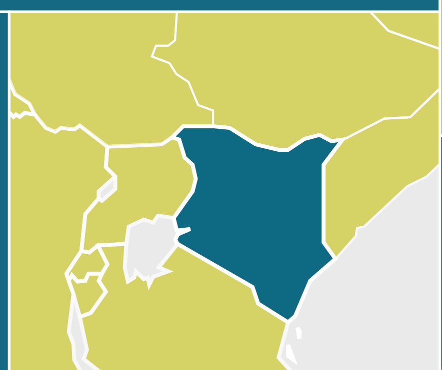
policy

MINISTRY OF HEALTH

January 2014

INCENTIVIZING PERFORMANCE



Conditional Grants in Kenya's Health System

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HEALTH POLICY PROJECT

Suggested citation: Chen, A., A. Mulaki, T. Williamson. 2014. *Incentivizing Performance: Conditional Grants in Kenya's Health System*. Washington, DC: Futures Group, Health Policy Project.

The Health Policy Project is a five-year cooperative agreement funded by the U.S. Agency for International Development under Agreement No. AID-OAA-A-10-00067, beginning September 30, 2010. The project's HIV activities are supported by the U.S. President's Emergency Plan for AIDS Relief (PEPFAR). It is implemented by Futures Group, in collaboration with CEDPA (part of Plan International USA), Futures Institute, Partners in Population and Development, Africa Regional Office (PPD ARO), Population Reference Bureau (PRB), RTI International, and the White Ribbon Alliance for Safe Motherhood (WRA).

Incentivizing Performance: Conditional Grants in Kenya's Health System

JANUARY 2014

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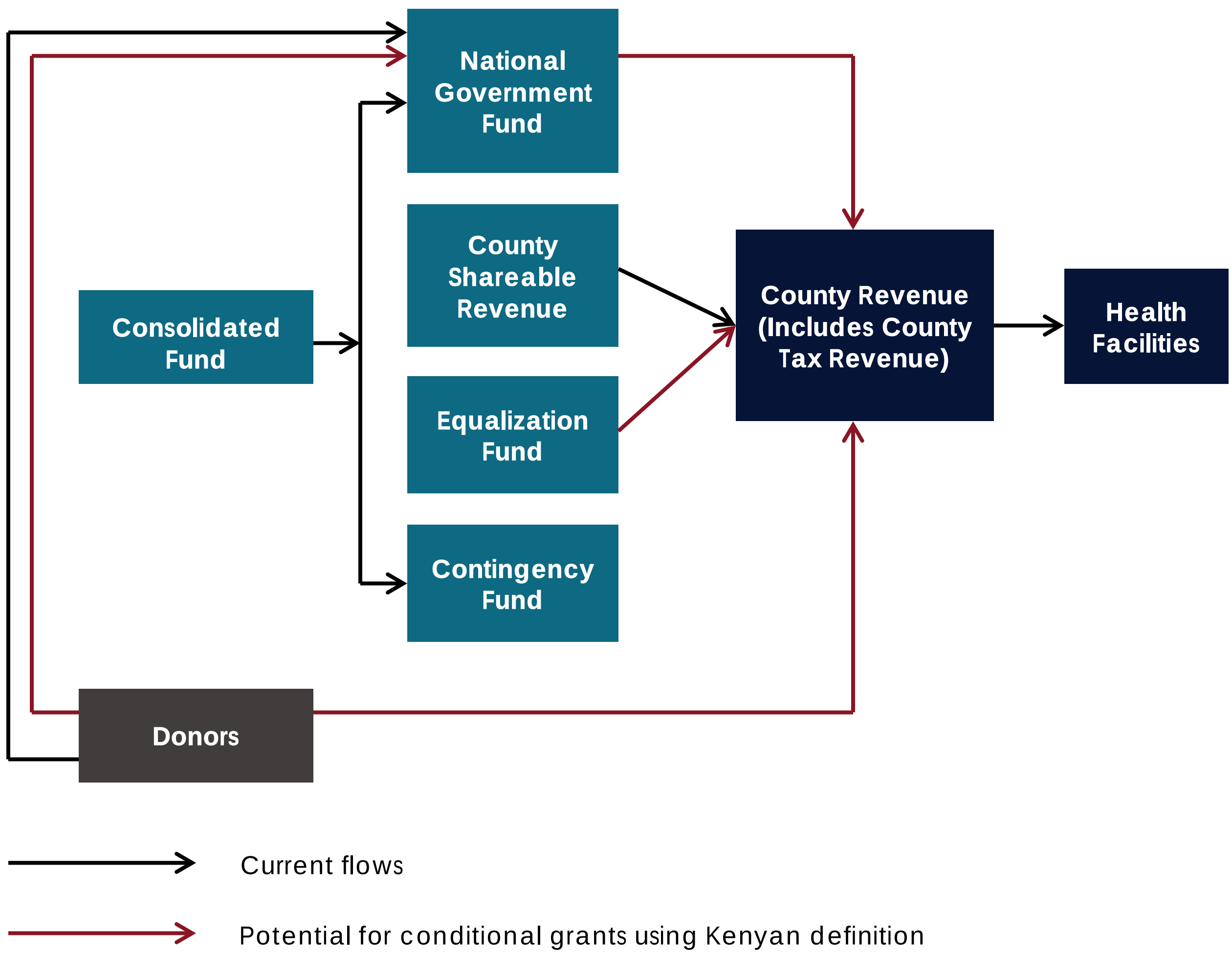
CONTEXT

