

**THE ROLE OF DEVOLUTION ON ECONOMIC DEVELOPMENT IN KENYA.  
A CASE OF NAKURU EAST SUB-COUNTY.**

**BY**

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**DECLARATION**

**Declaration by the candidate:**

This research project is my own work and it is not a duplication of similarly published work of any scholar for academic purpose nor has it been submitted to any other institution of higher learning for award of certificate, diploma or degree. I also declare that all materials cited in this study which are not my own have been duly acknowledged.

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**Declaration by the supervisor**

This research project has been submitted for examination with my approval as the university supervisor.

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## **DEDICATION**

To all my family members and friends for their encouragements

## **ACKNOWLEDGEMENT**

I acknowledge the help of all people without whose efforts it would have been impossible to accomplish this work. My God who is my Lord king and a friend for bringing me this far in life and for always finding reason to help me. I praise and exalt you. Secondly, I would like to thank my supervisor for his patience and willingness to assist me develop this research project.

**ABSTRACT:**

Kenya has devolved funds to grass root level with the aim of bringing services and development close to its citizens in view of vision 2030. However a report by the controller and Auditor General in Kenya gazette 2010 uncovered massive misappropriation of Constituency Development Funds in Constituencies. In spite of this, other constituencies were reported as posting remarkable performance. The purpose of this study was to examine the role of devolution on economic development. A descriptive survey design was used. A total of 98 respondents were selected through the census approach. A pre-tested semi-structured questionnaire and an interview schedule were used to collect data. Statistical techniques employed in data analysis included Frequencies and means and paired t-test. Results were considered significant at  $\alpha$ -level. The Projects financed by devolution funds are: roads, Bursaries, Health centers, schools and agriculture. Majority of the respondents reported that people participate in the CDF funded projects. Of these reported that the participation level is average. The difference between the mean score on the situation before and after the introduction of the CDF was statistically significant. The findings from the study show there was significant improvement in the situation after the introduction of devolution. In conclusion, the results of the study show that devolution plays an important role in social economic aspects of the lives of the locals and calls for policy makers to improve on management of the devolved funds.

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## **ABBREVIATION AND ACRONYMS**

CDF	- Constituency development fund
MDG	- Millennium development goals
LATF	-Local authority transfer fund
WSTF'S	-Water services' transfer fund
NGO'S	-Non government organizations
FD	-Fiscal decentralization
MNE'S	-Multinational enterprises
AIDS	-Acquired immune deficiency syndrome
NACC	-National Aids control council
CACC	-Constituency Aids control council
RMLF	-Roads maintenance levy fund
HIV	-Human immune deficiency virus
FD	-Fiscal decentralization
GDP	-Gross domestic product
FDI	-Fiscal devolution incentive

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 INTRODUCTION OF THE STUDY.**

The chapter describes the background of the study, statement of the problem, objectives, Research questions and significance of the study, the limitation and the delimitation of study.

#### **1.1 BACKGROUND**

Devolution means the transfer of powers from a higher or central order of government to a regional or local order of government. It occurs when a regional or a local government formally receives either broad powers over a specific territory or more limited powers over a specific jurisdiction. Dacks (1990) describes devolution as a type of administrative decentralization. In this case the governments devolve functions; they transfer powers for decision making, finance and management to independent units of local government with corporate status. Devolution transfers responsibility for services provision to municipalities that elect their own leaders. The author notes that the concept of devolution has its basis in precepts of democracy and self determination. The first principle is pegged on the premise that the large governments cannot make suitable policies or provide effective services to distant communities with special climates, geographical, economic systems and cultures.

He asserts that only governments closer to the people can make and supply better services. The principle of self determination holds that culturally and regionally distinct communities must have a degree of control over those economic, political and social

institutions that impact on their way of living. According to the author devolution is seen as having cultural, economic and political dimension. This looks at demand for devolution in two ways. That is; cultural and economic dimension. Cultural dimension focuses on control over jurisdictions such as social program, education and language. On the other hand economic focuses on control over land, resources and economic development. To be successful, devolution demands political developments that will create capacity of the region to handle the transfer of powers.

Political leaders play the role of articulating demands, as well as negotiating the transfer of powers with the higher order of government. Advocates of devolution consider it to be the best way of increasing the efficiency of public expenditure. According to Putman (1993) Pro-devolution arguments indicate that inter-territorial competition can generate efficiency and innovation. Moreover they say devolution will enhance the combination of greater political participation, transparency and accountability, resulting in economically advantageous institutions. The net effect of this will be creative ways of addressing the national's welfare.

Putman (1993) argues that devolution will lead to worse career opportunities and salaries. Also local governments will be more easily swayed by locally powerful entities after devolution leading to possibility of corruption. Devolution may promote regressive effect at sub-national level because of high administrative and competition costs. The process of devolution is seen as being made up of three separate factors: legitimacy, the decentralization of resources and the decentralization of authority. He notes that any form of devolution implies some degree of sub national legitimacy and some form of

decentralization of authority and resources. In striving to achieve its fiscal and macro-economic policies of employment, equitable distribution of resources, economic growth and others; the Government of Kenya has established various devolved funds each addressing a specific objective. The devolved funds has been viewed as a key strategic driver of socio-economic development and regeneration within Kenya. It is a development initiative targeted at the constituencies by devolving resources to the regions to meet social economic objectives which have previously been managed from the centre.

The key objectives of the fund are to fund projects with immediate social and economic impact with a view to improving lives, alleviate poverty and general development purposes. It supports local development projects, especially those aimed at alleviating poverty and developing infrastructure at grass roots level. It targets community-based development projects as a criterion and whose benefits are enjoyed by all as well as projects relating to set up and equipping constituency project offices. In this way the fund seeks to control imbalances in the regional development, improve pro-poor targets, expand coverage and improve development outcomes by eliciting local people's participation in decision making.

## **1.2 STATEMENT OF THE PROBLEM**

Efficient delivery of public services in Africa and other developing regions has for a long time been hindered by highly centralized government bureaucracies (Mwabu et al., 2001). In Kenya, several efforts have been made to reduce unnecessary layers of government to make service provision to the populace more effective. This is because

devolvement of funds and governance to the locals is fundamental for both social and economic development of any given nation of the world. This aims at enhancing democracy through the participation of citizens by identifying problems that affect them directly and find ways of solving them to improve their wellbeing and also spearhead the operations of the government. Despite the government of Kenya's endeavor to devolve funds to the grassroots, still the economic welfare of the people is still low. Additionally, the report by the controller and Auditor General in Kenya gazette 2010 uncovered massive misappropriation of Constituency Development Funds in some Constituencies. This study therefore sought to examine the effect of devolved funding on the socio-economic welfare of constituents of Nakuru East Kenya.

