Chapter 8

The Constituency Development Fund Experience in Kenya

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Introduction and background

The Government of Kenya has been praised by many in Africa and elsewhere for introducing the Constituency Development Fund (CDF), an innovative system of transferring part of central government revenues to the grassroots. Geek (2006), in praising this system, says that it has contributed a lot in promoting growth and development of individual enterprises through provision of loans for businesses. He also says that the system has helped to raise the level of education in Kenya because it supports the building of schools, provision of equipment and bursaries for poor children. Bagaka (2008) also says that the CDF system of fiscal decentralisation promotes efficiency and equity of fund allocation. More praise for the benefits of CDF came from Kimenyi (2005) who says that the CDF is 'one of the ingenious innovations of the NARC government of Kenya'. He says that this system provides people at grassroots level an opportunity to make expenditure decisions that will maximise their welfare. Another source of praise came from Senator Russell Feingold of the state of Wisconsin in the USA. He was quoted by Kenya's Presidential Press Service on November 2006 as saying 'the initiation of the CDF concept was a positive move towards ensuring equitable distribution of resources' (Feingold, 2006).

The system was introduced in 2003 through an act of parliament, the CDF Act. It is an attempt by the Kenya government to decentralise development planning and implementation (Chweya, 2006). The government has tried over many decades to bring about various decentralisation programmes. Some of these are: The District Development Grant System (1966), the Special Rural Development Programme (1969/70), the District Development Planning System (1971 and the District Focus for Rural Development System 1983/4). (Bagaka, 2008). All these failed due to lack of funding and excessive bureaucracy. There is evidence that the Kenyan public has been demanding more effective fiscal decentralisation and CDF is the response (Odhiambo, 2007).

The CDF system uses the constituency as the focal point. It provides additional resources for development at the local level by channelling them directly to the constituency through the normal budgetary allocation system. Initially the act provided an annual transfer of Ksh12.5 billion or US$150 million annually through the central government budget to the CDF or roughly 2.5 per cent of the total government ordinary revenue. This has since been revised upward through a motion in parliament raising the ratio to 7.5 per cent. Seventy-five per cent of the amount raised is allocated to the 210 constituencies in the country equally. The balance is allocated on the basis of the constituency poverty level (KIPPRA, undated). Constituencies have been ranked in terms of poverty level by the Kenya Integrated Budget Survey. The survey focuses on the proportion of people living below the poverty line: those who cannot afford the minimum nutritional requirement of 2,250 calories per day. The cost of this amount of food is estimated at Ksh1,562 for the rural areas and Ksh2,913 for the urban centres (Ogosia and Namunane, 2008). Based on this, the constituencies are ranked.

The money is sent directly to the constituency to fund local projects identified and implemented by the local communities. The act also empowers the management of the fund to source for additional funds from elsewhere other than the government. The fund is managed and controlled through various committees and a CDF board.

The overall decision-making body for the CDF system is the Constituency Fund Committee (CFC). This is the main policy-making body and sets the rules guiding the management of the fund. It is the final authority and oversees the implementation of the CDF Act. It is a committee of parliament and draws its membership from sitting Members of Parliament. It operates at national level.

To manage the day-to-day affairs of the fund is the CDF board which is answerable to the CFC. The board is basically the national CDF management committee. This board is administered by a board of management which consists of a total of eight members and a chief executive officer. The chairman of the board is appointed by the minister. The board also includes representatives from Ministries of Planning and Finance, the Attorney General's office and the clerk of assembly. The chief executive officer is appointed by the board. The board is answerable to the CFC for all its activities. The act says that the board shall be responsible for the assets of the fund, its financing and investment. The act also says that the board will consider proposals for project funding from constituencies, approve and disburse funding to the respective constituencies.

At the constituency level, the CDF committee takes charge of the affairs of the fund. This committee is convened and constituted by the local Member of Parliament who also becomes a member of the committee. It is made up of men and women representing various interests at the local level such as religious groups, gender, NGOs and the administration. The committee receives funding applications and evaluates them and makes recommendations to the national CDF board. It is also responsible for monitoring of the implementation of the projects funded by the board.