Investments in the right infrastructure, human resources, and materials are critical to achieving improved health for Kenyan citizens. The government's challenge is to ensure that those investments are used for their intended purposes, rationalized against existing services and needs, and accountable to taxpayers. The development of a new constitutional framework in Kenya, which gives every citizen the right to the "highest attainable standard of health" and devolves significant authority to counties, offers an opportunity to establish new mechanisms for financial transfers, decision making, and service delivery to improve the Kenyan health system. Within the new constitutional framework, counties can access multiple funding sources for health, including a formula-based share of national revenue and revenue from local fees (see Figure 1).

Figure 1. Funding Flows in Kenya



While these funding sources will ensure continued service delivery, the current mechanisms do not empower the national government to incentivize the provision of basic health services, focus local government action on international commitments, fund priority services, promote intergovernmental accountability for funding and health outcomes, or promote county ownership.

The 2010 Constitution allows the national government to fund county governments through conditional grants. These grants are one option for increasing funding flows to counties to improve service delivery, while enabling the Ministry of Health and other national government actors to set standards and develop accountability frameworks for the use of these funds.

> "County governments may be given additional allocations from the national government's share of the revenue, either conditional or unconditionally." – Kenyan Constitution, Article 202(2)

The Health Policy Project (HPP) is working with partners in Kenya to strengthen the country's health system during the transition to devolution. HPP works closely with government and health institutions to develop effective and efficient governance and financing mechanisms that maximize the country's resources to deliver high-quality, equitable, and affordable healthcare services to all Kenyans. Conditional grants are one such mechanism to improve governance and financing throughout the Kenyan health systems. This paper describes conditional grants, explains their use internationally, and outlines how they could be used in the Kenyan context.

WHAT ARE CONDITIONAL GRANTS?

The World Bank defines conditional grants as intergovernmental grants from the national government to devolved governments with certain reporting and purchasing requirements (Ma, 1997). Recipients are often required to use a portion of the grant for particular services or functions, adhere to specific standards, and/or routinely report to the national government. Internationally, the main purpose of conditional grants is to ensure that funds are spent according to the objectives and interests of the central government. In Kenya, donors may also provide conditional grants directly to counties.

Conditional grants can be an important fiscal tool to ensure cooperation between national and county governments during devolution, as devolved governments build their administrative and technical capacity. The requirements of conditional grants integrate accountability into the granting mechanisms by linking grant disbursement to the fulfilment of obligations by the devolved government. Such obligations include performance and policy compliance, which can be conditions of future financing (Bird, R.M. and Smart, M., 2002).

In the health sector, national governments often use conditional grants to ensure the efficient and equitable delivery of core health services by "[setting] incentives for a more efficient production of collective goods." such as the mandating of centralized procurement mechanisms, uniform clinical standards, and minimum service delivery standards (Bischoff and Blaeschke, 2010; Bigmore, et al., 2012). Many countries with decentralized governments use incentive mechanisms in conditional grants to ensure that devolved governments provide essential health services and comply with essential national policies, standards, and priorities (Bischoff and Blaeschke, 2010). Because devolved governments do not always invest in national priorities and can be inefficient users of public funds, "funding counties through conditional grants rather than augmenting the unconditional "equitable share" is another way to ensure that counties spend on priority areas" (Lakin, 2013b).