### **1.3 RESEARCH OBJECTIVES**

#### **1.3.1 General Objective**

The specific objective were to examine role of devolution on economic development

#### **1.3.2 Specific objective**

1. To identify the projects funded by the devolved funds in Nakuru East Subcounty
2. To examine the level of participation by the people in the projects funded by the development funds in Nakuru East Sub-county
3. To evaluate the effects of devolved funding on role of devolution on economic development of the people of Nakuru East Sub-county.

### **1.4 RESEARCH QUESTIONS**

1. What are the projects funded by the devolved funds in Nakuru East Sub-county?

2. What are the level of participation by the people in the projects funded by the devolved funds in Nakuru East Sub-county ?

3. What are the effects of devolved funding on economic development of the people of Nakuru East Sub county?

### **1.5 SIGNIFICANCE OF THE STUDY**

The study is significant to the field of devolution in that it builds upon the available body of knowledge relating to role of devolution on economic development There have been several studies that look at the relationship between devolution and economic development. The present study focuses on a geographically unique county system with unique characteristics and challenges. The county system has experienced and continues to experience enormous devolution challenges. This study will go a long way to help county officers on ways to enhance their devolution behaviour. The outcome of the study will help stakeholders such as residents, Ministry of devolution among others; understand the role of devolution on economic development.

### **1.6 SCOPE OF THE STUDY**

The study was conducted to determine the role of devolution to the development of economy. It is a field study which collects research data on role of devolution only and will not cover other issues. The study relates to role of devolution and its impact to the economical development.

### **1.6 LIMITATION OF THE STUDY**

The research study was carried out in Nakuru County where daily activities of handling clients are carried out on day-to-day basis. It was difficult to reach some of the



respondents who were busy at work. It was also difficult for some county official to fill questionnaires since they were out of the office on official duties.

### **1.7 DELIMITATIONS OF THE STUDY**

The study focused on Role of Devolution on Economic Development. It covered Nakuru East Sub-county constituency which according to 2009 national census report has 61486 households and 320300 people. The study was delimited to the devolved funds and assessed the welfare of the constituency members before and after the introduction of devolved funds.

### **1.8 ASSUMPTION OF THE STUDY.**

The study was based on the following assumption; There was maximum cooperation from the respondents who gave detailed, accurate and unbiased responses to all the researcher questions.

### **1.9 ETHICAL ISSUES**

Data obtained from the study were treated as confidential as possible to safeguard the respondents from abuse. The respondents were recruited into the study on voluntary basis and will be at liberty to leave the study at any time if they wish to.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 INTRODUCTION**

This chapter is devoted to the literature review on role of devolution to the economical development; the study reviewed related literature such as those which impinged on the research problem, definition and concepts of devolution. Literature review of this study provides a foundation upon which a research is built to confirm, compliment, counter or establish any new trends that possibly might have emerged. This research proceeds accordingly to review literature that is relevant to the research topic

#### **2.2 EMPIRICAL LITERATURE**

##### **2.2.1 Arguments for devolution**

Klugman (1994) argues that advocates of decentralization from economic and political schools of thought attribute their support for a greater transfer of authority towards sub national tiers of government to their negative perception of the capacity of central governments to deliver public services efficiently. Economic efficiency through devolution are founded on Musgrave's, (1959) contention that lower levels of government have a greater capacity to tailor policies and the provision of services to the preferences of the population, thereby maximizing individual and collective welfare and making the supply of public goods and services more efficient. This tenet is, based on assumptions that individual preferences for public goods differ, and that individuals chose to live in a place that best corresponds with their preferences. Oates, (1972) observes that there are different forms of devolution that arise from different legitimacy

distributions and that advantages of devolution tend to be more developed than the drawbacks. Whether devolution is driven mostly by national or a sub national government, each potential driver has an inherent interest in defending their policies to the electorate and bolstering their legitimacy and popularity. The most common supporting arguments for devolutionary policies draw upon the efficiency advantages that lower level governance can engender. Given that the population in any country has a diverse preference structure, which varies across geographical space, this efficiency has three major sources, the themes of which recur time and again (Oates, 1972).

First, a smaller democratic and financial base has resulted in a managerial reform that would lead to a heightened degree of accountability, bolstered by the reduced administrative distance between the electorate and the politicians (Bennett, 1990).

Second, the lack of diluting influences brought about by responsibilities for alternative, diverse regions tends to allow local governments the flexibility to respond to the preferences of their electorates (Bennett, 1990).

Also the local nature of governance implies a greater chance of local politicians with the specialist knowledge necessary to detect and react to the wishes of the electorate and defend their interests at higher levels (Putnam, 1993), as well as the capacity to implement policy innovations that would have been more difficult to pursue at the central or federal level (Bennett, 1990). The basic conceptual argument of devolutionists therefore acknowledges these three factors as acting to both ensure and allow local governments to be more representative of and responsive to the interests of a given locality or region.

### **2.2.2 Devolution and fiscal inequalities**

There are two forms of the fiscal inequalities engendered by devolution: static and dynamic forms. From a static point of view, devolution focuses on the autonomy of regions, different regions are obtaining diverse tax bases and welfare responsibilities. The initial reduction of fiscal transfers is likely to make actual government spending at sub-national levels regressive. Such kind of system may have the advantage of greater incentive to put in place an effective tax system at regional levels supported by the advocates of devolution. However, a lower fiscal base in poorer regions with lower regional budgets and lower capacity to implement public policies may lead to territorially regressive system, as a result of falling further behind other regions, in other words, promoting regional inequalities.

From dynamic point of view, the shift of disproportionate negotiating power from central government to the sub-national government located in richer and more populated regions, since rich regions matter more to the economy, furthermore, they carry the greatest threats to its own political legitimacy. In this case, rich places will become richer and poor become poorer, it will definitely result in polarization. This hypothesis has been supported by a number of case-study countries, such as the USA, Argentina and China. Prud'homme R (1995), the critique of fiscal federalism theory concludes that a loss of national redistribution of wealth due to decentralization will cause greater localization of wealth, greater disparity between rich and poor regions, and the loss of capacity of the national government to influence the market to soften times of crisis. According to the author the last three decades have witnessed increasing

global trend for the transfer of power and resources from central government to sub-national government, as well as the rising inequalities, devolution and regional disparities. Also, as suggested by Thiessen (2001), there are significant arguments cautioning against fiscal decentralization, based on the key point that devolution can reinforce regional inequalities, which may hinder economic growth. Based on the empirical evidence from 12 European Union countries with a two-way fixed effects panel data model, Ezcurra & Pascual suggest that there is a negative correlation between fiscal decentralization and the level of regional inequality, since devolution of fiscal power from central government to regional and local government may generate a more balanced distribution of resources across regions.

