Fiscal decentralization continuum and their impact on subnational government performance; lessons from Kenya and Hungary

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Area: 93,030 Km²
Population: 10 M
Regions: 7
Counties: 20
Micro Regions: 174
Local govts: 3,154
Kenya

Area: 580,367 Km²
Population: 55.3 M
Counties govts: 47
Motivation of study

• Both countries oscillate from centralization to decentralization / devolution

• Governance indicators of both countries deteriorated during times of recentralization. Is decentralization design the key in lowering inequalities in regions and foster national cohesion and economic growth?

• How do decentralization issues of design, intergovernmental fiscal transfers and managing subnational government debt and borrowing practices compare

• What are the key lessons the countries can learn in designing effective decentralization?
Economic allocative efficiency / economic growth
Enhance quality of government / governance
Regional inequality and inclusivity
Regional competitiveness / bottom-up
Why re-centralize

- Coordination failures / efficiency loss
- Moral Hazzard / common pool problems
- Horizontal externalities (under provision / scale economies)
- Vertical spillovers (concurrent functions)
- Unbalanced growth / race to the top
Literature review – SLR

- Identified: 183
- Screened: 142
- Eligible: 56
- Included: 27

Initial search from Web of Science, Scopus, EBSCO, Scopus

Post duplicates removal

Filtered by title, Abstracts and full text and reference available,
Historical landscape / design

**Hungary**

- Prior to 1990 – Socialist centrally planned
- 1990s - regional policy functions domiciled various ministries
- Weak legal system, opaque and obscure assignment of powers
- Highly decentralised and multilevel system - 3,154 settlement / LGs
- LGs have larger FR without the commensurate OSR capacity

**Kenya**

- Devolution Constitution in 1964
- Post independence - Government centralization of power and abolish the devolution institutions (regional govts, senate and multiparty)
- Parallel decentralization structures with opaque and assignment of powers and functions
- 175 LAs with an executive minister
- FR with limited OSR Capacity
Current landscape / design

**Hungary**

- Deconcentration / delegation?
- Weak legal framework in assignment and transfer of functions.
- Centralised regional policy, regionalism and recalling of territories under the NUTS; has not institutionalised LG capacities

**Kenya**

- Devolution
- Constitution defines the institutional framework on assignment of competencies
- Frameworks including revenue, DPs aligned to devolved structure
Hungarian Decentralization Framework

Central Government

7 Regions

20 Counties and Budapest

174 Micro regions

3,154 Local governments and Notary Districts
Debt management and borrowing

Hungary

- Fiscal distress after the EU accession signalled by increasing debt levels
- Limited OSR capacity of local governments
- Fiscal rules (e.g. SBC)
- Borrowing and commitments be subjected to central government approval

Kenya

- Constitution and PFMA borrowing control
- Borrowing approval of the respective CA and NG – Public debt
- OSR (property taxes, user fees and charges) defined by constitution
Intergovernmental Fiscal Relations

**Hungary**
- Legal and institutional framework on fiscal relations not clear.
- Mainly gives grants for capital investment and normative (operating expenditure)
- Fiscal autonomy: limited unconditional grants.
- Central government can vary the amounts

**Kenya**
- Constitution and PFMA establish fiscal relations framework
- Predictable allocation and transfer of equitable share and additional fiscal transfers
- Conditional transfers amount to less than 10% of County Budgets
- NG cannot vary the transfers
Kenya Sharing of Revenue

DIVISION OF REVENUE FY 2022-2023

National government

Nationally Raised Shareable Revenue

Equalisation Fund

County governments
Anchor FD in a country’s constitution and define
- Assignment of competencies
- Supporting institutions

Intergovernmental Fiscal relations that:
- Fiscal autonomy
- Predictable transfers
- Resources follow function

Borrowing and debt mgt rules that:
- Credible fiscal rules
- Borrowing approvals
- Build OSR Capacity & Assets Mgt

Lessons

FD Design

Fiscal transfers

Borrowing and debt
NAGYON KÖSZÖNÖM

ASANTE SANA