Conditional grants may also be desirable when services provided by one county benefit other counties, because they use national funds to induce local governments to continue providing these services (Lakin, 2013b). In Kenya, the former Provincial General Hospitals, which are now under the administrative authority of the counties, are assets with catchment areas well beyond the boundaries of the counties in which they are located. Conditional grants are also a tool for rationing decision-making authority to devolved governments. National governments can use the restrictions on conditional grants to guide devolved governments in strengthening their planning, budgeting, and oversight capacity. As devolved governments gain more experience, national governments can disburse more flexible conditional grants that take improvements in governance into account.

Conditional grants are similar to earmarked funds, such as Kenya's Health Sector Service Fund (HSSF) and the Hospital Management Services Fund (HMSF). However, there are two main differences between conditional grants and earmarked funds in Kenya: the specific purpose for the funds and the flow of finances. According to Bowser et al. (2006), earmarked funds are intergovernmental transfers for specific activities while conditional grants are intergovernmental transfers for achieving certain standards or requirements. For example, under the HSSF, dispensaries and health centers use earmarked funds for operations, maintenance, and implementation of annual operations plans (Mutai, 2012). The HMSF provides "direct financing to district (Level 4) hospitals and Provincial General (Level 5) hospitals ... to implement Annual Operational Plans derived from the National Health Sector Strategic Plan and MOMS Strategic Plans" (Health Rights Advocacy Forum, 2011). Since conditional grants are used to ensure standards or leverage recipient resources, they can be more flexible than earmarked funds. And unlike the HSSF and HMSF, under the 2010 Constitution conditional grants would go directly to counties instead of health facilities or hospitals.[1]

TYPES OF CONDITIONAL GRANTS

There are three types of conditional grants: matching open-ended grants, matching closed-ended grants, and non-matching grants (see Table 1) (Bowser, et al., 2006). Different types of grants can address various strengths and weaknesses for different circumstances.

Table 1. Types of Conditional Grants

Types of Grants	Description
Matching Open-ended	The national government matches a percentage of funding allocated by devolved governments for a particular service. In this case, the cost to the national government varies depending on devolved government expenditures.
Matching Closed-ended	Similar to open-ended grants, but the national government puts a ceiling or defined spending limit on the amount it will contribute to the devolved government level.
Non-matching (Block grants)	The national government consolidates several grants into one "block" and funds a broad range of activities within a particular sector, such as health or education, at the devolved government level.

Source: Bowser, et al. 2006. *Matching Grants and Earmarking for Family Planning Lessons for the Philippines*. Cambridge, MA: Harvard School of Public Health.

[1] For more information on broad uses of conditional grants, refer to Bischoff and Blaeschke (2010), *Conditional Grants to Independent Regional and Local Governments: The Trade-off between Incentives and Wasteful Grant-seeking*.

Matching open-ended grants allow flexibility to match service costs and demand, leaving grant amounts uncapped for national and devolved governments (Bowser, et al., 2006).[2] A major strength of these grants is that they tend to be counter-cyclical, increasing during economic downturns and decreasing during times of growth. Open-ended grants encourage local governments to spend as much as they can on the service for which the grant is provided. One weakness in using a matching open-ended grant is that the liability of the national government is uncertain, potentially leading to mismanagement and budget overruns.

Another option is **matching closed-ended grants**, in which the national government puts a defined spending limit on the amount it will contribute for a specific purpose. National governments benefit from matching close-ended grants because they have a better sense of their financial liability. Devolved governments, however, must deal with increased oversight and spending limits. This may be beneficial at the beginning of a decentralization process when devolved governments are building capacity and establishing administrative infrastructure for vital services. These grants tend to have more specific uses and are less flexible than matching open-ended grants.

Block grants, also known as non-matching grants, consolidate several grants into one block to fund a broad range of activities in one sector, with few restrictions on the grant. Block grants have few monitoring requirements, which can result in low-quality implementation or services. Depending on the capacity of devolved governments, however, block grants may work well. Block grants impose fewer administrative demands on national and county governments.

Matching open-ended, matching close-ended, and block grants work in different ways for different purposes. National and devolved governments can decide which types of conditional grants are most suitable for their circumstance or need.[3]

Conditional grants of any type can "achieve effectiveness, equity, efficiency, quality, resource mobilization, and influence politics" (Bowser, et al., 2006). Specific findings from the literature review showed that:

- Matching grants increase spending on cost-effective activities and improve efficiency.
- Conditional grants produce greater increases in devolved government spending in specific program areas than unconditional grants.
- Political context and processes have a strong effect on the type and effectiveness of matching grants.

Anecdotal evidence also showed that matching grants increase the equity of devolved government-level financing.