Such kind of argument has also been supported by Oates (1994) that fiscal decentralization contributes to economic development and eventually results in the reduction of regional disparities. Peterson (1995), asserts that because of the mobility of labor and capital, states are in greater competition with each other than ever before, causing them to focus more on economic development and less on social welfare.

Therefore, welfare should remain the responsibility of the federal government, even as other basic governmental programs are devolved. He discusses the roles of local, state and federal government in the provision of two types of public policies, developmental and redistributive. He points to recent history to argue that state and local governments should fund the development necessary to sustain economic growth, but that federal government should provide redistribution necessary to compensate those that do not benefit from the growth.

### **2.2.3 Prerequisites for effective devolution**

According to Warner's, (2003) Successful decentralization requires administrative and financial capacity and effective citizen participation, but many rural governments lack an adequate revenue base or sufficient professional management capacity. Rural residents have relied more on private markets than government for many services; however, rural areas have also suffered from under development due in part to uneven markets. Afzar *et al.* (1999); argues that in cases of limited local accountability or weak civil society, local officials who have greater discretion and opportunity in a devolved system may be subservient to the needs of local elites particularly when under direct pressure.

Donahue, (1997), argues that decentralization is not, in fact, the solution to America's governance problems. There is little evidence that the public sector will be more efficient at the state level than it is the federal level. Instead, America should focus on the challenges of mitigating cynicism in government on the public's part and narrowing the gap between the benefits expected from government and citizen willingness to endure taxation.

Adekanye (2007); argues that the theory of power-sharing is that body of ideas about a particular set of strategies for regulating conflicts and art of governance on badly divided societies. To Lijphart (cited in Adekanye, 2007), power-sharing, otherwise known as, consociation democracy has four basic characteristics. These are: Executive-power sharing among representatives of all significant groups; a high degree of internal

autonomy for groups that wish to have it; Proportional representation and proportional allocation of civil service positions and public funds.

#### **2.2.4 Citizen participation and devolution**

Citizen participation in devolved system involves the redistribution of power that enables citizens presently excluded from political and economic processes to be deliberately included in the future, and to influence the process of formulation, passage and implementation of public policies. Such individual and collective participation can have various dimensions such as voting, running for public offices, consultation or public hearings (Conge, 1988, Gaventa and, vunderama 1999, arnstein, 1969).

In light of this, local governance system providing for meaningful citizen participation can be described as one promoting inclusive processes, that allows citizens to effectively influence decision making, including the power to hold decision makers accountable, in fields relevant to their lives. A research carried out in Lesotho asserts that the extent to which Basotho will own and drive the process of local governance will determine its success (molgics, 2003).

In order to enhance the proper functioning of local authorities, the crucial aspect was to link them effectively with the communities at the village level (Gol, 2004) This participation can be done through: decision making power, accountability and inclusiveness. Decision making power-citizen participation in political and legislation process is only meaningful if citizens can effectively influence decision making. This means that it is not only important to promote the citizen voice, but the citizen voice must also be heard Crook, (2003). Accountability mechanisms are important in order to

fight clienteles, a policy making that is based on the reciprocation of benefits (Lakina 2008) In Lesotho, first and foremost clientelism is said to take the form of deeply entrenched party politics. Inclusiveness-Lesotho's population is ethnically and linguistically very homogenous; 98% are Lesotho speaking Basotho with very few amaxhosa in the south west province, 2008). Although made up of several tribes, Basotho seems to define themselves in national terms. Living conditions and political influence are similar across all ethnic groups thus marginalization does not relate to ethnicity; it relate to gender, age and economic conditions, Afro barometer (2005).

### **2.3 THE ROLE OF DEVOLUTION IN KENYA**

According to Centre for governance and development report (2007), these funds include: Women Enterprise Fund, Youth enterprise fund, Constituency bursary fund, Poverty eradication fund, The Water Services Trust Fund, Road Maintenance Levy Fund , and Constituency HIV/AIDS FUND, The national development fund for persons with disability and Constituency development fund. The Women Enterprise Fund was conceived in December 2006 by the Government as part of its commitment to one of the Millennium Development Goals on gender equality and women empowerment. The Fund provides affordable credit to support women expand or start new businesses for wealth and employment creation.

The Kenya youth enterprise fund was started in 2006 as part of the government aim to help the youth to start small businesses and hence be financially independent. This is to address the problem of unemployment which some economists have identified as menace of a ticking time bomb. There are hundreds of thousands of young Kenyans that



are graduating from the country's high schools and universities but the job opportunities have been decreasing. Starting small businesses is one sure way to create wealth and provide jobs for other youth. However, it really remains to be seen whether the fund has achieved its intended objectives. Local transfer fund was established in 1999 through the LATF Act No. 8 of 1998. LATF at the local level is managed by the local authorities i.e. County Council, Municipal Council, Town Councils.

The Councils must ensure that they involve the citizens in identifying projects, their management, monitoring and evaluation. Objectives of the fund include improving service delivery, improving financial management and accountability and reducing the outstanding debt of local authorities. Constituency bursary fund targets children from poor households, children from arid and semi-arid areas, children affected by HIV/AIDS and orphans.

Five per cent of the allocation is set aside for the girl child and other children under special or difficult circumstances. The objectives of the Bursary Fund are: To increase access to secondary schools education; Ensure students remain in secondary schools; Promote transition and completion; and reduce disparities and inequality in the provision of secondary school education.

Poverty eradication fund was established in 1999 in response to the UN World Summit on Social Development held at Copenhagen, where the world committed herself to reduce global poverty by 2015. The fund is administered by the Poverty Eradication Commission (PEC) with members drawn from private sector, NGOs, religious organizations and government. Objectives of the Fund are: Provide and promote access

to affordable credit by the poor, Strengthen existing alternative credit among the poor communities, encourage the poor to save and promote innovative approaches to provision of basic social services. According to the Trust Deed, WSTF's mandate incorporate supporting capacity building activities and initiatives that aim at enabling communities to plan, implement, manage, operate and sustain water services-by creating awareness and disseminating information regarding community management of water services, and encouraging their active participation in implementation and management.

