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Efficiency and Efficacy of Kenya's Constituency Development Fund: Theory and Evidence

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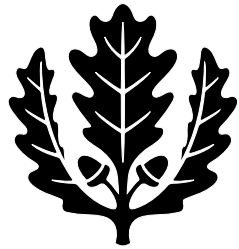
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**Efficiency and Efficacy of Kenya's Constituency Development
Fund: Theory and Evidence**

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Abstract

Kenya's Constituency Development Fund (CDF) is one of the ingenious innovations of the National Rainbow Coalition (NARC) Government of Kenya. Unlike other development funds that filter from the central government through larger and more layers of administrative organs and bureaucracies, funds under this program go directly to local levels and thus provide people at the grassroots the opportunity to make expenditure decisions that maximize their welfare consistent with the theoretical predictions of decentralization theory. Increasingly, however, concerns about the utilization of funds under this program are emerging. Most of the concerns revolve around issues of allocative efficiency. In this note, I highlight some of the constituency characteristics that impact on the efficiency and efficacy of CDF and also some political economy aspects associated with this program. In particular it is observed that CDF could have negative outcomes because of fiscal illusion and reduced local fiscal effort. The paper recommends an in-depth analysis of constituency characteristics that impact on the utilization of funds to ensure that the program achieves its full potential.

Journal of Economic Literature Classification: D21, D70, H60

1 Introduction

The Constituency Development Fund (CDF), which was established through the Constituency Development Fund Act of 2003, is one of the ingenious innovations of the National Rainbow Coalition (NARC) Government of Kenya.¹ CDF is an annual budgetary allocation by the Central Government to each of the country's parliamentary jurisdictions-the constituencies. While there are several rules that govern the utilization of the Fund to ensure transparency and accountability, decisions over the utilization of the funds are primarily by the constituents.² Unlike other development funds that filter from the central government through larger and more layers of administrative organs and bureaucracies, the funds under this program go directly to local levels. In essence, the CDF provides individuals at the grassroots the opportunity to make expenditure choices that maximize their welfare in line with their needs and preferences. To the extent that the local population is better informed about their priorities, the choices made can be expected to be more aligned to their problems and circumstances. The CDF can therefore be considered a decentralization scheme that provides communities with the opportunity to make spending decisions that maximize social welfare. The CDF is an example of what is generally referred to as Community Driven Development (CDD) initiatives that empower local communities by providing fungible funds (often from the central government but some times from donor sources).

Although the CDF takes a relatively small amount of national resources-2.5 percent of government's ordinary revenue collected every year, its impact can be significant if the funds are efficiently utilized. Because the Fund benefit communities directly, it stimulates local involvement in development projects and as a result constituents have more information about projects funded under this program. This is evidenced by regular commentaries in the media and reports by members of parliament on the status of the CDF projects. As a result of the involvement of communities in decision making and monitoring resource use, theory predicts that programs such as CDF would result in high levels of efficiency and that the selection of the projects would vary across jurisdictions in line with development priorities. These efficiency outcomes largely arise from the role that communities play in decision making and monitoring the use of funds.

But constituencies are not created equal. Constituencies vary widely in various aspects that may impact on the efficiency of CDF. Some of these aspects include size of the jurisdictions, population size, density and diversity, scope of economic activities, degree of urbanization, levels of education, poverty, etc. These dimensions are expected to impact on the project choices and the extent

¹There are several countries that have had similar initiatives for some time now. Good examples include the India's Members of Parliament Constituency Development Fund and Solomon Island's Rural Constituency Development Fund.

²Funding per constituency is fairly uniform but some allowance is made for poverty levels so that higher poverty areas receive slightly more resources. There are also some restriction such as limits on the share of funds that go to a particular type of project.

to which local communities are involved in decision making and in monitoring expenditures. In essence, constituencies provide a natural laboratory to test functional theories of community driven development and decentralization. Simply, we should expect to observe systematic differences in the utilization of CDF across constituencies depending on factors influencing citizen demand and characteristics of the constituencies.³

There are indications that CDF is helping provide services to communities that for many years did not benefit substantially from government services. In particular, the poor have in the past experienced serious problems accessing basic services that are now made available through CDF. Nevertheless, there are increasing concerns about the utilization of CDF which suggest that the funds are not being utilized optimally. Given the importance of this program, an in-depth analysis of both institutional, design and implementation factors that impact on the efficiency of the use of funds is necessary. At this early stage in the implementation of CDF, it is strongly recommended that an in-depth objective analysis of CDF be undertaken with a view to unearthing the potential sources of weaknesses. This concept note outlines a framework for analyzing the efficiency and efficacy of the Constituency Development Fund.