CONDITIONAL GRANTING ACROSS AFRICA

Examples of conditional grants in action can help to clarify and highlight the benefits, drawbacks, strengths, and weaknesses of conditional granting mechanisms. These examples demonstrate how

[2] In the context of conditional grants in Kenya, matching means that both the national government and the county government will provide funds for the service.

[3] For more information on matching open-ended, close-ended, and block conditional grants, refer to Bowser, et al. (2006), *Matching Grants and Earmarking for Family Planning Lessons for the Philippines.*

Rwanda, South Africa, and Nigeria used conditional grants to support devolved government administrative capacity, technical and financial skills, and service delivery gaps. They also highlight the importance of monitoring grant implementation, the use of conditional grants to rebalance infrastructure disparities and gaps, and the importance of close coordination between national and devolved governments. Closer analysis of other countries' experiences can help Kenyan policymakers determine the specific contours of future conditional granting mechanisms.

Rwanda

Starting in 2006, Rwanda's decentralization health project, Twubakane, implemented the District Incentive Fund (DIF). Though it was not strictly a conditional grant, the DIF was structured as a flexible, matching open-ended mechanism to address health and infrastructure needs and priorities at a decentralized government level, rather than using imposed requirements by development partners or central level authorities (USAID, 2010).

The DIF grants were a key element of Twubakane, and were packaged with training and capacity building to enhance the existing decentralized government capacity in administration, finance, and other vital infrastructure that was necessary to provide the vital health services requested from devolved government levels (USAID, 2010). USAID's evaluation of the project showed that its success relied on combining conditional grants, technical assistance, and administrative capacity which resulted in enhanced devolved government systems, strengthened existing leadership, and improved local resource mobilization. The evaluation also showed a positive impact on quality of and access to health services (USAID, 2010). Even with extensive capacity building and technical training, however, appropriate financial management was difficult to ensure (USAID, 2010).[4]

South Africa

In 1998, non-matching conditional grants became a dominant feature South Africa's public finance system. Grants were issued to enable standard levels of service provision, compensate for services that cross provincial boundaries, and address backlogs and regional disparities in economic and social infrastructure (Makube, 2012).

From 2003 to 2009, South Africa used 25 different types of conditional grants that focused on infrastructure and capacity building (Makube, 2012). The country's conditional granting system did not gather necessary information for planning, budgeting, monitoring, and ensuring accountability of public funds such as non-financial data reporting or performance and value for money data (Makube, 2012). Poor provincial and district government involvement in the development and budgeting of grants led to a mismatch between needs and resources. A ten-year review of the system also found that allocations were sporadic and infrequent, limiting the efficacy and relevance of conditional grants (Makube, 2012).[5]

Nigeria

From 2007 to 2009, Nigeria's Millennium Development Goals (MDGs) Conditional Granting Scheme (CGS) used matching open- and closed-ended grants to promote national MDGs using state governments

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[4] For more information on conditional grants in Rwanda, see USAID (2010), *Twubakane: Decentralization and Health Program Rwanda's Final Assessment*.

[5] For more information on conditional grants in South Africa, refer to Makube (2012), *The Performance of Conditional Fiscal Transfers in the South African Intergovernmental Fiscal Relations System.*

and Local Government Units (LGUs) to deliver basic services at the community level, in close coordination and partnership with the federal government (Government of Nigeria, 2010). These goals included scaling up primary healthcare services, basic education, and water and sanitation. According to the Nigerian CGS system report, "subnational governments are typically better placed to provide basic services to their people than the Federal Government" (Government of Nigeria, 2010).

Under the CGS, the federal government and LGUs contribute equal amounts for conditional grants. By leveraging national and decentralized financial resources equally, Nigeria "strengthened intergovernmental collaboration and coordination among the three tiers of government in the generation and communication of data; policy planning; and monitoring of performance" (Government of Nigeria, 2010). This partnership used federal government resources and expertise to meet local demands, needs, and constraints by using conditional grants to strengthen investment and technical capacity to support improving primary healthcare services, basic education, and water and sanitation. The national government was best positioned to develop and implement national programs, ensuring proper monitoring and evaluation, and coordinate and evenly distribute international aid throughout the country (Government of Nigeria, 2010).

