



AN ANALYSIS OF AGRICULTURAL SECTOR FUNDING BY COUNTY GOVERNMENTS

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SUMMARY

Kenya transitioned to the devolved system of governance with the county governments taking office in March 2013. The county governments have been allocated significant responsibilities in the agricultural sector. We analysed the first year county government budgets (2013/14) focusing on the funding for the agricultural sector. We find that although the county governments have allocated a considerable proportion of their expenditure to development, the share allocated to the agricultural sector is low, ranging from 0 to 24 per cent. This puts at risk ongoing programs in the sector and may potentially slow down the growth momentum experienced in the sector. We recommend increasing allocation under the revised budgets and prioritization of the agricultural sector in the county government medium term plans.

BACKGROUND

In 2010, Kenya made one of the most significant adjustments on the national governance framework by promulgating a new constitution which established a two-tier system comprising of a national government and 47 county governments. The main objective behind this change was to improve access to public services and improve citizens' participation in governance and development through devolution. Key improvements under the new governance system included the transfer of administrative functions and mandate from the national government to county governments. These functions had been previously carried out by departments and ministries. Under this system, county governments have now been allocated significant responsibilities in agriculture, health, trade, roads, and county planning among other functions.

A major concern has been whether the county governments have the capacity to effectively carry out these functions. Key difficulties that face the county governments include: (1) Operational challenges such as in providing adequate capacities by the county governments. For example, although there are national government staff who have been working under various departments at the county level with adequate training and experience, it is not clear whether these staff will be transferred to the county government or the county governments will recruit their own staff; (2) Budgets: the departments at the county level were funded by respective ministries before the transition to county governments. County governments are now expected to independently come up with, and appropriate enough budgets for implementation of activities under their jurisdiction. County governments receive an allocation from the national government based on an agreed formula. They are also expected to raise their own revenues at their locales. Concerns arising from the funds allocated to the counties are that they may not be adequate to enable them discharge the functions they are mandated to undertake. Conversely, the county governments either through allocation of a larger share of their resources to recurrent expenditures or underfunding of certain sectors, may also lead to underperformance.

In the agricultural sector, the national government is mandated with policy formulation and coordination while county governments are expressly mandated to be responsible for crop and animal husbandry, livestock sale yards, county abattoirs, plant and animal disease control and fisheries.

We conducted an analysis of how the county governments appropriated their first year budgets, with a focus on allocation to the agricultural sector.

Importance of the agricultural sector to the Kenyan economy

The agricultural sector contributes 24 per cent to the national Gross Domestic Product (GDP), accounts for 60 per cent of export earnings, 18 per cent of formal employment and approximately 60 percent of informal employment (MoALF, 2013). In addition, the sector contributes about 75 per cent of the raw materials used in the manufacturing sector. Therefore, the sector is vital in Kenya's economy. Indeed, the performance of the overall economy directly mirrors that of the agriculture sector (Figure 1). The sector also plays an important role as a source of income for most households in the counties, providing direct and indirect employment opportunities. On average, the sector accounts for 65 per cent of the total household's income in the counties (Figure 2). With the exception of a few counties like Nairobi where households rely mainly on wage employment, the rest of the counties rely heavily on the agricultural sector as a major

contributor to household incomes and a key source of employment. This scenario may change with the recent discoveries of natural resources in some counties. Since the major aim of devolution was to jump start local economies and ensure that development takes place in an equitable manner, we expect that the allocation of development expenditures by county governments will be significant enough to move the sector to more business oriented and commercial agriculture, where unexploited opportunities such as agro-based processing and value addition will be key.

Trends in Agricultural Funding at the National Level

Kenya is a signatory to the 2003 Maputo declaration that commits nations to fund the agricultural sector at a minimum of 10 per cent of the national resources. However, even though the funding to the sector has increased over the years, the share to national resources has been declining (Figures 3 & 4). The total development budget in the sector has also been increasing from early 2000s.