2 Citizen Demand and Constituency Characteristics

Recent efforts to national planning in Kenya have sought to identify development priorities through consultations. For example, the preparation of the Poverty Reduction Strategy Paper (PRSP) involved broad stakeholder consultations across the entire country with the objective of eliciting information on key concerns and priorities. Likewise, the Economic Recovery Strategy for Employment and Wealth Creation took into account the priorities as expressed by stakeholders though the consultations were not as broad and intensive as those carried out in the preparation of the PRSP. These consultations have been particularly insightful in highlighting the priority rankings of development needs by communities. One of the important lessons learned from the various consultations conducted in Kenya is that while the country faces a number of cross-cutting problems that Kenyans consider as important, there are significant differences in the way communities rank their priorities. Efficiency in resource allocation then would suggest that the government budget should be tailored to meet diverse priorities in the different areas. To some degree, Kenya's national budget is informed by the priorities arising from the consultations. Nevertheless, the nature of central government budget allocation is not suited to dealing with very specific priority rankings by local communities but must necessarily be broader in focus. A national budget is not an efficient tool to match local

³A comprehensive analysis of the theoretical issues to be investigated are discussed in Mwangi S. Kimenyi and Patrick Meagher (2004), *Devolution and Development*, Ashgate Publishers, UK.

prioritization because the transaction costs of implementing such an allocation scheme would be extremely high.

Given the diversity of expressed demands for particular public goods, project choices under CDF are expected to vary across constituencies as communities prioritize those projects that have the highest marginal impact on their lives within the budgetary constraints. Citizens are able to align their demands with resource allocation. Thus, there should be significant variations in project choices across political jurisdictions and a strong correlation between the selected projects in each constituency and the priorities expressed by the various communities through consultations. We can therefore develop an efficiency measure based on how close the CDF projects reflect expressed priorities. Such a measure would help identify whether CDF is generally associated with social welfare enhancing outcomes as predicted by decentralization theory.⁴

There are, however, wide variations in the constituency characteristics that may impact on the choice of the projects and mode of delivery and which may enhance or impede on the efficiency of utilization of CDF. Efficiency is primarily determined by the degree of involvement by local communities and also the capacity for the beneficiaries to hold politicians and those in charge of implementation accountable. Thus, constituency characteristics that impact on these factors can be expected to affect the utilization of funds. Constituency characteristics that hinder participation of the beneficiaries or weaken their capacity to monitor the utilization of funds can be expected to lead to more inefficient outcomes. Simply, we expect to find wider divergences in the projects selected compared to expressed priorities the weaker the participation of the communities in decision making.⁵ There are several factors that may impact on CDF outcomes as discussed below:⁶

2.1 Size of Constituencies/Population Density and Dispersion

Constituencies differ with respect to the size of the land mass, population and population density. All these characteristics are expected to influence the choice of projects and the mode of delivery. Some projects that could serve a large number of people in high density areas may not be optimal where population is

⁴We make an assumption that prioritization resulting from the consultations reflect truthful revelation of preferences. This is a valid assumption because in soliciting the information on priorities, citizens were not expected to link the priorities to tax shares and thus there is no reason to distort preferences to avoid higher tax burden. However, the fact that there are no prices attached to the priorities can distort the scope of priorities.

⁵Participation is considered effective not by mere attendance to meetings but rather the ability to voice views and question decisions.

⁶Some preliminary analysis of data available on CDF expenditures across the constituencies for the 2003/2004 and 2004/2005 fiscal years seem to provide support of standard theories of decentralization. The data used are from the Ministry of Finance, Government of Kenya as reported in the CDF website (www.cdf.go.ke). Key information necessary for comprehensive analysis is missing and thus the analysis should be considered tentative. See Mwangi S. Kimenyi, "How Well Do Projects Under Kenya's CDF Reflect Revealed Priorities?" January 2005.

widely dispersed. The result of such differences may be reflected in the scale of projects (few large dispensaries versus many few clinics). Likewise, while a day secondary school could serve a large number of people in dense areas, such may not be ideal for low density areas where investing in a boarding school would be more ideal. Even though different communities prioritize provision of water, the mode of service delivery is expected to vary depending on the constituency characteristics in regard to population distribution. By developing measures of the characteristics of the population served by a particular CDF project, it is possible to identify the extent to which the constituency characteristics influence the project choices.

2.2 Strategic Choice of Projects to Internalize Benefits

An important aspect of project choices under CDF concerns the internalization of benefits. From a theoretical standpoint, one would expect that choice of projects is motivated by making sure that benefits are internalized by members of the constituency as much as possible. In short, we expect that CDF projects will be more of the "club goods" type as opposed to broad public goods. Simply, there are projects that would have widespread spillover benefits to communities in other constituencies. While such projects may have been ranked high amongst the priorities, they may not be selected because of the spillover benefits (eg. a road that passes through a number of constituencies).