The CGS was successful because it required a close partnership between the federal and state governments in which "each tier of government [had] a stake in the projects, and that maximum investment [could] be leveraged towards the MDGs" (Government of Nigeria, 2010). The conditions of the grants included needs assessments; alignment with national strategies, standards, and frameworks; and effective monitoring and evaluation of projects through existing structures. With its clear focus on implementation and capacity building, monitoring of impact and results, and program and financial transparency, many local and national authorities regarded the CGS as a resounding success (Government of Nigeria, 2010). Specific benefits included infrastructure rehabilitation of more than 2,800 facilities and the rapid expansion of water services to eight million people. Phillips (2010) claims that these successes were partially responsible for a 30 percent reduction in maternal mortality from 2003 to 2008 (Government of Nigeria, 2010).[6]

KEY USES OF CONDITIONAL GRANTS

After conducting a literature review of key uses of conditional grants and pulling from country examples, HPP identified five ways that national and devolved governments use conditional grants in the health sector. We also highlight country examples that are relevant to the Kenyan context and emphasize practical applications of conditional grants.

1. Ensure Basic Health Services

As countries decentralize, devolved and national governments face challenges in maintaining basic health services. Experience from Nigeria showed that immunization coverage is poor because LGUs do not view it as a priority (Wonodi, 2012). Ronoh (2005) also notes that decentralized governments have routinely deprioritized family planning, especially where guidelines and policies are not in place.

In Rwanda, conditional grants contributed to building decentralized government's technical and administrative capacity by ensuring decentralized government resource mobilization and financial tracking. By contrast, South Africa used conditional grants to "ensure minimum levels of service" for the

[6] For more information on conditional grants in Nigeria, refer to MDGs Nigeria (2010), *Partnering to achieve MDGs: The Story of Nigeria's Conditional Grants Scheme 2007–2010*, and the Federal Republic of Nigeria (2013), *MDGs Conditional Grants Scheme Implementation Manual* (Revised).

education and health sectors (Martinez-Vasquez, 2009). While it struggled to develop well-defined standards of provision, South Africa used conditional grants as fiscal incentives for decentralized governments to implement national government service packages.

2. Focus Local Government Action on International Commitments

When national governments sign international commitments, such as the MDGs, devolved governments are often responsible for achieving the agreed-upon goals. However, these sub-national governments have little input during the development of international commitments, and may be unaware of what is required to achieve those goals. Regardless of their input level, devolved governments have little incentive to comply with or achieve national commitments to improve health because of their lack of involvement in the prioritization and development of national commitments for health (Bigmore, et al., 2012; World Bank, 2012).

In Nigeria, the federal government used conditional grants to focus state and LGU governments' attention on achieving health targets established under international agreements, while providing financial and technical support to LGUs specifically to achieve international commitments. The conditional grant development process incorporated input from local, state, federal, and planning departments to ensure broad support. By including LGUs in the development of conditional grants designed to support national health and education goals, the Federal Government of Nigeria garnered the support of decentralized governments and incorporated vital elements about local context, demand, and restraints into conditional grants (Government of Nigeria, 2010). The Federal Government of Nigeria also worked in close collaboration with LGUs to understand constraints in administration, funding, and training of service providers, and designed the conditional grants to address them.

3. Fund Priority Services

Devolved governments are often unable to build or maintain infrastructure because earmarked national government funds are typically used for recurring expenditures, such as salaries. To alleviate this problem, Rwanda used conditional grants to assist decentralized governments in building and maintaining infrastructure. Conditional granting was part of the second phase of Rwanda's decentralization, concurrent with *imihigo*, a type of local performance contract between the President and the district mayors. The grants were used to motivate health service delivery improvements, enhance district mayors' and other authorities' understanding of the connection between development and health, and strengthen public health advocacy (USAID, 2010). Both national and district governments greatly appreciated and benefited from the technical assistance and administrative capacity building that were a focus of project activities. The grants promoted good governance, accountability, and responsiveness to local populations; strengthened district resource mobilization; and had a positive impact on the quality and accessibility of health services (USAID, 2010). However, even with extensive capacity building and technical training, it was challenging to ensure appropriate and timely financial management (USAID, 2010).

Conditional grants are also a mechanism for channeling pooled donor funds to devolved governments using government processes and systems to support national priorities and plans. Experiences from other countries also suggest that development partners are more likely to participate if conditional grants are limited and streamlined to make "disbursements more predictable and to eliminate conflicting conditions among donors" (United Nations, 2008).

The HSSF and HMSF are examples of effective mechanisms for pooling international donor funds in Kenya to ensure that priority areas receive support, including infrastructure improvements, equipment, and needed services. These mechanisms are not conditional grants; however they provide some Kenya-specific examples of how pooled and/or centralized funds can be coordinated under a conditional grant framework.

4. Promote Accountability

Conditional grants can also promote accountability by incentivizing stakeholder engagement, requiring financial and programmatic reporting, and mandating monitoring and evaluation mechanisms. They can serve a monitoring and evaluation function by ensuring transparency through interagency and financial reporting. (Stapenhurst and O'Brien, 2006) Improved data transparency is critical to improving accountability.

