

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

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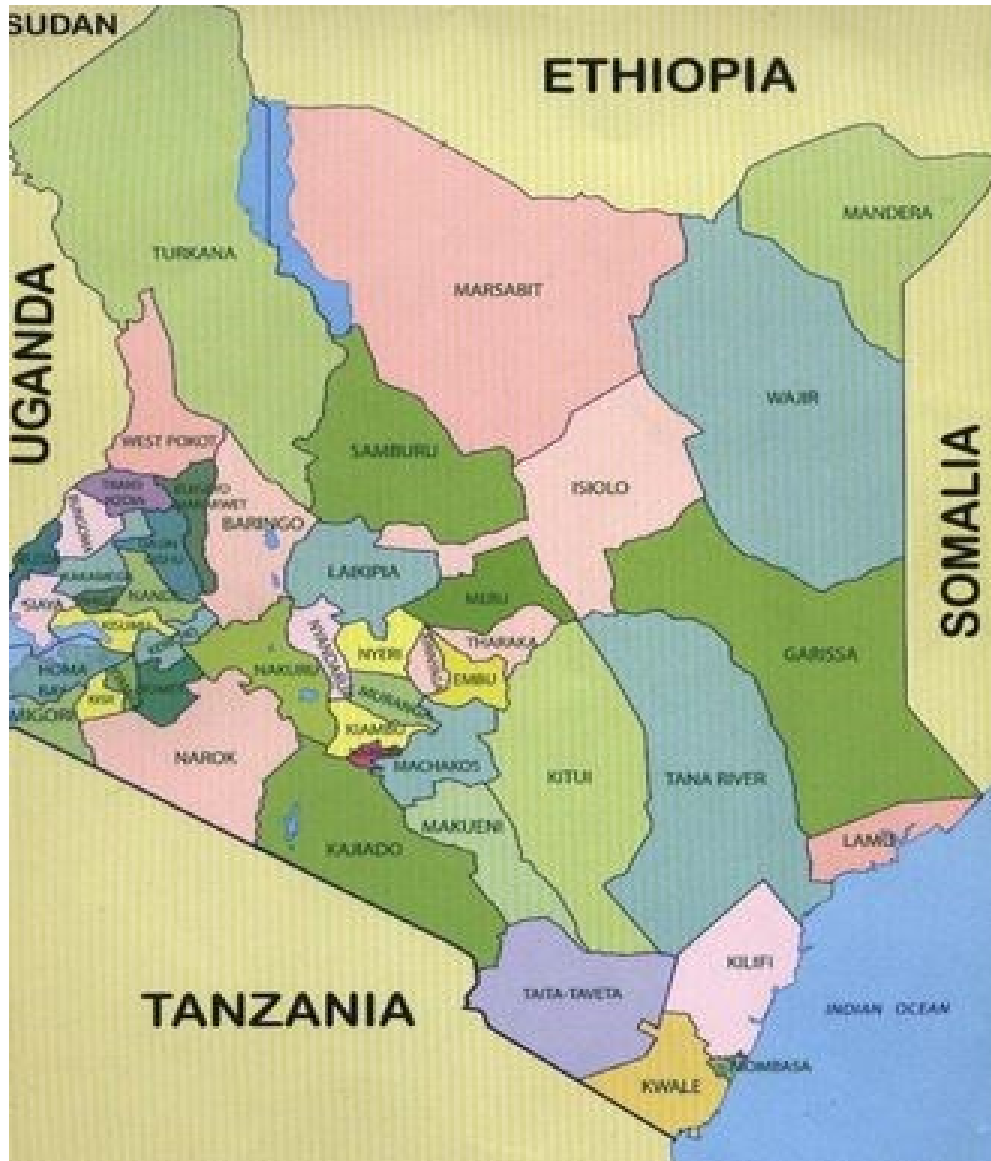
University of Pecs

Hungary



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?

