



INTERNATIONAL BUDGET PARTNERSHIP
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Budget Brief

Year 03. No. 10. 2010

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What is Wrong with the Constituency Development Funds?

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Constituency Development Funds (CDFs) are funding arrangements that channel money from central government directly to electoral constituencies for local infrastructure projects. Decisions about how these funds are allocated and spent are heavily influenced by elected members of parliament (MPs).^{1,2} The degree to which these funds are controlled by parliamentarians, and the degree to which local citizens participate in them, vary from country to country. But the defining feature of CDFs is that MPs have substantial control over the distribution and application of centrally allocated funds, a significant break from their primary lawmaking and oversight roles.

This brief will argue that CDFs have a negative impact on accountability and service delivery that most poor countries can ill afford. The risks associated with CDFs should be taken more seriously by governments, donors, CSOs, and other actors involved in the development process. They should actively discourage their adoption in countries where CDFs are being considered and promote other options for strengthening legislatures and improving local project delivery that could be more effective. In countries where CDFs are more entrenched and less likely to be repealed, the issues discussed in this paper should be addressed through a variety of reforms that we outline below. In addition, MPs should resist the temptation of jumping into the task of managing and spending the budget and rather focus on the more sustainable processes of holding the executive to account for service delivery.

Spread of CDFs Not Supported by Evidence

Comparatively little is known about CDFs. In fact it is surprising that policymakers have been prepared to adopt them, given the absence of research on their long-term impact in countries like Pakistan, the Philippines, and India, which have well-established CDF

1. The term “MP” refers to legislature members in commonwealth or parliamentary systems. With the exception of limited cases like the Philippines and Honduras, most CDF are found in commonwealth countries. For this reason we refer to elected legislators as MPs in this paper.

2. The Center for International Development (2009) offers a slightly wider definition of CDFs: “Constituency development fund is the generic name for a policy tool that dedicates public money to benefit specific political subdivisions through allocations and/or spending decisions influenced by their representatives in the national parliament.” The definition that we use here refers more specifically to *unallocated* transfers to constituencies that MPs allocate to projects at their discretion.

schemes.

Despite the dearth of research supporting these funding mechanisms, CDF are spreading rapidly. To date at least 23 countries have adopted or are considering adopting CDFs: Bhutan, Ghana, Honduras, India, Jamaica, Kenya, Liberia, Malawi, Malaysia, Mongolia, Namibia, Nepal, Nigeria, Pakistan, Papua New Guinea, Philippines, Rwanda, Solomon Islands, Southern Sudan, Tanzania, Uganda, Zambia, and Zimbabwe.

CDFs also grow very rapidly in size once they are introduced. In the Philippines allocations to members of congress have increased almost six fold since its CDF was introduced in 1990. In Zambia the size of the CDF has grown from 60 million Kwacha when it was introduced in 2006 to 666 million Kwacha in 2010. In Kenya the CDF was introduced at 2.5 percent of the national government's ordinary revenue and has grown along with the overall size of the government budget.

Table 1: Amounts allocated per MP in USD

	GDP (billion USD)	Average Amount Allocated per MP (USD)
Philippines	\$ 166.91	\$ 4,270,001
Bhutan	\$ 3.76	\$ 43,000
Solomon Islands	\$ 1.57	\$ 140,000
Kenya	\$ 34.51	\$ 794,464
Malaysia	\$ 194.93	\$ 577,951
Jamaica	\$ 15.07	\$ 456,361
India	\$ 1217.49	\$ 420,790
Sudan	\$ 58.44	\$ 317,543
Pakistan	\$ 168.28	\$ 240,000
Malawi	\$ 4.27	\$ 21,352
Tanzania	\$ 20.49	\$ 13,761
Uganda	\$ 14.53	\$ 5,187

Source: Hickey A. 2009 and Center for International Development 2009

It has been argued that CDFs can address a number of development and governance challenges that many countries face. They purportedly:

- ensure project delivery in the face of ineffective and corrupt local government structures,
- bypass central bureaucracies and channel funding directly to community level,
- enable the participation of the local population in the choice of which local infrastructure is delivered,
- empower the legislature by allowing them to allocate and spend money independently of the executive, and
- allow MPs to respond directly to concrete demands from their constituents, something that they may not be powerful enough to make the executive do.