As the Nigeria example demonstrates, it is possible to engage stakeholders in the development of conditional grants, which leads to better compliance with grant regulations during implementation. In contrast, experience from South Africa showed that poor stakeholder involvement led to poor outcomes. If they are well-planned, conditional granting mechanisms can be an opportunity for engaging devolved governments, civil society, and other relevant parties in the design and implementation of national development projects. Additionally, national government mandates that devolved governments involve civil society and citizens in community monitoring efforts can improve overall citizen participation in government decision-making processes.

Accountability can also come in the form of improved data transparency. In Uganda, conditional grants that required transparent reporting mechanisms through media channels helped fight corruption in education (Stapenhurst and O'Brien, 2006). Reinikka (2005) claims that "the improved transparency of grant distributions through the newspaper campaigns helped reduce the misuse of funds [for education]." Improving the financial reporting of devolved governments can be an important side effect of conditional grants, as local governments bolster their capacity in this area to meet grant regulations. Strengthened financial reporting was seen in Rwanda under the DIF scheme, despite ongoing challenges throughout the project to ensure appropriate financial management.

5. Promote Local Ownership

Conditional grants can promote ownership of service delivery by sharing investments for health goals at all levels of government and leveraging existing county resources. For example, matching open- and closed-ended grants ensure devolved government involvement in the development, approval, and disbursement of funds.

In Nigeria, the CGS maximized the use of financial resources, information, and expertise at every level of government by sharing the "burden of expenditure responsibility among different levels of government" (Federal Republic of Nigeria, 2013). With 50 percent of funds provided and matched by the national government and LGUs, conditional grants ensured collaboration between local and state governments to implement CGS-funded projects. These grants facilitate increased devolved government ownership by ensuring financial investment from all levels of government.

KEY CONSIDERATIONS FOR KENYA

To ensure a successful devolution process in Kenya, the Ministry of Health must decide on a conditional granting framework that ensures equity and efficiency, while delivering basic services. While developing the conditional granting framework, the national government must take into account a number of factors and information gaps to ensure transparency, involve key stakeholders, and promote a functional understanding of the incentives for conditional grants (Government of Nigeria, 2010). Based on HPP's literature review, we have developed four essential elements for implementing conditional grants (see Box 1).

These elements include government efficiency, technical, and participation components that work together to ensure that conditional grants are disbursed in a timely manner, implemented efficiently and accountably, and monitored effectively.

To translate these global essential elements to the Kenya context, HPP analyzed the literature on devolution in Kenya. In the course of this assessment, we reviewed documentation and technical reports from the World Bank, the Ministry of Health, the International Budget Partnership, and DANIDA. This analysis identified key considerations related to the potential use of conditional grants in Kenya. While these considerations build on the literature from both international and Kenyan sources, they reflect a further refinement of thinking on conditional granting mechanisms, based on both international experience and the Kenyan context.

Box 1:
Essential Elements for Conditional Grants

1. **Financial and administrative infrastructure**
   Financial and administrative infrastructure is a critical component of managing, budgeting and planning for essential functions. Devolved governments need these capacities to manage the financial burden of conditional grants and maintain services currently managed at the national level.

2. **Monitoring and evaluation framework for health data and finances**
   In order to monitor conditional grant requirements, tracking systems are a necessary component of accountability to allow civil society organizations and other government branches to review financial and programmatic progress.

3. **Technical capacity and staff**
   Investing in building the technical capacity of devolved government staff to oversee services provided through grants is essential for implementation. The national government also needs to have the technical capacity to monitor implementation of conditional grants.

4. **Stakeholder involvement**
   Devolved and national government partnership in the development of conditional grants promotes cooperation and compliance with grant regulations.

1. **The equitable transfer may not be sufficient to cover county health service delivery costs:** According to a World Bank analysis, equitable transfers alone may not be sufficient to cover county health service delivery costs for existing health services in historically under-resourced counties (Bigmore, et al., 2012). For example, in June 2013, the president of Kenya issued a memorandum establishing a new Free Maternal Services (FMS) policy and abolishing user fees at all public dispensaries and clinics. Using results from a study that used the OneHealth model to cost the Kenya Health Sector Strategic Plan III 2013–2017, HPP is assessing whether existing transfers will be sufficient to implement the FMS and abolish user fees. This information can aid the government of Kenya in deciding how it will cover the projected funding gaps for these two policies, but conditional grants could be used to ensure adequate funding.

