their constituents. Fiscal and practical empowerment require that counties reliably receive adequate resources to fund their projects. In the period under study, the exchequer issues have been lower than the budgetary requirements of the counties with the issues averaging at 76.63% of county budgets. In the same period, the percentage of total exchequer issues to the national budget was 75.48% in FY 14-15, 78.84% in FY 15-16, and 76.63% in FY 16-17. As such, this inefficiency is not unique to the devolved system and must be solved by improving issues on the national scale. The devolved system does, however, have a unique role to play in the realisation of any such solution.

The Controller of Budget reports complained as well of challenges to coordination between the counties and the national government that affect budget execution. These challenges include delayed approvals for supplementary budgets, delayed releases by the exchequer, and delayed submission of financial reports.

As a consequence of the discrepancy between budgeted and released sums, counties have in some instances spent more than they received. This is reflected in the fact that some exchequer absorption rates are higher than 100%, with this problem being most pronounced in urban counties.

The high absorption rate for exchequer issues is, in one respect, positive. This is because it illustrates that the county governments expend the resources they receive from the national government. Efficiency is realised where exchequer issues are employed to where they are required. The fact that the rate averaged higher than 100% is, however, worrying on two fronts. First, it shows that the counties receive less from the exchequer than they require, seen in the fact that exchequer releases only satisfied an average of 76.63% of the sums required by county budgets. While it is understandable that a budget is in some ways aspirational and may therefore not be fully funded, the counties spent more than the exchequer released while still spending less than they had budgeted. This indicates that the budgets were not merely aspirational as counties strived to execute their budgets despite the inadequate exchequer issues. Second, it shows that counties fund their expenditures with sums not released to them by the exchequer. Article 207 of the constitution stipulates that all moneys raised or received by the county must generally be held in the revenue funds of each county barring special exemption by an act of parliament. Article 228 stipulates that the Controller of Budget is the one to authorise withdrawals from these funds.

4.8.3 National policy on resource allocation

The research identified the Policy on Devolved System of Government as the leading policy document on devolution and therefore on resource allocation to devolved functions. The policy identifies institutional, legal and policy gaps in devolution in Kenya which it sets out to address by providing strategies applicable to all stakeholders.

The policy indeed identifies challenges that are discernible from the findings of this research, such as the different timelines in budgeting by both levels of government; which play a role in the discrepancies noted in the absorptive capacity of counties.

Most counties continue to follow the laid down procedures and processes albeit with difficulty, however the continuous delays in disbursement will always impact negatively the development initiatives at the county.

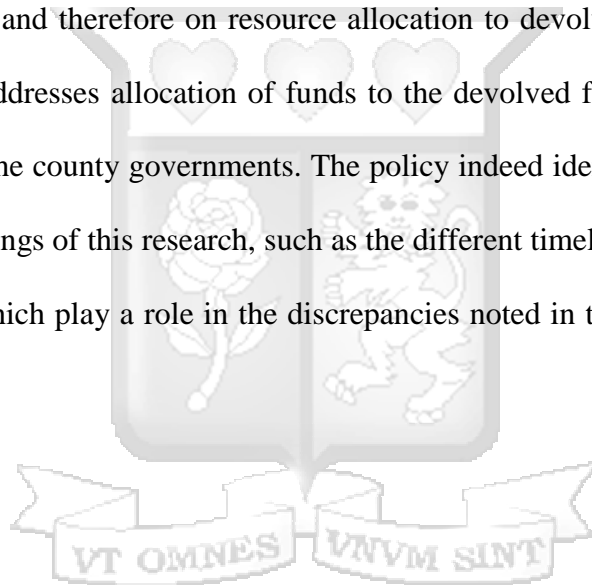
There are several other legislations that guide in planning and budgeting at the county level which have been explained above. The county governments interviewed did not have a revenue allocation formula to guide in budgeting however they indicated that they follow the existing budgeting process which is not enough to ensure prioritization especially to the fully devolved functions.

4.9 Key study findings

The counties have been consistent in allocating resources to the three fully devolved functions, a good sign that emphasis is being put to fund the functions, which should translate to better services to the citizens.

On absorption, the consequence of the discrepancy between budgeted and released sums, counties have in some instances spent more than they received. This is reflected in the fact that some exchequer absorption rates are higher than 100%, especially in urban counties. The fact that the rate averaged higher than 100% is, however, worrying. This means that the counties under study received less from the exchequer than they required, seen in the fact that exchequer releases only satisfied an average of 76.63% of the sums required by county budgets.

The research identified the Policy on Devolved System of Government as the leading policy document on devolution and therefore on resource allocation to devolved functions. There was no specific policy that addresses allocation of funds to the devolved functions, for the national governments as well as the county governments. The policy indeed identifies challenges that are discernible from the findings of this research, such as the different timelines in budgeting by both levels of government; which play a role in the discrepancies noted in the absorptive capacity of counties.