Why countries decentralize

Economic allocative efficiency /
economic growth

Enhance quality of government /
governance

Regional inequality and
inclusivity

Regional competitiveness /
bottom-up

Why recentralize

Coordination failures / efficiency loss

Moral Hazard / common pool problems

Horizontal externalities (under provision / scale economies)

vertical spillovers (concurrent functions)

Unbalanced growth / race to the top

Literature review – SLR



Initial search from
Web of Science
Scopus EBSCO
Scopus

Post duplicates
removal

Filtered by title,
Abstracts and
full text and
reference
available,

Inclusion:
Relevance,

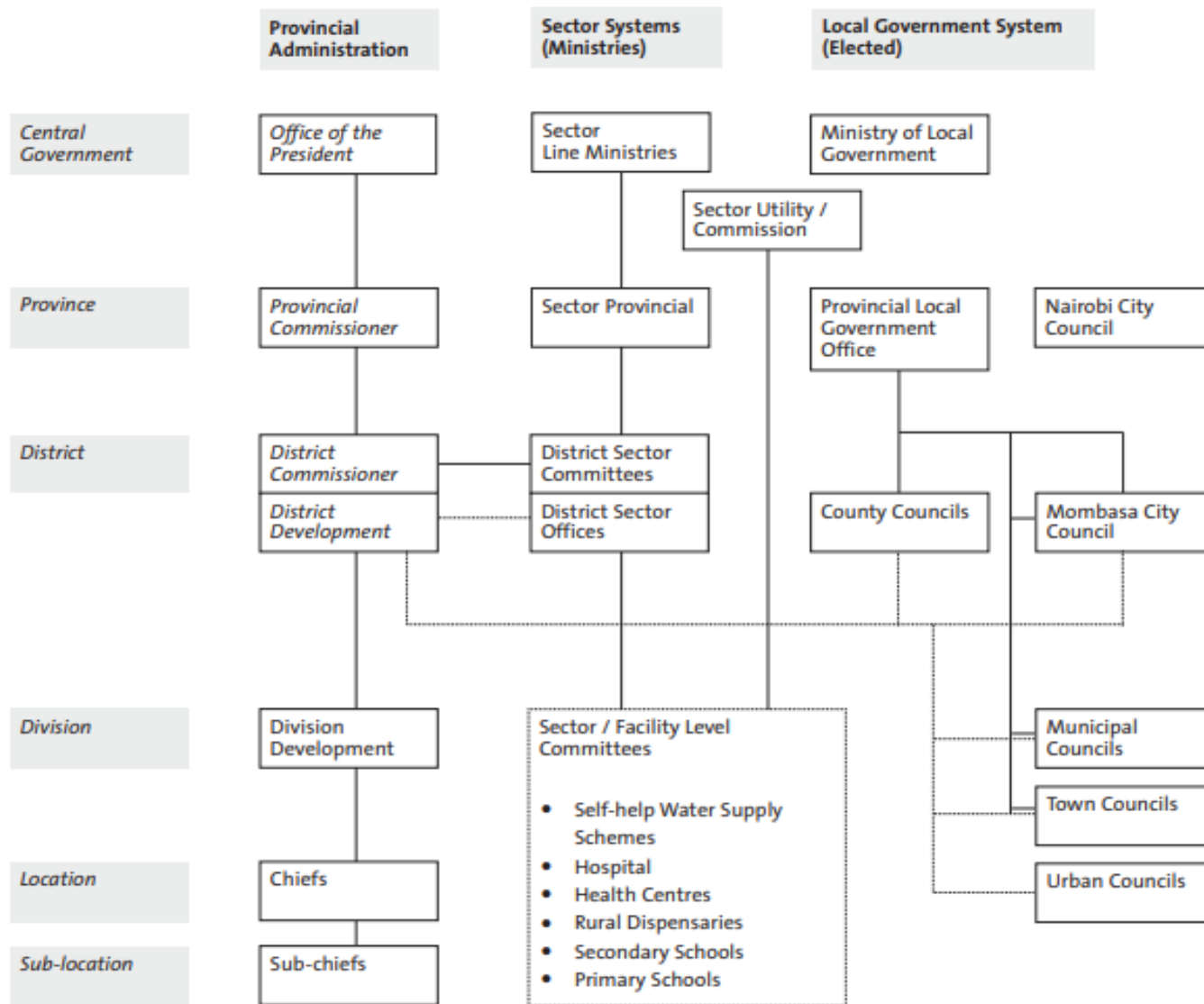