Road Maintenance Levy Fund (RMLF) is specially provided for the management of the entire road network in all parts of the country. The fund was established in 1993 by an Act of Parliament i.e. Road Maintenance Levy Fund Act; 1993, in which proceeds from fuel levy are generated and paid into Kenya Roads Board Fund. The Constituencies Development Fund was established through the CDF Act, 2003 as a publicly funded kitty that targets development projects at the grassroots level. The fund was established as a devolved fund with the aim of funding community based projects.

This was meant to ensure that the prospective benefits are available to wide spread cross-section of the inhabitants of particular area. Some of these projects include: funding school fees, building schools, Dispensaries, Local bridges, police camps, youth's projects among others.CDF is one of the several devolved funds set up by the Government to mitigate poverty and to harmonize the spread of development throughout the country. Ksh 70,956,300,000 has been allocated to CDF since its inception. The onus of disbursing and ensuring constituencies' use their share of the

money efficiently and accountably falls with the CDF Board pursuant to CDF (Amendment) Act 2007 Act Section 5 that established the Board to replace the National Management Committee.

### **2.3.1 Devolution's impact on economic development**

Brazil has a long history of federalism going back to the nineteenth century, when a federal republic was established in 1889. Since then, devolutionary trends in Brazil have largely followed political cycles, with authoritarian spells favoring a greater centralization of power and democratization being closely associated with devolution (Rodriguez – Pose and Arbix, 2001). Thus, the return to democracy with the Constitution of 1988 following a military regime marked a great increase in the political influence and fiscal autonomy of state and municipal governments (Rodriguez – Pose and Gill, 2004). The trend was accompanied by a high growth in the share of federal tax transfers to sub – national governments, which climbed from 18 percent to 44 percent from 1980 to 1990 (Serra and Afonso 1999, p.5).

Brazil is one of the most decentralized democracies in the developing world, with sub – national governments accounting for about half of public expenditure (Dillinger and Webb 1999; p.1). The country consists of 26 states and the Federal District of Brasilia, which are represented in the Chamber of Deputies based on population and in the Senate on an equal basis of three senators per state. Brazilian states are responsible for a wide and expanding range of taxation, expenditure and investment functions, and are the only known sub – national units along the Canadian provinces to administer their own value – added tax, called the ICMS (Rodden, 2003).

The following plot rudimentarily indicates a slightly negative relationship between Brazil's devolutionary trend and economic growth). However, due to the large number of factors affecting both of these variables, no conclusion can be drawn from this simple representation but in - depth case – study analysis of different ways in which devolution has affected Brazil's economic development entails the following as part of this paper to give detailed overview.

## **2.4 RESEARCH GAPS**

Studies have established that local governments have become the centres for devolution in the world as has been confirmed by various reports like the ADB, 2003 in Kenya and other African countries. Though many studies have been carried out on devolution no study has been carried out to establish how devolved funding is affecting the overall social economic welfare of the target groups particularly in Kenya. Klugman (1994) argues that advocates of decentralization from economic and political schools of thought attribute their support for a greater transfer of authority towards sub national tiers of government to their negative perception of the capacity of central governments to deliver public services efficiently. However, in his argument, Klugman has not shown how efficiency emanating from the transfer of authority to sub national tiers of government has lead to the improvement of citizen welfare. In his view, Warner's, (2003) points that Successful decentralization requires administrative and financial capacity and effective citizen participation, but many rural governments lack an adequate revenue base or sufficient professional management capacity. In his argument, Warner's fail to cite any case where strong administrative, financial capacity and

effective citizen participation has led to improvement in socio-economic welfare of citizens enjoying devolved services. Segatti (1992); observes that the Northern Italian Leagues were the first to heavily base their devolutionary claims on economic demands, after their relative failure to gain visibility by using traditional ethnic or linguistic arguments; Nationalist and regionalist parties in Spain have increasingly resorted to similar arguments, as indeed have the Zapatistas in Chiapas. This devolutionary trend though making economic sense has not explained how their citizens have benefited from it in terms of social economic welfare improvement. It is this gap that motivated this research to establish how devolved funding is impacting on the social economic welfare of Kenyans and recommend on measures to be taken to improve on the performance of devolved funding. This will reinforce the role of local authorities as nucleus of development as spelled in the objectives of various devolved funds.

## **2. 5 THEORETICAL FRAMEWORK**

Regional devolution is a complex and heterogeneous process. From the high level of decentralization of certain federal states, such as Germany, and of some Spanish regions, to the more limited influence of regions in France, for example or, until recently, Mexico, decentralization processes across the world have adopted a wide variety of forms. Consequently, conceptualizing devolution is far from simple. Looking for a minimum common denominator, Donahue (1997, p 7 – 15) characterizes the process as being made up of three separate factors: legitimacy, the decentralization of resources and the decentralization of authority. Any form of devolution implies some

degree of sub - national legitimacy and some form of decentralization of authority and resources; consequently, any analysis of devolution should consider these three factors. There is, however, a need for caution in examining evidence, because a simple list based approach may overlook the interaction between the elements. The complexity of the devolution process derives from the interest – conflicts of the various actors involved, and the differences in legitimacy that they share. Most importantly, the interests of sub – national and national governments tend to be at odds across the component factors of devolution. While national governments would, *ceteris paribus*, devolve responsibilities (authority) to their regional or state governments, with as few accompanying resources as possible, the sub – national governments would prefer the opposite case. The balance between these two extremes will depend upon the relative strength or, in political terms, of the two tiers of government Donahue (1997, p 12). The following figure depicts this approach. Beginning at the bottom of the diagram, the legitimacy of sub – national and national governments is determined for the most part by the processes of history and respective political support. Of the former, culture, language, and religion have traditionally been the factors behind a strong regional identity and determine the legitimacy of sub – national claims. Economic development has also recently been added to the list (Keating, 1998; Allmendinger and Tewdwr – Jones, 2000). Of the latter, the inclusion of legitimacy into the analysis brings into play a wealth of political factors that shape the power and margin of man oeuvre of governmental tiers.

An important caveat here, however, is that a reasonably effective political and democratic system is in place to facilitate the influence of the electorate. This being the case, and all other things equal, poor political support for the regional cause would translate into a relatively weak regional legitimacy and therefore tend 'to promote a devolutionary process in which the central government holds the upper hand, favoring progressive decentralization of responsibilities and often forcing regional and local governments to undertake increasing expenditure responsibilities on a static, and often narrowing, financial base' (Bennett, 1997, p 330). In contrast, a strong regional legitimacy, underpinned by high political support for the regional lobby, would favor a more rapid decentralization of resources from the centre, since there would be strong demand for transfers to sub – national tiers of government.