These arguments in favor of CDF are appealing, yet there are many critics of CDFs, as well. Though CDFs have made the headlines largely because of corruption and political manipulation associated with them, we believe that there are three more fundamental

deficiencies built into the design of these schemes.³

1. CDFs may breach the key democratic principle of the separation of power by conferring the executive function of budget execution on the legislature.
2. As a result of this breach, CDFs may compromise the ability of legislatures to represent the electorate and to oversee the work of the executive.
3. By skewing resource allocation and project selection and oversight, CDFs also may have a negative impact on governments' capacity to contribute to service delivery and development, especially at the local government level.

Below we discuss the three basic concerns with CDF more extensively. The conclusion outlines some ways of addressing these problems, as well as some research hypotheses that the International Budget Partnership (IBP) intends to investigate in order to build a stronger evidence base for these arguments.

Deficiency #1: Breaching the separation of powers

The separation of powers is a system for the governance of democratic states that divides the state into a number of branches, each with separate and independent powers and areas of responsibility. A common division is one in which there is an executive, a legislature, and a judiciary. The "separation" can result from each of the branches being elected independently (as in the case of presidential systems) or by a set of constitutional, civil, or common law provisions that prevent each of the branches from usurping the functions of another.

The separation of powers is meant to reduce the risk of poor governance by limiting the authority of each branch of government. This division also allows citizens to seek redress if one of the branches should act against their interests. In most recent examples, the separation of powers has helped the judiciary and the legislature to limit the power of the executive, as is the case when legislatures use audit reports to hold the executive to account for the implementation of the budget.

In the budget system of democratic states, the most important manifestation of the separation of powers is that the legislature enacts the budget and evaluates, but is not directly involved in, its implementation. It determines the rules of the game and pronounces on whether these have been followed but does not "play the game" itself — it is the executive that manages and spends the budget.

CDF schemes appear to breach the separation of powers by conferring the executive powers of budget implementation on MPs. As a Kenyan court put it, "any outfit that is composed of Members of Parliament and is charged with expenditure of public funds is commingling of roles of the different organs of state in a manner that is unacceptable... it would be against the constitutional principle of the separation of powers for Members of Parliament to take part in actual spending, then submit their annual estimates to themselves in Parliament through the Public Accounts Committee" (quoted in Ongonya et al 2005).

In federal countries with federal governing structures, CDFs even run the risk of violating a "vertical" separation of power by allowing elements of national government (the legislature) to implement programs at the local level. According to Ongonya et al (2005), "Involving the Members of Parliament who are at the national level, in the control and management of the

³ A recent Google search resulted in 120,000 hits for CDFs, many of which are newspaper reports of corruption.

CDF, which targets and is for the benefit at the local level is a violation of the... ideal of devolution.”

The institutional design and legislative framework of individual CDFs vary in the degrees of control over the implementation they give MPs. Thus they do not all breach the separation of powers in the same way and to the same degree. Still, the majority of CDF problems are ultimately related to the fact that it confers executive functions on MPs, and comprehensive solutions to these problems may remain elusive until this basic problem is addressed. Efforts to deal with the unintended consequences of this breach will not resolve this core flaw of CDF schemes.

Deficiency #2: Reducing government capacity

The capacity of the executive to fund and manage service delivery is already weak in most CDF countries. In many cases this weakness is given as a rationale for the introduction of CDFs that are meant to bypass “red tape” and administrative costs and go straight to community-level investments. However, CDFs may have the opposite effect; that is, they may weaken what little capacity does exist.

1. Division of revenue between constituencies

In some countries (India, Pakistan, Zambia, Malawi, Uganda, and Southern Sudan) equal amounts are allocated to each constituency through the CDF. Other countries (Kenya and Tanzania) have a more progressive allocation structure that includes an equity and redistribution objective that favors poorer areas in the overall system for distributing funds.

Where the CDF is divided equally between constituencies, it has a regressive effect. In these countries, other funding mechanisms may do a better job of redistributing resources to the poor, such as the equalization grants that Uganda provides to its poorer districts. Channeling funding through the CDF rather than these alternative funding mechanisms, therefore, has the net effect of regressively redistributing resources from poorer to richer constituencies.