In urban centers where students from different constituencies can attend a particular primary school, there may be a tendency to avoid investing in school improvements because such would essentially export the benefits to other constituencies. Thus, there may be a tendency to invest in projects whose benefits accrue generally to the residents-e.g. public toilets, walkways, improvements in service delivery such as water, local security, etc. Simply, project choices may reflect avoidance of benefit exportation rather than the expressed priorities. A primary activity that should be undertaken then is to establish rigorous measures of the extent to which different projects internalize benefits.⁷

2.3 Diversity of Preferences/Socio-Economic Characteristics

The theory of decentralization teaches that the heterogeneity of preferences is a key determinant of the efficiency of the public goods provision. The utilization of CDF is also expected to be influenced by the degree of diversity. There are many parameters that capture the heterogeneity of a community including income, economic activities, education, etc. Diversity is expected to influence scope of project choices. In homogeneous communities, projects could be few but much larger in scope. Community involvement is also much higher in more

⁷There is a likelihood that communities select projects that export costs to others—that is activities that have negative consequences to residents of other constituencies. This is an interesting issue that should also be looked into.

homogeneous communities, other things equal. On the other hand, more heterogeneous communities are likely to select many diverse projects to cater for the diversity of preferences. Measures of population heterogeneity are therefore necessary in order to capture variations in the characteristics of population that may impact project choices across constituencies.

Social-economic characteristics of a constituency have a bearing on community participation. A key factor are those factors that impact on social capital. The average level of education in a constituency is expected to influence the involvement of the community and also the extent to which they are able to monitor the utilization of funds. We expect that CDF projects will be more in line with priorities in areas where the average level of education is higher.⁸ Likewise, religion may also influence the choice of projects and cohesiveness of a community.

2.4 Interest Groups

The interest-group theory of government suggests that well organized producer and consumer interests often influence the spending choices of government. We expect that CDF is also subject to interest group competition and that resources are likely to benefit well organized interest groups. It is therefore important that an evaluation of CDF involve an investigation of the extent to which the projects reflect the competition amongst local interests. This will require a detailed understanding of the various groups that are well organized and are capable of capturing rents arising from the CDF. Of particular relevance is an understanding of the role of various NGO's in the selection of projects.

3 Political Economy of CDF

There are some political dimensions that arise from the nature and management of CDF.⁹ We have noted that CDF is a form of decentralization. However, unlike in pure fiscal decentralization which is characterized by both revenues and expenditures, CDF is a one sided fiscal decentralization scheme since expenditure are not linked to the local revenue sources or fiscal effort. Such partial decentralization can associate with *fiscal illusion* which minimizes the extent to which beneficiaries monitor use of funds. Simply, beneficiaries consider the funds as "free" and thus are not motivated to monitor utilization of funds since they do not take into account the costs of the projects. It is therefore important to investigate the monitoring aspects associated with CDF and the degree to which constituency characteristics may influence fiscal illusion and therefore inefficiencies.

⁸However, presence of elite groups could capture the program so that project serve much narrower interests.

⁹A byproduct of CDF is that it may increase the advantages of incumbency. Other things equal, we can expect lower turnovers in parliamentary elections than has been the case before and this advantage could filter to other elective offices. We do not focus on this aspect of CDF though it may merit analysis from a public choice perspective.

CDF also has some direct political implications. Political leaders may view CDF as an investment in their political careers with returns spread over the electoral cycles. Simply, a politician would prefer projects that maximize political returns while voters would prefer projects that maximize welfare. These two objectives may be in concert but there are many cases where the constituency characteristics might result in divergence such that political maximization is not equivalent to welfare maximization. To the extent that members of Parliament have a key role in the identification and implementation of the projects, we do expect choices to be influenced by political maximization.¹⁰

Finally, there is a possibility that CDF could suppress local fiscal effort which has hitherto been through voluntary contributions for community development. Such displacement effect could be counterproductive and may actually weaken participation. Ideally, CDF should not discourage local mobilization of development resources but should instead be complementary. In evaluating the efficiency and efficacy of CDF, it is necessary to investigate the extent to which the funds are complementing or substituting local resource mobilization.

4 Conclusion

There is no doubt that CDF is a novel concept and one that is expected to have major positive impact on development at the grassroots. In addition to advancing the welfare of the people through community projects, CDF has a salutary effect on participation which is itself pivotal to empowerment of communities. Because of the apparent positive evaluation by beneficiaries of CDF, there is high probability that other developing countries will seek to emulate the Kenyan concept. There are indications that a number of countries in the region are intend to study the Kenyan model with the hope that they can legislate similar programs. As such, understanding the operations of CDF, particularly the aspects that impact on efficiency, is crucial. It is therefore recommended that a rigorous study to identify the main sources of concerns that are emerging be undertaken so as to avert major failures in the future. Such a study would offer concrete recommendations on reforms and also the type of information and data that should be required of all CDF projects for effective monitoring and evaluation. Finally, a better understanding of CDF can provide important information that should help in design of other decentralization schemes that may be implemented should the proposed constitution be adopted.¹¹

¹⁰Members of Parliament influence project choices through their role in the selection of management committee members.

¹¹The draft constitution proposes a devolved structure of government with the District as the lower unit of government.