Transition to County Governments

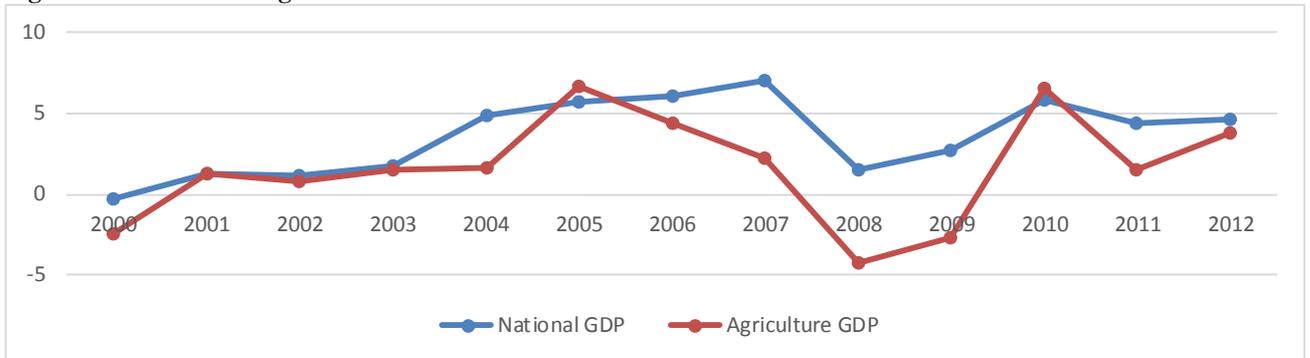
The constitution allows for a transition period of three years from the date of promulgation (August 2010), when it is expected that the national government will have transferred all the functions listed in the fourth schedule to the county governments. After the general elections in March 2013

county governments took office and have been establishing the requisite departments to take charge of the specified functions. From 1st July, 2013 county governments took over all the functions as listed in the fourth schedule of the constitution with the exception of a few as had been agreed by the Summit.¹ The constitution requires that a minimum of 15 per cent of the national revenue be allocated to county governments. In the 2013/14 financial year, above 40 per cent of the national revenue was allocated to county governments. Although this is a substantial amount, the sentiments expressed by the governors are that it is not enough given the huge expectations that they face.

We analysed the printed budget estimates for the 2013/14 financial year submitted to the controller of budget by the county governments, paying attention to the development expenditure allocated to the agriculture sector. Key concerns at the county level include whether the agricultural sector has been given prominence by the counties and the implications of allocations on implementation of activities in the sector, and the continuity of on-going programs by state departments.

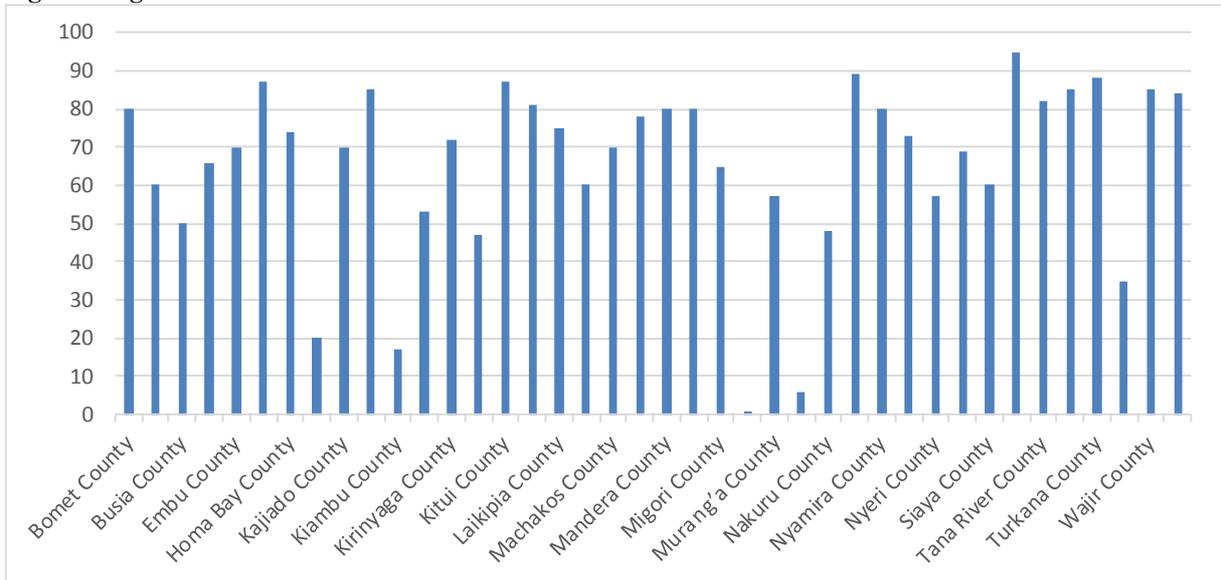
¹ The Summit is a constitutional organ comprising of the president and all the governors. The Summit is expected to ensure smooth coordination between the two levels of governments