In general, the combination of historical and political factors in democratic countries shapes the legitimacy of governmental tiers, the relative strength of their respective lobbies, and hence the forms which devolution initiatives are likely to assume. In non – democratic systems, however, the influence of the electorate is compromised, and the factors, which are less transparent, take on more importance in the determination of the legitimacy of government tiers.

In general, an understanding of the interaction between legitimacy and the transfer of resources and authority is imperative to the examination of devolutionary trends (Donahue, 1997). A case that depicts strong decentralization of resources displays no more evidence for devolution than one showing strong decentralization of responsibilities. It merely indicates a different type of devolution, driven by different

levels of government and deriving, ultimately, from a different allocation of legitimacy across governmental tiers.

Moreover, following from this, we should not necessarily expect cases to depict high levels of both resource and responsibility devolution, since forces are often operative to promote their mutual exclusivity. It is with this conceptualization in mind that impact of devolution on economic development potentialities in Kenya is analyzed.

**Stakeholders' theory.**

According to Werhane (1998), the theory requires managers to articulate the shared sense of the value they create, and what brings its core stakeholders together. It also pushes managers to be clear about how they want to do business, specifically what kinds of relationships they want and need to create with their stakeholders to deliver on their purpose. Stakeholder theory is Managerial because it reflects and directs how managers operate rather than primarily addressing management theorists and economists. If devolved funding is to impact positively on the social economic welfare of the targeted people, the managers of the funds must articulate how to serve them and focus on delivering the purpose of these funds. This starts by identifying the CDF stakeholders who will guide in selection of projects which align with the needs of various stakeholders. To deliver on their purpose, the devolved funds management should understand the impact they are creating to these stakeholders, compare this with the pre-determined goals of the fund and identify any service gap for corrective action. Through this the efficacy of the fund will easily be achieved.



## **Agency theory**

According to Rees (1985), the theory focuses on the relationship between principals and agents who exercise authority on behalf of organisations. This theory is of the view that principals must solve two basic tasks in choosing and controlling their agents: first, they have to select the best agents and create inducements for them to behave as desired. Second, they have to monitor the behaviour of their agents to ensure that they are performing as agreed (Ayee, 2005). A problem arises when the parties' goals conflict or when it is difficult or expensive for the principal to verify what the agent is actually doing. In this case Information asymmetry introduces an issue of adverse selection and a moral hazard problem. In devolution of funds the principal-agency relationship exists, the national government being the principal and the devolved funds management committees and staffs being the agents. If the relationship between the two parties is not well checked, then the problems associated with the agency theory, like the information asymmetries are bound to occur thus limiting the impact of the fund. Critical to this is conflict of interest. While the government may want to create projects that will improve the lives of the target groups, the CDF management may initiate populist projects to show the public they are working. Ultimately these projects fail to address the purpose of their establishment for failing to align with the needs of the target community. Thus the need to continuously monitor the effects of the projects initiated on the welfare of the constituency community.

## **Contract theory**

According to Tirole J. (2006), the theory focuses on the need for communication between an agent and a principal, so that there is a clear understanding of both the needs of the principal and the ability of the agent to meet those needs in a competent manner. Once this state is established, contract theory is then employed to ensure that the agent receives adequate rewards for his or her efforts. Contract theory is also interwoven with the concept of moral hazard. Essentially, both the agent and the principal are exhibiting a certain degree of trust. The agent, or prospective employee, trusts that the working conditions, rate of pay, job responsibilities, and additional benefits are as presented by the employer. In turn, the employer or principal is trusting that the credentials presented by the agent are valid and sufficiently complete to merit the creation of a contract of employment. When all economic actors in the process function with a high level of competency, the resulting arrangement is likely to be mutually satisfying.

In case of devolved funding, the actors are the national government and other stakeholders entrusted with the management of devolved funds. In defining devolution structures, competencies of staffs should be considered if positive rewards are to be achieved from devolved funds. Also, after setting the goals of the fund, communication between these actors on performance of the devolved fund is important for corrective action. The feedback on the competence of the agents to discharge their duties necessitates continuous training of CDF staffs to improve on their capacities to meet new demands of an evolving society.