2. **County governments may prioritize non-health sectors:** County governments may choose to prioritize spending in areas other than health, such as building roads and markets. Conditional grants can leverage county support to "ensure compliance with national policies, standards, and priorities for health" (Bigmore, et al., 2012).

3. **Counties may over-emphasize the expansion of health infrastructure:** Even when counties decide to prioritize health in county budgets, the World Bank suggests that they will emphasize expanding health infrastructure, even when funding for staff, drugs, and maintenance of existing facilities is inadequate (Bigmore, et al., 2012).

4. **Reorganization of other transfer mechanisms may be needed:** In August 2013, the Kenyan parliament passed an amendment to the Constituency Development Fund (CDF) Act. This amendment fundamentally altered the structure of the CDF by mandating that funding should follow new revenue-sharing formulas for counties. . The new CDF Act "has the effect of forcing the county to adjust its plans to align with CDF projects, rather than the other way around" (Lakin, 2013a) The design of conditional grants in Kenya will need to take into account the roles of the CDF and other devolved funding mechanisms to ensure co-coordination between county and national governments. .

5. **Mechanisms to ensure transparency must be created:** Conditional grants should be transparent, with disaggregated financial information by county and department that is available to the public so Kenyan citizens know who is accountable for which services.

6. **A costing study of health services must be conducted:** To determine the structure of conditional grants in the health sector, a comprehensive costing study of health services at the county level is necessary. For example, HPP recently used the OneHealth Model to cost the Kenya Health Sector Strategic Plan III 2013–2017. HPP used the results of this study to estimate the cost for HSSF and HMSF to provide a package of maternal health services to all women in Kenya, disaggregated by facility levels and counties. Conditional grants can address some of the challenges presented by the transitional period of devolution if county and national governments know the true cost of services.

Box 2. Principles for Grant Allocation Criteria

1. Pursue the *objective*(s) behind each type of grant and try to balance the objectives if some of these are conflicting.
2. Be formula-based and based on *objective* criteria, (contrary to discretionary criteria where the grantor is free to determine the amount paid on the basis of subjective assessment or expediency).
3. Have a solution for counties that do not have high *revenue-raising capacity* (for equalization grants).
4. Accurately reflect the specific characteristics behind each factor.
5. Grants should not force counties to establish new service institutions if other means to achieve the same objective are more efficient. [A county] should not be able to influence the grant it receives by manipulating its expenditure decisions; an exemption from this may be in situations where there are good reasons for establishment of incentives, e.g., to achieve certain service targets or apply certain methods, e.g., participatory approaches.
6. Be kept simple, transparent, predictable and stable from one year to another.
7. Avoid *negative incentives* and preferably provide strong incentives for counties to improve on administrative, governance, and service provision performance.
8. Make the criteria "SMART" (Specific, Measurable, Attainable, Relevant, and Time-bound). Do not have high interdependence between the criteria, and [make them] easy to measure and update; follow the "SMART" criteria.
9. The criteria should work together in a holistic and mutually strengthening manner to achieve the overall objectives, instead of sending conflicting messages and incentives.

Source: Steffensen, 2010

7. **Clear and transparent allocation criteria must be established:** While conditional grants are influenced by political choice and local context, it is “generally accepted that the allocation criteria should be based on DANIDA’s *Principles for Grant Allocation Criteria*” (Steffensen, 2010). These criteria are listed below (see Box 2), and include basic eligibility requirements with clear, objective allocation formulas, and an open and fair process for approving grants.[7]

CONCLUSION

Conditional grants are a mechanism to provide incentives for local governments to align activities, plans, objectives, and services with higher-level priorities. In Kenya, they may be used to augment county-level funding. As counties take on more responsibility in Kenya, collaboration between the national and county governments is critical to ensure effective service delivery. Conditional grants encourage intergovernmental collaboration and coordination between county and national governments by leveraging financial resources and expertise from both levels of government.

Evidence from the literature review and other countries’ experience show that devolved governments often discount the importance of minimum service standards, do not adhere to international commitments, and find it challenging to maintain existing health infrastructure. The use of conditional grants can mitigate some these issues by providing national resources and promoting county ownership of health service provision to safeguard certain health sector services and guarantee funding for priority areas. Kenya can use conditional grants as a fiscal tool to unite the two levels of government in providing minimum health services while maintaining the accountability, transparency, and equity that are vital to good governance.

National and county governments also need administrative and fiscal infrastructure, capacity, and health data to ensure that they disburse conditional grants in an efficient, equitable, and timely way. The availability of high-quality health data is essential for monitoring and evaluating the implementation and fulfilment of conditional grant requirements.