Historical landscape / design

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

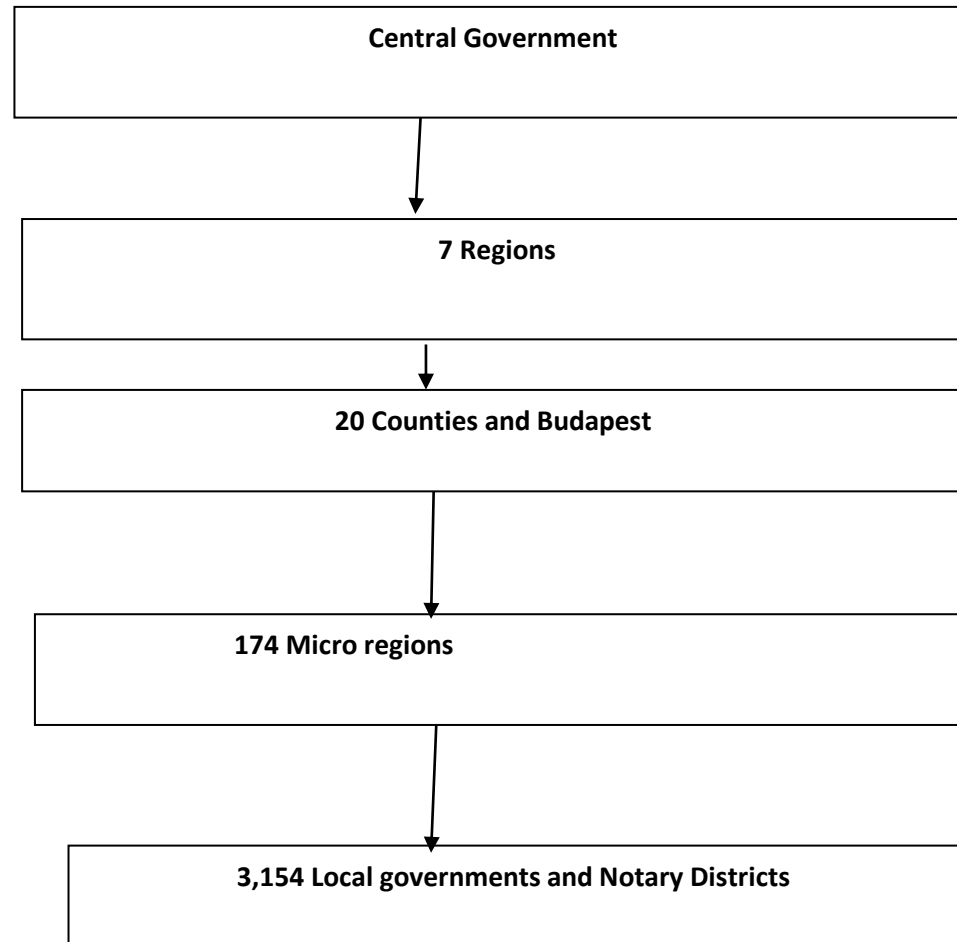
Hungary

- 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



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



Lessons

FD Design

Anchor FD in a country's constitution and define

Assignment of competencies
Supporting institutions

Fiscal transfers

Intergovernmental Fiscal relations that;

Fiscal autonomy
Predictable transfers
Resources follows function

Borrowing and debt

Borrowing and debt mgt rules that;

Credible fiscal rules
Borrowing approvals
Build OSR Capacity & Assets Mgt

NAGYON KÖSZÖNÖM

ASANTE SANA