## 2.6 CONCEPTUAL FRAMEWORK

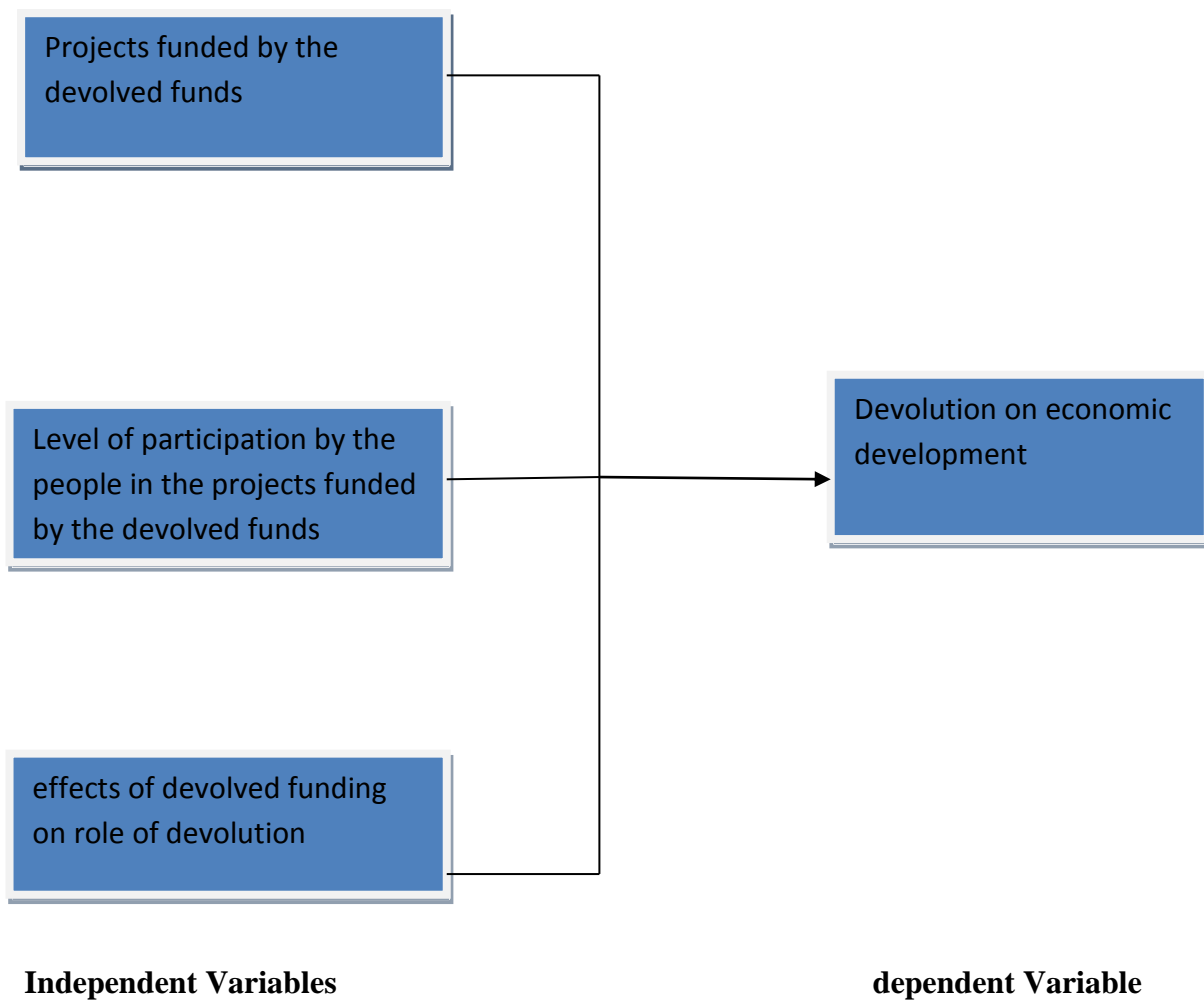


Fig.2.1 Conceptual Framework

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 INTRODUCTION**

This chapter presents the following subsections, the research design, target population, sample size and sampling procedures, research instruments, data collection procedures and data analysis.

#### **3.1 RESEARCH DESIGN**

The study adopted a descriptive research design. Descriptive design is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals (Orodho, 2009). It can be used when collecting information about people's attitudes, opinions, habits or any of the variety of social issues (Orodho and Kombo, 2002). Borg and Gall (1985), noted that descriptive research is intended to produce statistical information about aspects of education that interests policy makers and educators. Survey research designs allow researchers to gather information, summarize, present and interpret for the purpose of clarification (Orodho, 2002). It utilizes both the quantitative and qualitative approaches. The questionnaires was used to access qualitative data. In this way, verification, deeper explanation and appropriation of findings of the survey was sought for the sake of accuracy in interpretation of data (Kerlinger and Lee, 2000).

### **3.3 SCOPE OF THE STUDY**

The study was carried out within the, Nakuru East Sub-county Nakuru County. The county is one among the 47 counties developed under the new constitution.

### **3.4 TARGET POPULATION**

Orodho (2009), states the target population, are all members of a real or hypothetical set of people, events or objects to which the researcher wishes to organize the results of the study. In this study, the target population consisted of 120 residents from Nakuru East Sub- County.

### **3.5 SAMPLE AND SAMPLING TECHNIQUES**

Kimutai (1995), gives the meaning of sampling as selecting a given number of persons from a defined population in such a way that the sample selected is representative of that population. Systematic sampling technique was used to select 36 employees and residents to be included in the study. Simple random sampling enhances an equal and independent chance of being selected as a member of the sample. Simple random sampling yields research data that can be generalized to a larger population within margins of error that can be determined statistically (Orodho, 2009).

### **3.6 RESEARCH INSTRUMENTS**

To carry out the research, questionnaires and interview schedules was used. The questionnaires were filled by the residents. The questionnaire allowed measurement for

or against a particular view point. A questionnaire has the ability to collect a large amount of information in reasonably quick space of time. Through use of questionnaires, information was collected from a large number of people and the questions can be easily analyzed, and it allows anonymity (Orodho, 2009). Interview schedule was used to collect information from County officers on urban growth policies and its effects on devolution. The questionnaires consisted of closed-ended questions with a few open-ended questions.

### 3.7 RELIABILITY OF RESEARCH INSTRUMENTS

Orodho (2009) defines reliability as a measure of the degree to which a research instrument yields consistent results or data after repeated trials. The stability of questions was assessed in terms of test-retest reliability. The questionnaire will be administered twice to the same group of respondents. The following formula was used:

$$r = \frac{N\Sigma XY - (\Sigma X)(\Sigma Y)}{\sqrt{[N\Sigma X^2 - (\Sigma X)^2][N\Sigma Y^2 - (\Sigma Y)^2]}}$$

In this formula,

$N$  is the total number of pairs of respondents. For example, 36 respondents took the test and retest, then  $N$  is 36.

$XY$  means to multiply  $X$  by  $Y$ , where  $X$  and  $Y$  are the test and retest scores received by the same respondents. The Greek symbol *Sigma* means 'the sum of'. So *Sigma* $XY$  means to sum all the pairs of test scores ( $X$ ) multiplied by retest scores ( $Y$ ). If 36 respondents

took the test and retest, then we would sum all 36 pairs of test scores ( $X$ ) multiplied by retest scores ( $Y$ ).

### **3.8 PILOTING**

Piloting was done in two other county areas that were not included in the study. The sample was drawn from the county areas which did not take part in the study. The piloting ensured that the research instruments do not have potential misunderstanding. It was also used to identify problems respondents would encounter when filling the questionnaires.

### **3.10 DATA COLLECTION PROCEDURE**

The study sought an approval from the college to undertake the study. Consent was sought from individual respondents and county management was included in the study. The respondents were be guided through the questionnaire.

### **3.12 DATA ANALYSIS AND PRESENTATION**

Data collected were analyzed using descriptive statistics methods. Data collected through the questionnaires were analyzed according to emerging patterns or opinions derived through statistics using Statistical programme for Social Science (SPSS) version 20. Data were organized in frequency distribution tables as well as measures of dispersion such a standard deviation.

## **CHAPTER FOUR**

### **PRESENTATION, INTERPRETATION AND DISCUSSION OF FINDINGS**

#### **4.1 INTRODUCTION**

This chapter presents the data collected and their analyses. The percentage index technique was used to analyze the research objectives. The technique helped the researcher to assess respondents' knowledge of role of devolution to the economy of Nakuru County.

#### **4.2 RESPONSE RATES**

The study used a sample size of sixty respondents from the case institution. These respondents were drawn from various departments in the Nakuru County government headquarters. The respondents identified key areas supported as bridges and roads 14(14.2%), while the least supported projects are youth programs, administrative offices and police cells with as low as 1(1.0%).