Justification for the establishment of the CDF

The CDF is a creation of the parliament. The MP is faced with demands for funds to meet all sorts of social and developmental needs of people at constituency level. For many years since independence, Kenya has successfully employed the system of Harambee to raise funds for community projects. This is a self help system whereby the people themselves identify a project and then come together to raise the required finance from among themselves. The term 'Harambee' means pulling together. It was initiated by the country's first president, Jomo Kenyatta. However, with the increasing community needs, MPs have found it difficult to cope with the number of Harambee-type projects the community wished to undertake. In addition, the government realised that some leaders had been misusing the Harambee system and therefore it needed to find a means to discourage such abuse as part of the war against corruption. MPs therefore felt challenged with this development. To be credible as a leader elected by the people to address developmental issues, he/she needed a source of money. Okungu (2006) says that the MPs dreaded another five years of Harambees for endless projects in their constituencies as they had promised their electorate. Harambees had become sitting MPs' nightmare. This is why the bill to create the CDF act went through parliament and was passed in a single day. However, to justify the creation of the fund, a number of reasons have been given.

It was argued that the CDF gives people at the grassroots level an opportunity to determine priority in terms of the projects that should be implemented in their areas. It allows for participation in project selection and implementation. This is part of the decentralisation process meant to empower the people and give them autonomy in setting their own development agenda. As more people are involved in the development of the community, it is reasoned that this will improve on efficiency, effectiveness and productivity. In addition, involving the community in development will facilitate the monitoring of the selected projects. Another argument is that sending the money directly to the constituency avoids the bureaucratic process and red tape typical of all government systems. Money is transferred directly from the exchequer to the CDF board account to be held on behalf of the constituency. The direct transfer avoids leakages of the funds and ensures that the beneficiaries get all that was allocated to them.

Kimenyi (2005), referring to the many consultations that take place when the government is building its planning and strategy documents (e.g. PRSP, ERSP, Vision 2030) says that though there are cross cutting problems facing Kenyans, different communities rank these problems differently. He raises the question as to whether the government budget in its current form has the capacity to address the specific priority ranking concerns of the communities. It is felt that maybe the transaction costs associated with the implementation of an allocation scheme that reflects the community ranking will be quite high. The range of projects necessary to meet the community needs is large and the sizes are very small. Implementing them using a government agency is definitely involving and expensive. Monitoring projects will require resources and management information and reporting systems that might be expensive to put in place. This is why it was prudent to involve the communities in the allocation of funds to the priorities they have identified themselves. It is more effective and cheaper to let the communities identify and rank projects and then give them money to implement and monitor them.

Another justification for CDF is that it stimulates development at community level. Apart from funding projects at community level directly, this action has a multiplier effect. Local suppliers of goods and services at community level do benefit. The CDF activities have helped to improve purchasing power at community level. Pumping close to one million dollars annually to a constituency in a rural area is likely to put money in the hands of the local people who in turn will be able to purchase goods and services produced there. It will also help to stem rural–urban migration and retain the young workforce in the rural areas.

Experiences of the Constituency Development Fund

The CDF initiative has been lauded as one of the best innovations coming out of the Kibaki government. The local people talk of the many things they have been able to do since the fund was created. They tell you this is the first time they are able to see and benefit from government revenues. However, there are alternative voices talking of the negatives about the initiative.

Okungu (2006) says that the beauty of the CDF may be hidden in the management structure that the CDF Act put in place at inception. He says that the act was ill conceived when it gave the sitting MP the power to manage the fund. He also says that nearly 70 per cent of the constituencies are talking of gross mismanagement, theft, fraud, and misuse and misappropriation of funds. He suggests that the dominant role played by the MP in the management of the CDF presents a risk in terms of misuse of the funds and says, 'the MP plays a big role all the way from making the law, sitting in the oversight committee of parliament, down to the appointment of the constituency CDF committee and therefore influencing resource allocation and project implementation at community level'. This violates the principle of separation of powers. The MP makes the law, implements CDF projects and when the fund is audited, the auditor general presents his report to parliament where the MP is sitting. In this case, the MP is accountable to himself almost exclusively. The parliament cannot effectively perform its oversight role in which it must monitor and examine the activities of the executive. It is also playing a role similar to that of the executive through the CDF.

