Influence of Funding from National Government on Performance of County Governments in Kenya

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Abstract
Fiscal decentralization encompasses all that appertains to how the National Government and county governments relate to each other when it comes to Money. This includes the kind of revenue allocated by the Central Government to County Governments. This study assesses whether funding from National Governments influence the performance in County Governments in Kenya. The current study took a descriptive design, which involved assessing whether funding from National Governments influence the performance in County Governments in Kenya. For the purpose of this study the target population comprised of all 47 County Governments in Kenya. Sampling frames was done for 5 County Governments as per the Kenya 2010 Constitution. Descriptive statistics was used to determine the relationship between the dependent and the independent variables These statistics includes mean, median, mode, skewedness, range, standard deviation, kurtosis and percentages. The data was presented in form of tables, pie charts, column and bar graphs. The found that that there is a positive and significant relationship between Revenues Received from National Government and Performance because it had a Pearson correlation coefficient (r) of 0.734 and a p- value of 0.000. The study found that the County Government receives funding from National Government. Majority of respondents were aware that there was amount of funds received by the County Government.
Keywords: Devolution, Revenue, Decentralization, administrative, fiscal and political.

1. Introduction

According to Mapesa & Kibua, 2006, it is over the last 30 years in Kenya that there has been a renewed interest in decentralization programs as a way to reverse inequality and tackle poverty. Such decentralized programs that have been introduced over the last three decades are elaborated as follows- Devolution or decentralization is the statutory granting of powers from the Central Government of a sovereign state to Government at a sub-national level, such as a regional, local, or state level. Devolution can be mainly financial or administrative. Devolution was poised as a perfect political and economic response to societal disparities, inequality, economic stagnation and inefficient use of public resources.

According to article 10 (2) (a) of the constitution of Kenya, devolution and sharing of power were identified as values and principles that would guide our governance system. However, Decentralization is not new in Kenya. The quest for this form of governance began as early as 1963 before the Country got its independence. The *Majimbo* Constitution provided for devolution of governance to regional assemblies in the context of a bicameral, Westminster –type parliament with a Senate and a National Assembly (SID 2011).

Recent studies on Decentralization in Kenya concurred that as early as at independence in 1963, the Government of Kenya (G.O.K) inherited a nation characterized by disparities in income and economic development as measured by economic standard indicators such as literacy level, infant and maternal mortality and life expectance, these disparities were found to exist by gender and region (Thulow, Kiringai and Gautum, 2006).

As far as Article, 174 of the Kenyan Constitution 2010, the entire spirit of devolution was therefore to fragment the country into 47 economic units referred to us counties. Where the ability to govern and manage locally and coordinate inter locally will become more important. It is clear therefore that the devolved system did not only bring Government resources and services closer to the people, but also gives powers and responsibilities to the people and leaders at the county level in decision making and determining the direction they want to go in development and politics.

2. Problem Statement

Fiscal decentralization encompasses all that appertains to how the National Government and county governments relate to each other when it comes to Money. This include the kind of revenue allocated by the Central Government to County Governments. it is becoming more evident that devolution is encountering fiscal pressures emerging from fiscal expansion and the governance challenges and how the same will affect the performance of County Governments in the delivery of most of the devolved functions of Health, water and agriculture and infrastructure services that are supposed to be availed closer to the people is contributing more pressures to the devolved governments. This study will thus assess whether funding from National Governments influence the performance in County Governments in Kenya.

3. Research Hypothesis

i. Ho: Funds from National Government do not have an influence on the performance in county governments in Kenya.
ii. H1: Funds from National Government has an influence on the performance in County Governments in Kenya.

4. Theoretical and Literature Review

The paper is guided by Souffle Theory of Decentralization

4.1 The Souffle Theory of Decentralization

The Souffle theory of decentralization which was proposed by Parker (1995) that advocated for decentralization as the way forward for rural development, argued that there are three major elements of decentralization, namely: administrative, fiscal and political decentralization. Parker (1995) emphasized that decentralization is a multi-dimensional process that proceeds with successes and setbacks. The theory argues like a souffle that needs just the right combination of milk,eggs, and heat to rise. Thus, a successful program of decentralization must include just the right combination of political, fiscal, and institutional elements in improving rural development outcomes (Farooq, Shamail, and Awais, 2008; Laryea-Adjei, 2006).