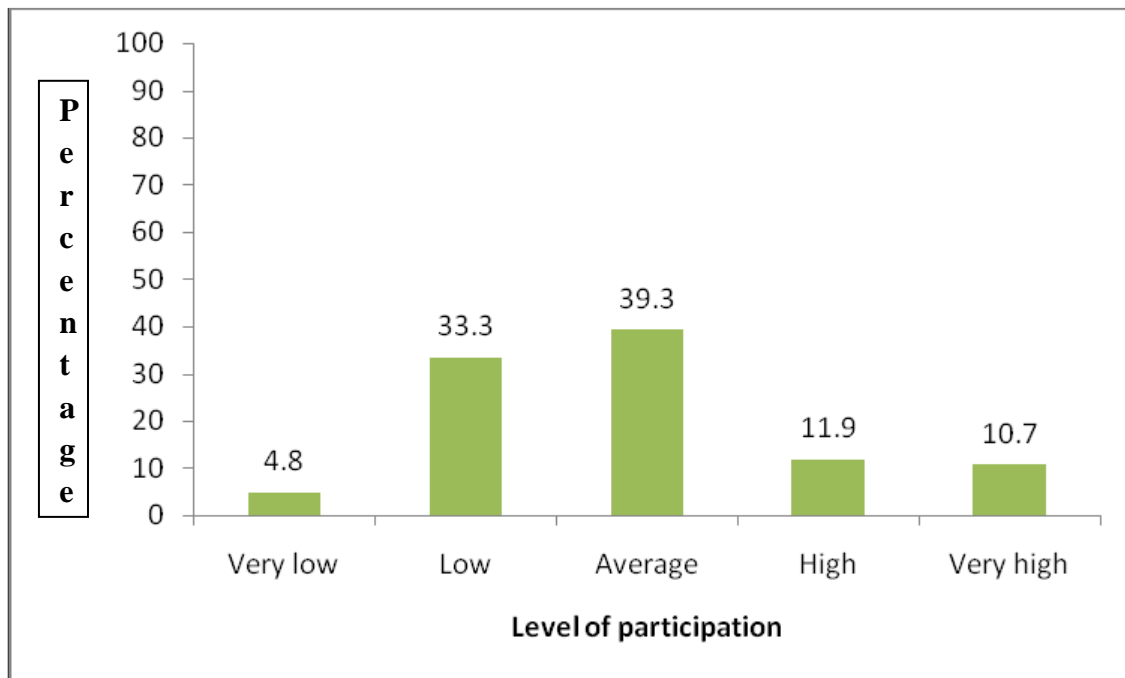


**Table 4.1 Projects Funded by devolved funds in Nakuru East Sub county**

<b>Project</b>	<b>Frequency</b>
School Administrative Offices	3(3)
Agriculture green houses	5(5.1)
Bridges and roads	14(14.1)
Building classes in schools	8(8.1)
Provincial administration houses chiefs offices,AP houses.	1(1)
Bursaries National school pupils tertiary and university students	7(7.1)
Cattle dip renovation	3(3.1)
Educational facilities computers laboratory equipments	13(13.2)
Health centres and facilities	14(14.2)
Hospital Ambulances	3(3.1)
Milk coolers	4(4.0)
Police cell	1(1.0)
Polytechnics	15(16.3)
Water projects conservation of water springs dams and pipe water	5(5.0)
Youth programs ICT centres	1(1.0)

**Level of participation in the projects**

Majority of the respondents 92(93.9%) reported that people in the constituency participate in the devolved funds projects. Of these 33(39.3%) reported that the participation level is average as indicated in figure 4.1



**Figure 4.1: Level of participation in the projects**

**Factors contributing to the reported level of participation**

Majority of the respondents agreed that Locals' attitude towards projects 76(78.4%), devolution internal systems of control 68(72.3%), Presence of strategic plan 56(59.6%), devolution management competence 62(65.3%), Awareness of devolved funds 71(74%) and Political interference 55(56.7%) were the factors contributing to the reported level of participation. On average, the respondents agreed to the factors (Mean=3) as indicated in table 4.3

**Table 4.2: Factors contributing to the reported level of participation**

<b>Item</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Mean(sd)</b>
Locals' attitude towards projects(n=97)	9(9.3)	12(12.4)	76(78.4)	2.7(0.6)
Devolved internal systems of control(n=94)	7(7.4)	19(20.2)	68(72.3)	2.7(0.6)
Presence of strategic plan (n=94)	14(14.9)	24(25.5)	56(59.6)	2.5(0.7)
Devolved management competence (n=95)	7(7.4)	26(27.4)	62(65.3)	2.6(0.6)
Awareness of devolved funds (n=96)	7(7.3)	18(18.8)	71(74)	2.7(0.6)
Political interference (n=97)	16(16.5)	26(26.8)	55(56.7)	2.4(0.8)

**Table 4.3 Situation in the constituency before the introduction of CDF**

<b>Item</b>	<b>Low</b>	<b>Average</b>	<b>High</b>	<b>Mean±sd</b>
Literacy levels	36(36.7)	58(59.2)	4(4.1)	1.7±0.6
Access to Health facility	39(39.8)	59(60.2)	0(0)	1.6±0.5
Security level	69(71.1)	28(28.9)	0(0)	1.3±0.5
Employment level	71(72.4)	27(27.6)	0(0)	1.3±0.4
Income levels	65(66.3)	33(33.7)	0(0)	1.3±0.5
Water and sanitation	64(65.3)	31(31.6)	3(3.1)	1.4±0.5
Food security	16(16.3)	59(60.2)	23(23.5)	2.1±0.6

After the introduction of the devolution, most respondents reported that the level of literacy and access to health facility as well as water and sanitation level were high, 78(79.6%), 84(85.7%) and 80(81.6%) respectively. Security level, employment level, income level and food security were reported to be average, 68(70.1%), 55(56.1%), 61(62.2%) and 71(72.4%) respectively. on average security level, employment level, income and food security levels were average.

**Table 4.4 Situation in the constituency after the introduction of CDF**

<b>Item</b>	<b>Low</b>	<b>Average</b>	<b>High</b>	<b>Mean(sd)</b>
Literacy levels (n=98)	7(7.1)	13(13.3)	78(79.6)	2.7±0.6
Access to Health facility (n=98)	0(0)	14(14.3)	84(85.7)	2.9±0.4
Security level (n=97)	7(7.2)	68(70.1)	22(22.7)	2.2±0.5
Employment level (n=98)	5(5.1)	55(56.1)	38(38.8)	2.3±0.6
Income levels (n=98)	5(5.1)	61(62.2)	32(32.7)	2.3±0.6
Water and sanitation (n=98)	1(0.01)	17(17.3)	80(81.6)	2.8±0.4
Food security (n=98)	11(11.2)	71(72.4)	16(16.3)	2.1±0.5

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECCOMENDATIONS**

#### **Summary of the Findings**

Devolution of funds is the transfer of funds and authority to spend the funds from the central government to the local governments. Nakuru East Sub county constituency is a local unit considered for utilizing the funds for improving the lives of the locals. The fund is spending on projects like Roads construction, schools, Health facilities, water projects and agriculture among others. Community participation in the projects is high. In overall terms, there is a statistically significant difference between the situation in economical development before and after devolved funding meaning the fund is positively impacting on the lives of the locals. However, more efforts need to be applied in addressing the challenges limiting the socio-economic effects of devolved funds if the optimal benefits of these funds are to be realized.