The involvement of the politician in resource allocation is likely to lead to distortion of priorities and wastage. The politician is concerned with gaining political mileage in whatever project is selected. There are cases where the MP facilitates funding procurement of a transformer for electricity whereas parts of the same constituency have no access to water. Another example is construction of a school administration block when other schools have no classrooms. He wants to maximise political returns as opposed to economic and social welfare returns. To achieve this, the politician makes sure that members of the committee are his supporters who will help channel resources to areas that supported him in the last elections whether the projects they present are priority or not. This will lead to partisan development and marginalisation of certain areas within the same constituency.

Thirdly, the CDF system is seen to have created a parallel structure within the budget process. In Kenya there is a clear system of budgeting and resource allocation involving the central government, the district administration and local authorities. Budget estimates and allocations are done using this structure. The CDF system adds another structure and might lead to duplication of not only activities but also funding. It is possible for a school that is building classrooms to receive funding through the Ministry of Education and also through the CDF. There is no forum for the two arms of government to meet and discuss the appropriateness and adequacy of the allocations. The Kenya Government budget system has been going through various reforms to improve efficiency and effectiveness in resource allocation as well as fiscal discipline. Unfortunately, resource allocation through the CDF system, which is outside the budget system, is likely to lead to suboptimal allocation of resources. It fails to benefit from the discipline of the reformed budget system.

It is argued that CDF is a form of fiscal decentralisation. However, Kimenyi (2005) calls it partial decentralisation as it only decentralises expenditure whereas revenue is guaranteed from central funds. Complete decentralisation and devolution means assignment of both revenues and expenditure hence giving the community responsibility to carry out certain functions and holding them accountable for the resources. He says that CDF will lead to fiscal illusion which will minimise the extent to which the beneficiaries will monitor use of the funds. They see the funds as free and therefore are not motivated to monitor their utilisation, which will in the end lead to inefficiency. The criteria for allocation shifts from social welfare returns to trying to ensure that everyone gets a share whether or not the project they have is viable.

Another problem that is already being experienced is the lack of willingness of the community to contribute their own funds to finance local projects. Before CDF, the locals worked hard to raise funds to build schools, health centres and water supply. Now they are not willing to contribute even the labour which is in plentiful supply. The effect is making the community less independent and more dependent and lazy.

Poor planning has also complicated the management of the CDF. In many cases initiated projects are never completed for a number of reasons, chief among them inadequate funding to cater for more or less similar projects in almost every village. The tendency has been to spread resources thin among many projects leading to underfunding of many.

Succession has also been an issue, especially given that in the last general election over 60 per cent of the MPs did not get back to the parliament. Projects initiated by them were abandoned by the incoming MPs who wanted to entrench their own CDF team and myopically labelled the old projects negatively to malign their former opponents.

CDF has helped to initiate and implement many projects for the local communities. The question to ask is how the government is going to finance the recurrent component of the completed projects. Health centres will need drugs and personnel, schools will require teachers, books and equipment. Bagaka (2008), in his study on fiscal decentralisation in Kenya, concludes that CDF promotes allocative efficiency and equity. However, this comes at the cost of exporting tax burdens to central government which is going to pay for the operation and maintenance of the completed projects. A system is therefore needed that links the community's activities and the government's plans in terms of resource allocation in the future so that adequate budgetary allocations are provided for to meet the recurrent portions of the completed projects.

Action taken

To address most of the problems associated with CDF is quite difficult unless the CDF Act is amended and the structural weaknesses rectified. However, the CDF secretariat has made an effort to develop rules and regulations within the framework of the act, in order to reduce the impact of the problems outlined above. Equally important is the role being played by the Kenya Anti Corruption Commission which has done a lot of work to investigate and prosecute those involved in malpractices associated with CDF. Specific aspects of these interventions are highlighted in the paragraphs that follow.