Decentralization initiatives will therefore be subject to a continuous process of modification which reflects changes in the social, political, and economic conditions (Laryea-Adjei, 2006). There is therefore the need to include all dimensions of political, fiscal, and administrative decentralization. Parker (1995) suggested a conceptual model, *the soufflé theory*, which incorporates the essential elements of the political, fiscal, and administrative decentralization. This is because they are combined to realize desired outcomes. Political decentralization transfers policy and legislative powers from the central government to the elected local authorities (Azfar, 1999). However, the allocation of the power of decision making to local authorities is not enough to create successful decentralization if local officials are not accountable to the local population (Elsageer and Mbwambo, 2004).

Local accountability might be promoted through various mechanisms such as third party monitoring by media and NGOs, extensive participation, and central government oversight of local governments (Godda, 2014). All in all, soufflé theory is relevant as it provides an in-depth understanding of political decentralization. Despite the propositions of the Soufflé theorist that are in favor of decentralization, devolved governance has been criticized due to several limitations. Saito (2001) posits that decentralization may foster more local loyalty to regional identities than the national identity. Therefore, this may encourage more autonomy from the central government and even a territorial secession in multi-ethnic and multi-religious societies, particularly in Africa.

This puts the national integrity itself at risk. Secondly, decentralization may increase corruption at local level and thus this would not improve accountability. Lastly, the increased efficiency and effectiveness of public resources may not be realized, since resources (capital, human, and even social) available at the local level in low-income countries are very limited.

These scarce resources are more effectively utilized when they are concentrated at the national level. Therefore, decentralization may also jeopardize equity among different localities. In Kenya, the Soufflé theory is at the centre of devolution. The devolution process of the three powers (political, fiscal, and administrative) proposed by the Scouffle theory were achieved at once with the ratification of the constitution. Specifically, the theory provides an in-depth understanding of financial decentralization, political decentralization, and administrative decentralization exercised by County Governments in Kenya. This theory advocates for decentralization of fiscal resources, fiscal autonomy and fiscal decision making which informs the variable of budget control for devolved units and autonomy of the management of the devolved resources available to County Government.

4.2 Influence of funding from National Governments on performance

According to Brown (2011), the aim of devolution is to bring about a reduction in the size and influence of the national government by reducing federal taxes and expenditures and by shifting many federal responsibilities to the states. Because one feature of devolution involves sharp reductions in federal aid, states are compelled to assume important new responsibilities with substantially less revenue to finance them. In some cases, federal programs are shared, whereby the states must match federal monies to benefit from a program, such as the Children's Health Insurance Program (CHIP), or risk losing these funds.

The rules governing the flow of transfer payments are part of the laws on intergovernmental fiscal relations. Transfer payments are typically allocated from a specific revenue source that is controlled by the higher level government (e.g. a national value added tax, income tax, or oil revenues) (Blazek, 2005). Transfer payments may be allocated downward on an established formula basis, or an ad hoc basis. Transfer payments may be stable and predictable over time, or they may vary substantially from year to year. Regardless of their characteristics, transfer payments are not ―own source revenue‖ because they are not under the direct control of the local government (Abonyo, 2003).

The system of transfers plays a pivotal role in drawing together the other elements of the intergovernmental fiscal system making up for the vertical and horizontal gaps that own source revenues and revenue sharing cannot meet, not undermining local tax effort, creating incentives for externality generating spending that local governmentswould not fund out of their own sources, not undermining incentives for creditworthy municipalities to borrow, and so on. This all requires a carefully executed structure of transfers, using different instruments to pursue different objectives and making sure these instruments do not work against each other (Khadingalaand Mitulla, 2004).

With the exception of a few countries, the current system of transfers to local governments in Latin America lacks a clear orientation. Most countries still have to introduce unconditional equalization grants that incorporate in some formula-based measures of expenditure needs and fiscal capacity. When some equalization elements are introduced into the revenue sharing formulas, actual revenue collections are often used instead of measures of tax capacity, thereby creating problems of negative incentives for tax effort. The current approaches used to incorporate differences in expenditure needs in the revenue sharing formulas are also problematic (Thuronyi, 2001).

