The USAID- and PEPFAR-funded Health Policy Project (HPP) is working with partners in Kenya to strengthen the country’s health systems during the transition to a devolved system of government and a decentralized health infrastructure. 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 system. Kenya has a number of options for developing a conditional granting scheme that is in line with the new Constitution, and ensures equity and efficiency while delivering basic services.

Conditional grants are grants from the national government to devolved governments with certain requirements (Ma, 1997). Recipients are often required to use some of the grant money for particular services or functions, adhere to specific standards, and/or routinely report to the national government (Bird and Smart, 2002). The main purpose of these grants is to ensure that funds are spent to achieve objectives of mutual interest to both levels of government. In Kenya, donors may 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.
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 more efficient government services, including mandating centralized procurement mechanisms, uniform clinical standards, and minimum service delivery standards (Bischoff and Blaeschke, 2010). Because devolved governments may not invest enough in key health priorities and can be inefficient users of public funds, “funding counties through conditional grants rather than augmenting the unconditional ‘equitable share’ is [a] way to ensure that counties spend on priority areas” (Lakin, 2013b).

**TYPES OF CONDITIONAL GRANTS**

Conditional grants of any type can achieve effectiveness, equity, and efficiency; improve quality of health services by requiring recipients to use some proportion of grant funds for particular services or to adhere to a minimum set of standards; increase resource mobilization; and influence politics. 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 in different circumstances.

<table>
<thead>
<tr>
<th>Type of Grant</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matching Open-ended</td>
<td>The national government matches a percentage of funding allocated by developed governments for a particular service. In this case, the cost to the national government varies depending on devolved government expenditures.</td>
</tr>
<tr>
<td>Matching Closed-ended</td>
<td>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.</td>
</tr>
<tr>
<td>Non-matching (Block grants)</td>
<td>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.</td>
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Source: Bowser et al., 2006

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**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 can use conditional grants in the health sector. These five key applications highlight practical ways to use conditional grants to ensure basic health services, focus local government action on international commitments, fund priority services, and promote accountability and county ownership. Conditional grants can:

1. Ensure basic health services by building technical and administrative capacity of government managers and providers to ensure decentralized government resource mobilization, financial tracking, and minimum levels of service for the education and health sectors.

2. Focus county government action on international commitments by providing financial and technical support specifically to achieve international commitments, and collaborate between national and county governments to incorporate vital elements that address local context, demand, and restraints.

3. Fund priority services by strengthening district resource mobilization, leveraging pooled donor funding, and assisting county governments to build and maintain infrastructure.

4. Promote accountability by incentivizing stakeholder engagement, requiring financial and programmatic reporting, and mandating monitoring and evaluation. Conditional grants can serve a monitoring and evaluation function by ensuring transparency through inter-agency and financial reporting (Stapenhurst and O’Brien, 2006). Accountability can also come in the form of improved data transparency.
5. Promote local ownership by sharing investments for health goals among all levels of government, leveraging existing county resources, and ensuring county government involvement in the development, approval, and execution of social services funded by conditional grants.

KEY CONSIDERATIONS FOR KENYA

To ensure a successful devolution process, Kenya’s Ministry of Health, in consultation county governments, will decide on a conditional granting framework that ensures equity and efficiency while delivering basic services. The framework must address a number of key considerations and information gaps to ensure transparency, involve key stakeholders, and promote a functional understanding of incentives for conditional grants.

To translate these essential elements to the Kenyan context, HPP analyzed the literature on devolution in Kenya. In the course of this assessment, the HPP team reviewed documentation and technical reports from the World Bank, the Ministry of Health, the International Budget Partnership, and DANIDA (Bigmore et al., 2012; Lakin, 2013a; Steffensen, 2010; Reinikka, 2005). The assessment identified key considerations for how to use conditional grants in Kenya (see Box 1). While these considerations build on existing documentation, they also provide practical applications of conditional granting mechanisms in the Kenyan context, based on both international experience and local context.

For more detailed information and examples of conditional granting across Africa, please refer to the full report:


Box 1. Key Considerations for Kenya

- The equitable share, a formula dividing revenue between the national and county governments, may not be sufficient to cover county health service delivery costs
- County governments may prioritize non-health sectors
- Counties may place too much emphasis on expanding health infrastructure
- Other transfer mechanisms may need to be reorganized
- Mechanisms to ensure transparency need to be established
- Costing of health services is necessary to determine how to structure conditional grants
REFERENCES