To avoid cases of duplication whereby one project is funded by many sources, the CDF secretariat stipulates that funds provided by CDF must be used to finance auditable phases of a project. If the project is, for example, the construction of a house, it should either fund the foundation phase or the roof or any clearly identifiable and auditable phase of the building.

Another introduction is the employment of fund managers to aid in the identification and implementation of projects. These are professionals with skills in project management, economics or finance. Most of them are university graduates. They are being sent to the constituencies to aid in project identification and implementation. The plan is to ensure that each constituency has a fund manager. These officers will help the CDF committees in harmonising projects to avoid duplication, develop an information system to aid project decisions and keep records, to develop constituency activity plans and sort out issues of underfunding to ensure projects are completed. At the moment, these managers report directly to the CDF board.

The CDF board has also developed a policy that puts a limit on the number of projects to be implemented by a constituency at any time. It limits them to between five and twenty-five. This is intended to avoid an accumulation of unfinished projects. The policy also states that the funding priority shall be for ongoing projects. It is hoped that if few projects are handled, the chance of completion is higher.

There is a plan to make each constituency a district. Districts are part of the central government administration structure. They are headed by a commissioner. A number of districts form a province. There are eight provinces in the country, each headed by a provincial commissioner reporting to the office of the president. Below the district we have a division, a location and a sub location in that order. It is because of the bureaucratic nature of this system that the CDF system came into being. Converting the constituency into a district would help harmonise the two systems and reduce duplication. It would also help in reducing the role of the MP as each district has a complete system of government administration that would administer the way the funds are being allocated. For now, the CDF is trying to link its committee with the District Projects Committee in order to help in identifying cases of duplication of projects. The committee is also making an effort to consult the Public Procurement Act as well as the line ministries to which the specific projects relate. The government is continuously creating districts (at the time of writing the president has gazetted a notice to create 53 new districts). The stated intention is to ensure each constituency is a district.

The act provides that MPs must call for public meetings (commonly known as Barasa) to seek the community's views on project priorities. However, the experience of the CDF board is that this requirement is ignored by the MPs. The board now uses the media, open days and public events to sensitise the public on this requirement and urges the people to demand that their MPs consult them through a Barasa before CDF funds are allocated.

The board has also started to insist that constituencies develop strategic plans as a condition for funding.

The CDF board has also embarked on training those involved, to develop the relevant skills.

Training programmes have been conducted for CDF committee members, MPs, district accountants, district officers and chiefs countrywide on various topics ranging from procurement to project management, budgeting and financial management. Another step that has been taken is to invite the Kenya Anti Corruption Commission to investigate and prosecute anyone suspected of misappropriating CDF. At one time there were 15 cases involving Ksh30 million (US$400,000) in various courts where people who stole the money from CDF are being prosecuted, one of them an MP.

Lessons learned

A lot has been learned from the introduction of the CDF system in Kenya. When people are given the chance to manage resources at the community level, they come to own the project and will work hard to ensure it succeeds. There are cases where people are raising money to meet the recurrent budgets of CDF projects. This has also reduced vandalism of community projects. The participatory process of selecting CDF projects acts as a system of communication to the locals about the objectives of the projects and therefore people understand that these are activities that will benefit them.

Another lesson learned is that the constituency is not well structured to channel resources for development at grass-roots level. The idea is good but protecting the resources and ensuring that they will be applied as intended is a challenge. It also shows us that the MP is not the best person to steer this exercise.

Another lesson that has come out is that the completion of a development project is not the end of that development problem. That project must be funded continuously for operation and maintenance. It is also clear that at grass-roots level there is a serious lack of skilled people to support project planning and implementation.

One negative fact that has come out is that there is corruption at community level. There is a likelihood that implementers will collude with somebody at community level to steal from a CDF project.

Conclusion

The CDF system has a number of benefits to the community and the nation at large. It has the potential for helping the local communities address their developmental concerns. However, this system has a number of pitfalls as we have seen. The main challenge is to determine what needs to be done to make it a viable tool for community development. We must find out how to minimise the negatives and strengthen the positive aspects of this system to make it work better for the benefit of the community and the nation at large.

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