Conditional grants offer the government of Kenya an opportunity to ensure basic services, achieve international commitments such as the MDGs, fund under-resourced services or infrastructure, and hold counties financially and programmatically accountable. The success of these mechanisms, however, requires the concerted effort and coordination of multiple actors. When investments in administrative and financial systems, technical capacity, data use and availability, and service oversight mechanisms are paired with the additional resources available to counties through conditional grants, the “highest attainable standard of health” is truly within reach.

[7] For more information on other considerations for devolution, refer to The World Bank (2012), *Devolution without Disruption: Pathways to a Successful New Kenya* and Steffensen (2010), *Fiscal Decentralisation and Sector Funding Principles and Practices: Annex 3. Grant Allocation Principles*. For more information on allocation criteria for conditional grants, refer to Steffensen, (2010).

ADDITIONAL RESOURCES

Bischoff, I. and F. Blaeschke. 2010. *Conditional Grants to Independent Regional and Local Governments: The Trade-off between Incentive and Wasteful Grant-seeking*. Kassel, Germany: University of Kassel. Available at http://www.uni-marburg.de/fb02/makro/forschung/30-2010_bischoff.pdf

Description: The paper addresses the welfare implications of conditional grants and discusses optimal grant-distribution schemes.

Bowser, D., T. Bossert, and A. Mitchell. 2006. *Matching Grants and Earmarking for Family Planning: Lessons for the Philippines*. Cambridge, MA: Harvard School of Public Health. Available at www.hsph.harvard.edu/ihsg/publications/pdf/DraftMatchingGrantsAndEarmarking040106.pdf

Description: This resource provides information and evidence on how matching grants and earmarking achieve effectiveness, equity, efficiency, quality, resource mobilization, and influence politics.

Federal Republic of Nigeria. 2013. *MDGs Conditional Grants Scheme Implementation Manual* (Revised). Available at http://www.sparc-nigeria.com/RC/files/5.1.6_MDGs_CGS_Implementation_Manual_Revised.pdf

Description: This publication describes Nigeria's conditional grants scheme implementation model.

Makube, T. 2012. *The Performance of Conditional Fiscal Transfers in the South African Intergovernmental Fiscal Relations System.* Government of South Africa. Available at www.info.gov.za/view/DownloadFileAction?id=129455

Description: This report provides information about the performance of conditional grants in South Africa and specifically examines literature on the design of conditional grants in decentralized fiscal systems.

MDGs Nigeria. 2010. *Partnering to Achieve the MDGs: The Story of Nigeria's Conditional Grants Scheme 2007–2010*. Abuja: Government of Nigeria. Available at http://scholar.harvard.edu/files/jphillips/files/final_story_of_cgs.pdf

Description: This publication reviews Nigeria's MDGs conditional grants scheme (CGS), which provided financial and technical support to scale-up the MDGs-related activities of State and Local Governments.

Steffensen, J. 2010. *Fiscal Decentralisation and Sector Funding Principles and Practices: Annex 3. Grant Allocation Principles.* Available at http://um.dk/en/~/media/UM/English-site/Documents/Danida/Activities/Strategic/Human%20rights%20and%20democracy/Democracy/FISCAL%20DECENTRALISATION%20Annex%203.ashx

Description: This paper reviews the theory and objectives behind any system of intergovernmental fiscal transfers, provides a theoretical typology/taxonomy of transfers, outlines possible allocation criteria, and presents a brief overview of relevant experiences in the development of allocation criteria from various countries.

USAID. 2010. *Twubakane Final Report.* Kigali: Twubakane Decentralization and Health Program. Available at http://pdf.usaid.gov/pdf_docs/PDACQ087.pdf

Description: This report presents overall accomplishments, challenges and lessons learned by the Twubakane Program from January 2005 through January 2010, which integrated conditional grants with

more than $5 million awarded in grants to the 12 districts and the City of Kigali to strengthen health service delivery at decentralized levels.

World Bank. 2012. *Main Report*, Vol. 2 of *Devolution without Disruption: Pathways to a Successful New Kenya*. Washington, DC: World Bank. Available at http://documents.worldbank.org/curated/en/2012/11/16964608/devolution-without-disruption-pathways-successful-new-kenya-vol-2-2-main-report

Description: This report takes a snapshot look at the critical issues facing Kenya's policymakers today. It does not argue for or against devolution (a decision that belongs solely to Kenyans), but presents suggestions and recommendations on how best to navigate the tough choices ahead.

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