Figure 1: National and Agricultural GDP Growth Rates



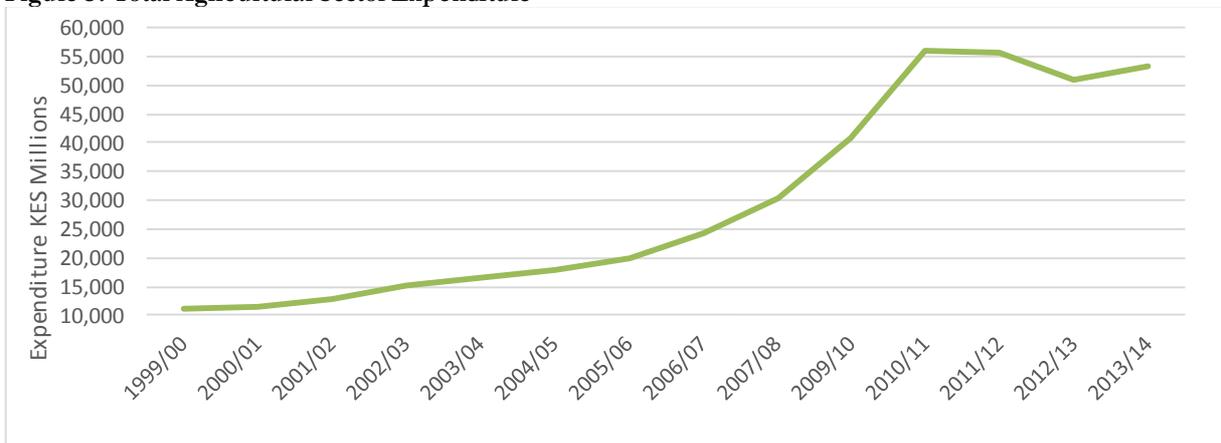
Source: Economic Surveys, KNBS (various editions)