#### **CONCLUSIONS**

The findings show there are several projects that are being funded/ have been funded by the devolved funds. It also shows that there are positive outcomes to the community from the devolved funds and that the level of community participation in the projects funded by devolved funds is high. However, in light of the many challenges still affecting devolved funds, it means the fund can have greater effects than the ones currently experienced. Thus the central government

has to assist in the formulation of policies and institutional framework that maximize both locals' participation and socio-economic effects of devolved funds and hence improve economical development.

## **RECOMMENDATIONS**

The findings have shown that devolved funding has impacted positively on the socio-economic welfare of the people of Nakuru East Sub county constituency and that these have some effects on the development and economic empowerment of the community in the constituency. Therefore all stakeholders have to participate in ensuring sustainability of positive strategies adopted in the management of the fund so as to continue realizing their effects. The following recommendations can be considered as part of the solutions to various challenges.

There is the need to train funds' staff as well as the community representatives on issues of project choice and management. A trained force is an effective and efficient force that will be accountable and thus the central government should put as part of the funds an amount for training relevant staff prior to release of the funds.

There is also need for community sensitization and participation on the availability of funds to enhances economical development of the region and what the fund is directed towards solving so as to help maintain or increase their level of participation in the projects funded by the devolved funds in the constituency.

Neglecting the role of the community will always impact negatively on the ownership and sustainability of the initiated projects. The community should have representatives who not only present themselves in meetings but participate actively in decision making and making their voices heard.

The community should not only be involved in identification of projects but also be involved in all other stages of the projects' life cycle. There is the challenge of political interferences in decision making. This should be avoided or controlled by establishing clear roles of politicians in the running of the fund. The management of the fund should be left to professionals with the vigilance of the community. The role of politicians should be more of oversight and advisory than active decision making.

The central government should fasten the processes leading to disbursement of funds to local units so as not to delay the implementation of projects. Delayed funding can be avoided by advanced planning. The amount of funding should also be raised. There are many projects that need funds and in order to ensure their completeness and in time, then the funding should be increased.

Monitoring and evaluation of projects is very crucial and should be done regularly and by professional people. The community can be very instrumental in this since a waste of funds will mean there are no benefits for them and furthermore this money is public taxes charged upon them. All projects should have a clear way of being monitored and evaluated with measurable indicators. This calls for

constituencies to embrace strategic plans which will be instruments of planning and control for corrective actions.



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## APPENDICES

### QUESTIONNAIRE

#### 1. Please tell me about the development trends in the county.

i. What are some of the development problems you perceive to be in the county?

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ii. What are the causes of these problems? ii. What are some of the effects of these problems?

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iii. What is the responsibility of the local government in promoting economical development?

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iv. What are some of the areas that can be promoted to ensure economical development?

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v. What are some of the components of local development as being carried out in the county?

2. Can you please describe the economic development situation in the county?

i. Which economic sectors and activities drive the economy of the county?

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ii. What in your opinion are some of the economic development challenges/problems in the county?

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iii. What in your opinion are the effects of these challenges/problems on the county's development?

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iv. How can these challenges/problems be addressed?

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5. i. What in your opinion is (devolution) economic development? ii. What does (county) economic development involve?

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**6. What responsibilities have the county government in local economic development promotion?**

i. What is supposed to be the responsibility/roles of the local government in local economic development promotion in the municipality?

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ii. How relevant are these responsibilities and tasks to local economic development promotion?

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iii. What are the sources of these responsibilities? How relevant are these responsibilities/roles/tasks to local economic development promotion at the municipal level?

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**7. Which economic sectors and activities drive the economy of the county?**

ii. What in your opinion are some of the economic development challenges/problems in the county?

iii. What in your opinion are the effects of these challenges/problems on the county's development?

Which sectors, approaches and tools have been adopted by the local government in its local economic development promotion drive? i. Which areas of the economy does the local government focus on in its local economic development drive? ii. Why these sectors? iii. What strategies and tools does the local government apply in these areas? iv. How relevant are these strategies/approaches? v. What is the basis for adopting these strategies or tools? vi. Which sectors and strategies/approaches feature most in the local government's local economic development activities?

**8. i. How are these identified roles manifest in the promotion of the various sectors?**

Roles	Sectors			
	1	2	3	4

What are the challenges with the promotion of these sectors? How are these challenges overcome?

9. Which Initiatives are implemented in these sectors? i. What initiatives are implemented within the various sectors promoted by the local government in its local economic development drive?

Sectors	Initiatives/components	
1		
2		
3		

**THANK YOU FOR YOUR CORPORATION**

## APPENDIX II

### WORKPLAN

ACTIVITY	DURATION	REMARK
FINDING A TOPIC	1 <sup>ST</sup> JAN – 25 <sup>TH</sup> JAN	DONE
CHAPTER ONE	3 <sup>RD</sup> JAN – 28 <sup>TH</sup> JAN	DONE
CHAPTER TWO	2 <sup>ND</sup> FEB – 15 <sup>TH</sup> FEB	DONE
PROBLEM STATEMENT	16 <sup>TH</sup> FEB = 28 <sup>TH</sup> FEB	DONE
CHAPTER THREE	1 <sup>ST</sup> MARCH – 5 <sup>TH</sup> MARCH	DONE
QUESTIONAIRRE	6 <sup>TH</sup> MARCH – 10 <sup>TH</sup> MARCH	DONE
CHAPTER FOUR AND FIVE	11 <sup>TH</sup> MARCH – 17 <sup>TH</sup> MARCH	DONE
PRELIMINARY PAGES AND REFERENCES	18 <sup>TH</sup> MARCH – 30 <sup>TH</sup> MARCH	DONE

**APPENDIX III  
BUDGET**

ITEMS	AMOUNT
PRINTING AND TYPESETTING	2500
PHOTOCOPYING	200
INTERNET	500
BINDING	100
MISCELLANEOUS	300
TRANSPORT	1500
TOTAL	5100KSHS.