A broaden tax base through tax policy reforms and mobilizing a domestic resources is absolutely essential for sustaining poverty reduction over the long run. The informal sector being effectively immune from taxation, governments of developing countries have fewer tax instruments than rich countries (Wallace, 1994). By imposing taxes on some branches of the economy and not on others they create high economic distortions. Economic growth is not a guarantee of poverty reduction, unless we have a well-designed pro-poor tax policy in place which helps to generate more income-earning opportunities so that poor people can engage in productive and well-paid work (Bray, 2008). The average taxation ratio of developed countries as a proportion of GDP lay between 29 and 32%, whereas the corresponding range for developing countries in the medium-income category was from 17 to 22%. The average taxation ratio in the poorest countries lies between 13 and 16%. The problem is a vast gap exists between the tax payments required by law and those actually surrendered to the state. The taxation authorities often inadequately staffed, institutionally weak and lacking in political support - are not in a position to collect the amounts outstanding (Robbins, 2005)

5. Conceptual framework

Funding from National Governments
- CDF
- National treasury

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Performance of county governments
- Customer satisfaction
- Financial viability

6. Methodology

The current study took a descriptive design, which involved assessing whether funding from National Governments influence the performance in County Governments in Kenya. For the purpose of this study the target population comprised of all 47 County Governments in Kenya. Sampling frames was done for 5 County Governments as per the Kenya 2010 Constitution. For the purpose of this study and taking into considerations that the County governments are scattered all over the Country, hence presenting logistical problems, a stratified random sampling was used to select the sample of counties that was studied.

The study targeted key staff in the CGs and stakeholders including the residents of the county in the study. The Current staffing details as documented by the Salaries and Remuneration Commission (SRC) and Council of Governors (CoG) was utilized in sampling the sample population from the selected counties from stratified sampling that was exposed to questionnaires.

The proposed instruments of data collection was through questionnaires with both open-ended and close-ended questions. Secondary data on fiscal data was also collected from the Constitutional Commissions such as COB and CRA. A questionnaire is a method of data collection in which respondents provide written answers to written questions (Gall, Gall & Borg, 2007).

The questionnaires were sent out sent to the respondents attached with the forwarding letter accompanied by an introductory form the University. The service of a research assistant trained in handling data collection was tasked with the delivery and collection of questionnaires.

For the purpose of this study Descriptive statistics was used to determine the relationship between the dependent and the independent variables These statistics includes mean, median, mode, skewedness, range, standard deviation, kurtosis and percentages. The data was presented in form of tables, pie charts, column and bar graphs. The relationships in the research questions was determined using the following Ordinary Least Squares (OLS) regression model as prescribed by various Scholars (Faraway, 2002; Cohen, West & Aiken, 2003 and Kline, 1998).

7. Results

The independent variable Revenues Received from National Government comprised of four (4) items. In measuring the variable, a five point continuum Likert scale was used, where 1 represented 'strongly disagree' and 5 represented 'strongly agree'. The main objective was to assess whether funding from National Governments influence the performance in County Governments in Kenya.

Table 1: Revenues Received from National Government on Performance

N=202	Mean	Std. Deviation	Std. Error of Mean	Variance	Kurtosis	Skewness
I am aware that the County Government receives funding from National Government	4.5149	1.07077	0.07534	1.147	5.924	-2.618
I am aware of the amount of funds received by the County Government	3.6485	1.1548	0.08125	1.334	-0.837	-0.495
The County Government receives all the allocated funds from the National Government for budget support.	3.5446	1.13317	0.07973	1.284	-1.388	-0.07
The funds received from National Government are utilized to fund service delivery in the county	3.203	1.46379	0.10299	2.143	-1.351	-0.232

The results from Table 1 shows that the highest rated item was that I am aware that the County Government receives funding from National Government as indicated with a mean of 4.5149, a Kurtosis of 5.924 and Skewness of -2.618. The respondents agreed that I am aware of the amount of funds received by the County Government with a mean of 3.6485, Kurtosis of -0.837and Skewness of -0.495. It was agreed that The County Government receives all the allocated funds from the National Government for budget support with a mean of 3.5446 Kurtosis of -1.388 and Skewness of -0.07. The lowest rated item was the funds received from National Government are utilized to fund service delivery in the county as it was moderately rated with a mean of 3.203, Kurtosis of -1.351 and Skewness of -0.232.