Figure 2: Agriculture Sector contribution to Household Incomes



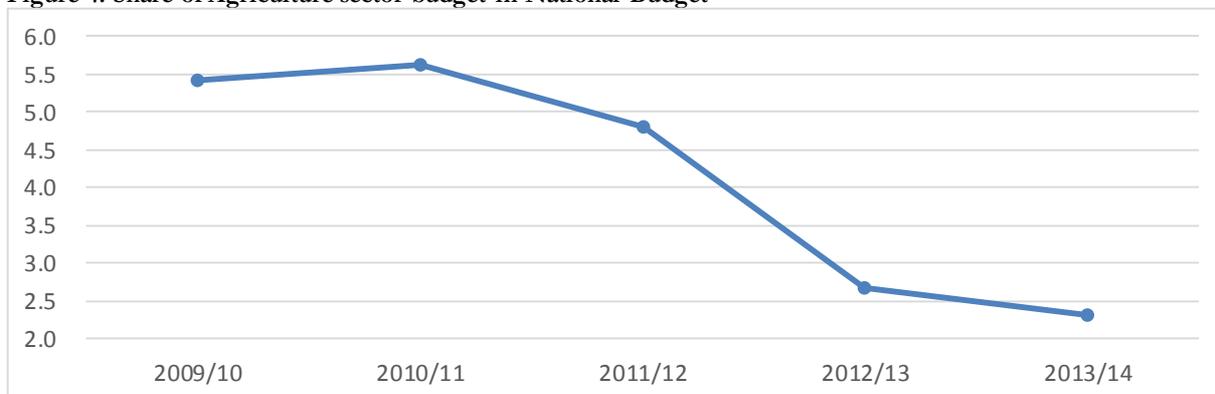
Source: County Profiles, Ministry of Devolution and Planning 2013

Figure 3: Total Agricultural Sector Expenditure



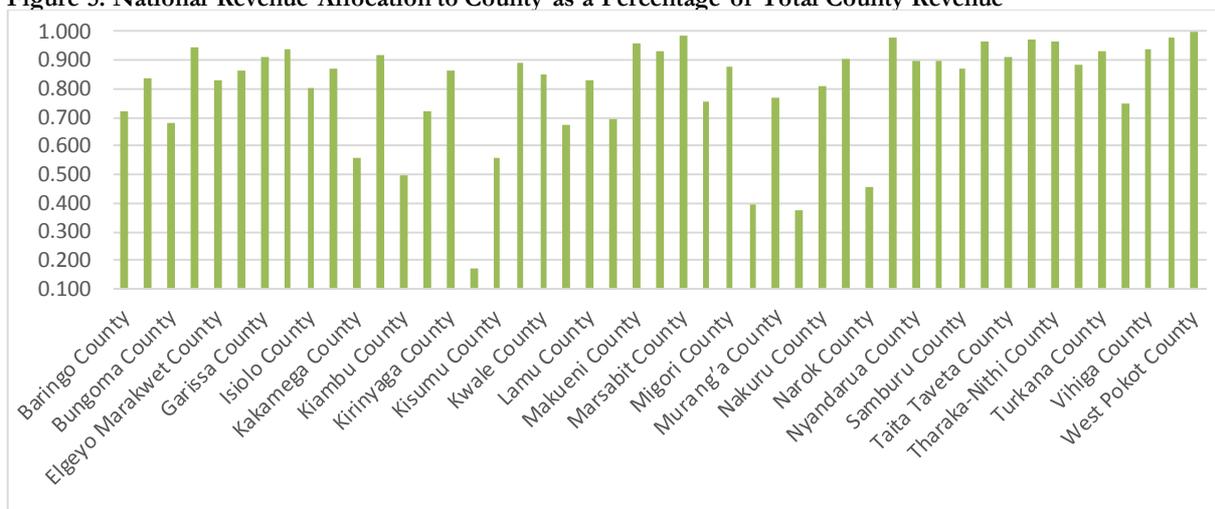
Source: Economic Surveys, KNBS (various editions)