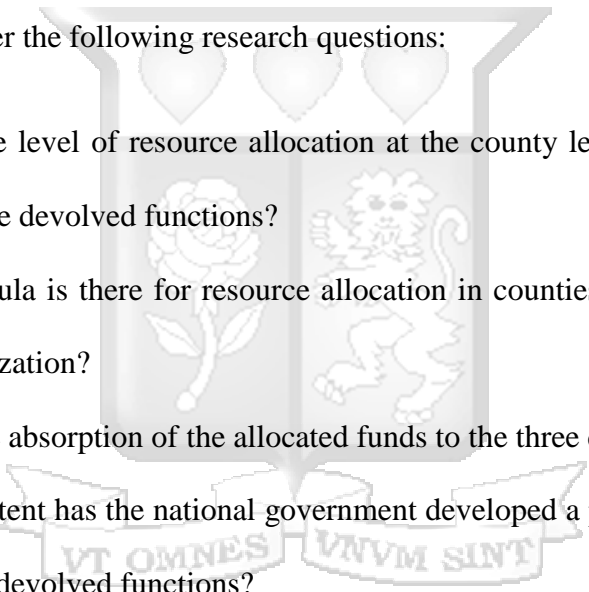
CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a conclusion to the study. The conclusions of the study are discussed in line with the study objectives, followed by recommendations arising from the findings, together with challenges faced during the research.

5.2 Conclusion

The study sought to answer the following research questions:

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- a. What is the level of resource allocation at the county level and at national level for the three devolved functions?
 - b. What formula is there for resource allocation in counties as a tool for budgeting and prioritization?
 - c. What is the absorption of the allocated funds to the three devolved functions?
 - d. To what extent has the national government developed a policy framework for the three fully devolved functions?

On Resource allocation, the study revealed consistency in allocation of resources to the three devolved functions despite lack of a formula on resource allocation as a guide in budgeting and prioritization in the counties. On average, the counties allocated roughly the same percentage of their budgets to the three functions year on year to the three functions under study. On the horizontal allocation between the two levels of government, the study revealed that the national government continues to allocate significantly higher resources to the three fully devolved functions compared to what counties allocated.

On the absorption rate, the study revealed discrepancy between budgeted and released funds, with counties spending more in some instances than what they received. This is true given that in some cases the study observed exchequer absorption rates higher than 100%, especially in urban counties. The fact that the rate averaged higher than 100% is worrying, meaning that the counties under study received less from the exchequer than they required, seen in the fact that exchequer releases only averaged 76.63% of the sums budgeted by counties to the three devolved functions.

On the availability of a formula for resource allocation as a guide to budgeting and prioritization, all the 15 counties interviewed do not have a formula or any internal processes and procedures to guide in revenue allocation. Despite there being no formula and internal procedures, the counties rely on the existing budgeting framework. The budget framework though comprehensive can not guarantee efficient resource allocation and prioritization and therefore it is necessary that counties endeavour to develop own procedures – one such example is a formula to define how and what gets allocated. A formula can also help address development of marginalized areas by deliberately prescribing more allocation in those areas.

On the availability of a policy framework on resource allocation, the research identified the Policy on Devolved System of Government as the main leading policy document on devolution and therefore on resource allocation to devolved functions. There was however no specific policy addressing allocation of funds to the devolved functions, for the national governments as well as the county governments.

In conclusion therefore, resource allocation to the devolved functions has been fairly consistent, though the counties lack internal formulas for the same to guide in budgeting and prioritization. It is therefore not clear how prioritisation is carried out. During the period under study, which

was during the first term of devolution, it was equally evident that there exists a challenge in achieving separation between the two levels of government. The national government continues to allocate significant sums to the devolved functions.

5.3 Recommendations

Resource allocation to the devolved functions tended to be consistent at both levels of government. There however needs to be stricter adherence to the budgeted figures as counties consistently received significantly lower sums than the budgeted amounts.

Further guidelines should be put in place that will ensure efficiency while still respecting the principle of separation of powers.

The national policy fails to be clear in ascertaining how the principle of protection of the marginalised shall be upheld in its strategies. It also does not address to a great extent the continued allocation of funds to devolved functions at the national level. This should be investigated and addressed in accordance to the constitution without putting the provision of these services in jeopardy.

There exist guidelines from the Commission for Revenue Allocation (CRA) such as the 30% allocation to development expenditure and ceilings on how much to allocate to functions that counties are required to follow. The study did not delve deeper into this, however counties should endeavour to come up with own guidelines on revenue allocation, even a formula to ensure a more efficient and equitable manner in resource allocation.

A comprehensive national policy addressing issues of resource allocation especially on the devolved functions should be put in place through an all-inclusive process involving both the national government and the county government. The policy will be a guide to both levels of government on resource allocation to devolved functions to eliminate mismatch in allocation as evidenced by the study.

5.4 Limitations of the research

This study encountered challenges in obtaining data. First, majority of the information such as the contact details provided by county governments on their official websites and other sources were not in use. A number of the officials contacted to comment on the existence of a county revenue allocation formula were also weary of providing information.

Further, some counties' budgets were unobtainable. Lastly, the study was unable to include data from the 2013/2014 financial year as initially anticipated. The reports providing data for 2013/2014 lacked enough detailed to allow for the robust comparisons made of the rest of the years under study. The data for the financial year 2017/2018 was also not included since it was not complete by the time the study was concluded. The study therefore presented analysis for the financial years 2014/2015 to 2016/2017 since the data on resource allocation and absorption was complete.

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