This studies can be supported by Froeschle, (2005) who indicates that revenue structure has an active influence on revenue volatility as well. Theoretically, to minimize revenue volatility, a government could purposefully define a set of economic activities as tax base and create a tax portfolio with multiple revenue sources and low elasticity. Since the nature of economic bases is different across jurisdictions, a tax portfolio that serves the goal of stability should be specifically tailored to the characteristics of each economic base and should vary across jurisdictions. Put another way, if we designate an equally well-diversified tax portfolio to a region ignoring the nature of its economic base, the effect of revenue diversification on revenue volatility can vary. Since the changes in economic bases are realized through a gradual process with uncertainty, from a short-run perspective it is meaningful to take the nature of an economic base as given and examine how the effects of revenue diversification on revenue stability change according to the unique nature of an economic base, particularly its instability.

Table 2: T-statistics of Revenues Received from National Government

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Revenues Received from National Government	55.151	201	.000	3.26865	3.1518	3.3855

Since $p < 0.000$, we reject the null hypothesis that the sample mean is equal to the hypothesized population mean and conclude that the mean Revenues Received from National Government of the sample is significantly different than the average Revenues Received from National Government of the overall population.

Based on the results, we can state the following: There is a significant difference in mean Revenues Received from National Government between the sample and the overall population ($p < .000$). The average Revenues Received from National Government of the sample is about 3.2 higher than the overall population average.

Table 3: Correlations- Revenues Received from National Government
Correlations

		Performance	Revenues Received from National Government
Performance	Pearson Correlation	1	.734**
	Sig. (2-tailed)		.000
	N	202	202
Revenues Received from National Government	Pearson Correlation	.734**	1
	Sig. (2-tailed)	.000	
	N	202	202

**. Correlation is significant at the 0.01 level (2-tailed).

The Pearson (r) correlation coefficient showed a positive and significant relationship between Revenues Received from National Government and Performance because it had a Pearson correlation coefficient (r) of 0.734 and a p- value of 0.000. This means that as Revenues Received from National Government increases there is an increase in Performance of counties.

Table 4:Model Summary- Revenues Received from National Government
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.734[a]	.539	.537	.48688	1.589

a. Predictors: (Constant), Revenues Received from National Government
b. Dependent Variable: Performance

Table 4 shows the effectiveness of the model in measuring the relationship between revenues received from national government and performance in County Governments in Kenya. The overall correlation coefficient (R) between revenues received from national government and performance is a strong positive correlation of 0.734. The coefficient of determination (R Square) indicates that the revenues received from national government in the regression model can explain 53.9% of the variations in performance of county governments holding other factors constant.

Table 5: ANOVA- Revenues Received from National Government
ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	55.394	1	55.394	233.683	.000[b]
	Residual	47.410	200	.237		
	Total	102.804	201			

a. Dependent Variable: Performance
b. Predictors: (Constant), Revenues Received from National Government

Table 5 presents the analysis of variance of the performance in Counties that are included to explain the Revenues Received from National Government. The overall significance of the model is 0.000 which is at level of significance of 0.05 and fail to accept the null hypothesis and conclude that Revenues Received from National Government have a positive influence on performance in county government. This shows that the Revenues Received from National Government included in the model have an overall high significance in explaining the performance in county governments in Kenya.

Table 6: Coefficients
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.521	.138		11.052	.000
	Revenues Received from National Government	.623	.041	.734	15.287	.000

a. Dependent Variable: Performance

The beta was equally significant (β =.734, t = 15.28, at $p < 0.05$). The beta value implies that for one unit increase in Revenues Received from National Government, performance increase by 0.734 or 73.4%. From the regression results it is evident that the null hypothesis is not supported and therefore is rejected and the alternative hypothesis is accepted.

8. Conclusion

The study concludes that there is a positive and significant relationship between Revenues Received from National Government and Performance because it had a Pearson correlation coefficient (r) of 0.734 and a p-value of 0.000. The study found that the County Government receives funding from National Government. Majority of respondents were aware that there was amount of funds received by the County Government. The County Government receives all the allocated funds from the National Government for budget support. Most respondents did not fully agree that the funds received from National Government are utilized to fund service delivery in the county.

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