Figure 4: Share of Agriculture sector budget in National Budget



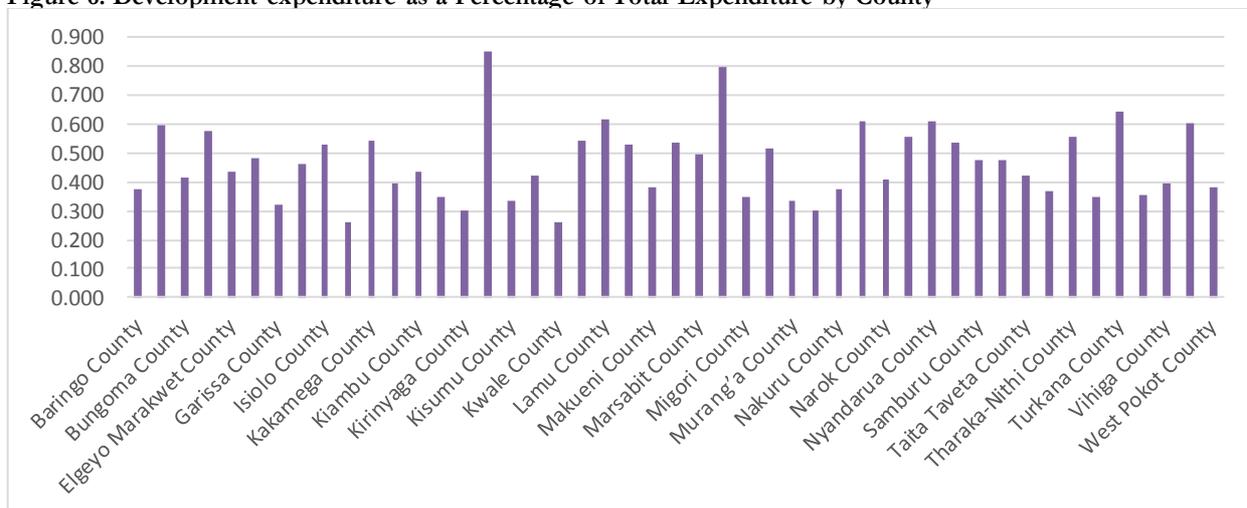
Source: Economic Surveys, KNBS (various editions)

Figure 5: National Revenue Allocation to County as a Percentage of Total County Revenue



Source: CRA, 2013

Figure 6: Development expenditure as a Percentage of Total Expenditure by County



Source: CRA, 2013

County Revenues

The counties receive an allocation from the national government in addition to the local revenue raised through several levies. The Commission on Revenue Allocation (CRA) has an agreed formula for dividing funds among counties from the total allocation.² Figure 5 shows that most counties rely on the allocation from the national government as their major source of revenue.

On average, national government allocation accounts for 80 per cent of county revenues with some counties relying on this allocation 100 per cent. Only four counties i.e., Nairobi, Mombasa, Narok and Kiambu relied on less than 50 per cent on national government transfers as a source of revenue in their first year budgets.

Allocation to development expenditure

In the 2011/12 financial year, the national government expended 42 per cent of the total budget on capital projects, while the

agricultural sector used 52 per cent of its allocation on capital projects. Conversely, county governments allocated an average of 46 per cent to development expenditure in the 2013/14 financial year. This is commendable given that only four out of 47 counties allocated their development expenditure at 30 per cent (minimum required under the Public Finance Management Act, 2012) or below. It is expected that this being the first year, many county governments will allocate higher proportions of their revenues on non-core expenditures for setting up institutions at the county level.

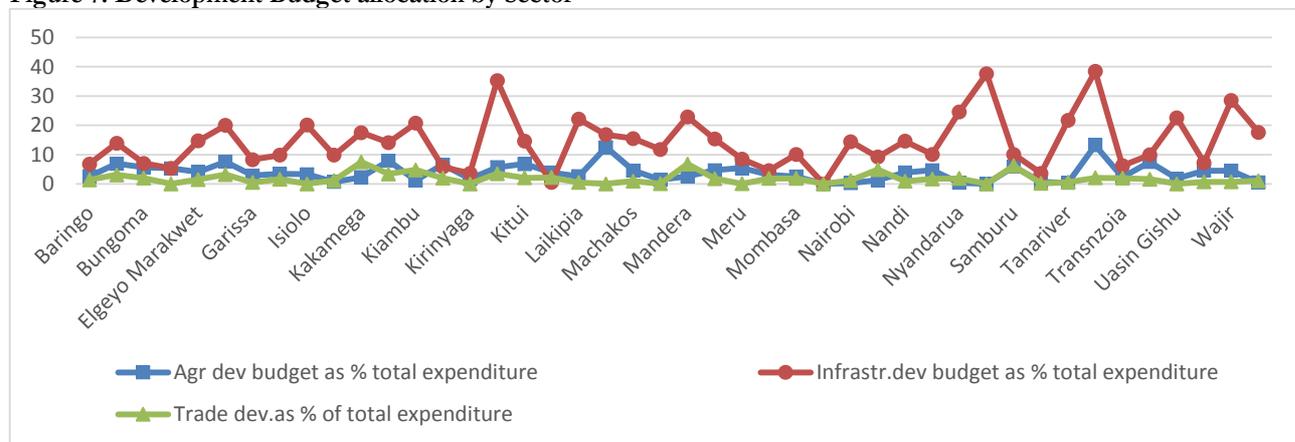
Agricultural Sector Funding by County Governments

Revitalizing the sector at the county level will start by optimizing production. There are a number of initiatives that were started by the ministries aimed at achieving this. Many of these programmes and projects now fall under the mandate of the county government. In the 2013/14 financial year,

county governments allocated a total of Ksh.11 billion as development expenditure for the sector. This was less than half of the Ksh.26 billion allocated to the sector in 2012/13 financial year before devolution.

Figure 7 shows allocation of development expenditure as a share of total expenditure for three key sectors at the county level. The average share of development expenditure to total expenditure by counties for the infrastructure sector was 14 per cent, compared to four and two per cent for the agriculture and trade sectors respectively. Thus, majority of the counties allocated a huge share of their development expenditure to infrastructure. This is not unexpected given that many of the roads in rural areas are in poor condition and are usually impassable during the rainy season.

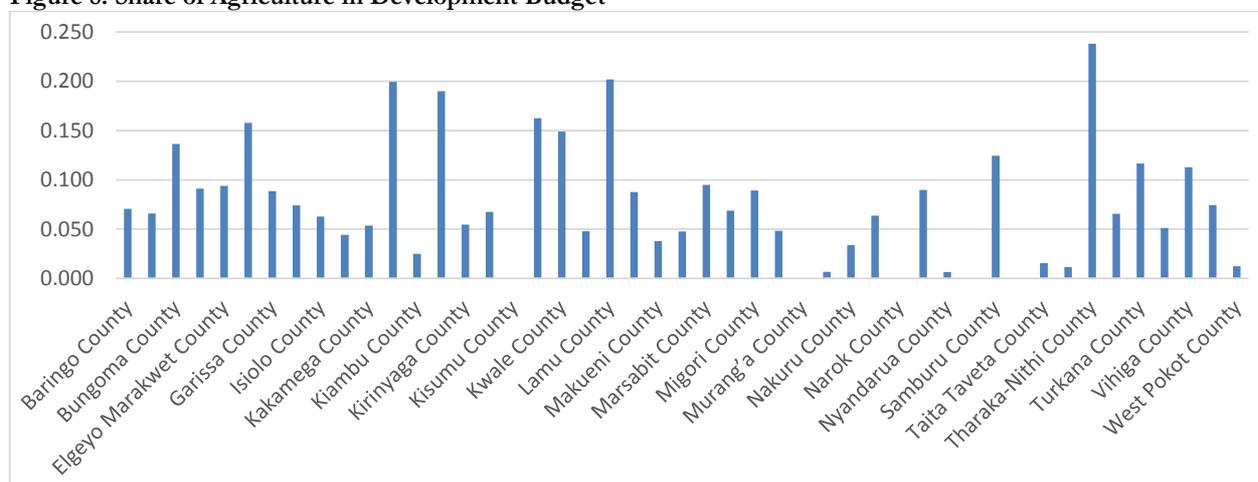
Figure 7: Development Budget allocation by Sector



Source: CRA, 2013

² From the revenue collected by the national government, the national government is allocated a maximum of 84.5 per cent, county governments a minimum of 15 per cent and the equalization fund is allocated 0.5 percent. The 47 county governments will share their allocation based on the following formula approved by parliament: Population 45%, Poverty Index 20%, Land Area 8%, Basic Equal Share 25%, and Fiscal Responsibility 2%.

Figure 8: Share of Agriculture in Development Budget



Source: CRA, 2013

In some counties, especially where major towns and cities are located, agriculture may not be an important source of incomes. We find that 11 counties had allocated a larger share of funding to trade than agriculture.

While it is justifiable to invest in key infrastructure and provide much needed public goods, a major concern is that the productive sectors are likely to remain underfunded by the counties. Figure 8 shows the share of agriculture development budget to the total development budget. The average share was 8 per cent, with 26 counties having a share below 8 per cent and only 11 counties with a share above 10 per cent.

In central Kenya for instance, Nyeri and Muranga Counties did not allocate any development expenditure to agriculture, while Nyandarua County allocated only one per cent. These counties rely heavily on agriculture, since it is the major economic activity (Figure 2), and we expected substantial budget to support the sector. This scenario is similar to what we find in a number of counties. The funding

levels to the agricultural sector are not consistent with its importance as a key source of incomes. This implies that either the agricultural sector is not a priority at the moment, or these counties expected that the national government will continue to fund the sector's capital projects in the counties. Possibly, these counties are also not fully aware of what they should budget for. For instance, confusion has reigned with regards to who should be in charge of the staff at the county level for ministries that were devolved. Some counties have embarked on recruitment drives for staff for departments in their mandates although no conclusion has been arrived at with regards to the staff who were working in the ministries. It is important to note that the national government has already transferred the payroll for staff whose departments' functions have been devolved.

Conclusion

The agricultural sector is one of the important sectors earmarked for development in order to achieve the Kenya Vision 2030. Indeed, the sector has been the leading contributor to GDP growth over the years. The

sector is expected to grow at an annual average rate of 6.5 per cent. In the current dispensation, the county governments have a significant role to play since many functions in the sector fall under their mandate.

While some counties allocated reasonable funding to the sector in 2013/14 year, we find that others did not allocate any funding to the sector despite the sector's importance in food security and employment creation.

Many counties allocated a significant proportion of their development budget to development of infrastructure. Usually, infrastructure projects are likely to be completed in the medium term. We, therefore, expect that this trend will continue. While development of infrastructure will benefit the agriculture sector by improving transportation and access to markets, there is a danger that ongoing programmes in the sector will be starved of funds.

At risk are on-going programs started by the ministries before the transition to devolved government. Underfunding exposes these projects to higher costs, delayed returns, and risk of being abandoned in the short run.

Implications

Underfunding of the sector is likely to have negative impacts on the growth momentum that the sector has experienced. Over the last five years, the sector has grown at an average rate of 0.98 per cent from -4 per cent in 2008 to 3.8 per cent in 2012, and is targeted to grow at a rate of 6.5 per cent for the next five years. Investing in increasing productivity, value addition and development of value chains will be important to achieve this. The counties will benefit from both direct and indirect economic opportunities arising from such investments.

Recommendations

Kenya is committed to allocating 10% of the annual budget to agricultural development through the Maputo declaration of 2003. Since the counties have a huge mandate in the agricultural sector, we recommend that the allocation to the sector be increased to at least 10 per cent (from 4 per cent) of the total budget. Since most counties rely on the national government allocation for their revenue, in the short run, there will be need for re-prioritization of these budgets through the revised budgets under the Medium Term Expenditure Framework.

There is need for a deeper analysis especially where the sector has

received little funding in order to understand the prioritization of issues in these counties, and what that means for the agriculture sector.

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Acknowledgements:

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