In countries where the formula for CDF allocations is progressive, this redistribution problem is not necessarily resolved, given the explicitly political nature of CDFs. While the CDF law and regulations may specify a particular level of redistribution across constituencies, the amounts that are actually transferred or spent may not follow these rules. The major reason is that political party allegiances are likely to get in the way of sound development planning and service delivery. This typically happens in the run-up to elections where ruling parties in developing countries have shown few scruples about using state resources to ensure victory at the ballot box. Journalists in the Philippines have reported, for example, that politicians tend to hold back or save their PDAF (Philippine CDF) funds until just prior to an election: “A few months before the 2004 elections, a publicist of several members of the House estimated that more than half of all congressmen had not touched their pork for projects, saving it instead for reelection purposes” (Chua and Cruz 2004).

2. Project selection and planning

Even where the allocation of CDF funding between constituencies is satisfactory, this does not ensure that the poorest and neediest will benefit. After funds have been divided up between constituencies, the appropriate projects must still be chosen within each of these constituencies. Critics in Kenya have argued that CDF projects do not target the neediest beneficiaries and that projects do not reach all community members; rather, project

selection is often driven by political factors. In a recent study, a large majority (78 percent) of respondents reported funding of low-priority projects that do not benefit the neediest citizens (NACCSC 2008).

Ideally, a democratic and efficient system of governance assumes a measure of impartiality in the way in which the executive manages and spends the budget. This impartiality stems in part from the relative autonomy of the state bureaucracy from direct involvement in party politics. While often compromised in many poor countries by political interference in budget implementation, involving MPs, who are elected on a party platform, in budget implementation is *more* exposed to this risk. This is especially true given the large amount of discretion that most CDFs afford MPs.

In principle, the more “neutral” orientation of the executive, even if only relatively so, means that funding allocated and managed through other government channels are less likely to be biased to the local MP’s allegiances and more likely to conform to local or national development plans. Also, spending by the executive is overseen by the legislature, but in most CDF schemes no one provides oversight because the separation of powers has been breached.

Efforts have been undertaken to address poor project selection, as in Jamaica where each MP is required to submit a five-year development plan for their constituency that is aligned with national priorities. This reform, however, does not specify who would ensure that CDF projects reflect this plan. On the other hand, if CDFs are required to spend according to the same plan as local government, it is also not clear why a CDF would be necessary in the first place.

Even where MPs do not blatantly skew projects to their followers, CDF processes do not adequately protect against the duplication of development projects. Legislators eager to garner political support may initiate “new” projects under their name that are essentially duplications of their predecessor’s work. Apart from duplication within the CDF scheme, there is also the danger of duplication of projects funded by other decentralization schemes because of a lack of coordinated planning.⁴

3. Coordination with local government and displacement of funds

Most developing countries have been the target of internally and externally driven local government reforms over the last 20 years. The benefits of these reforms have often been limited because of low capacity, insufficient transfer of funds, or bureaucratic disorganization. CDFs run the risk of diverting even more funds from embattled local governments and placing an additional administrative burden on them.

Proponents of the CDF argue that it supplies additional discretionary funds to the local level and makes resources available to communities for development projects of their own choosing. But it is not always clear whether the CDF allocations are additional injections to local government or whether such funds are diverted from funds that would have been transferred to local government in the first place. Given the complexity of intergovernmental fiscal relations, it would be hard to produce conclusive evidence of funds being added to or diverted from local governments by CDFs. However, when CDFs grow while local government transfers stagnate, it becomes harder to argue that these funds are additional, and there are cases where a CDF was funded at increasingly high levels in the

⁴ See Centre for Budget and Governance Accountability (2004) for examples of such duplication.

face of obvious funding shortfalls in local governments. For example, in 2008 more than one billion Kwacha was transferred to each constituency in Zambia while local council salaries had not been paid for almost two years (Zambia CDF).

Even where CDFs do not displace local government funding directly, they can displace funds indirectly by not providing for the operational and maintenance costs associated with CDF projects, most of which are infrastructure projects. These ancillary CDF costs may ultimately require contributions from local government coffers. In India, for example, operations and maintenance costs cannot to be funded via the MPLADS (one of the Indian CDF schemes) and fall instead to the relevant District Authority.

4. Monitoring project implementation

The administration of CDFs at the constituency level can be problematic, duplicating structures and overtaxing the available capacity. Critics of the CDF in Kenya, for example, have argued that the scheme sets up a parallel administrative structure that is expensive, unnecessary, and burdensome for the local authority. The experience and skills base of such CDF monitoring structures are often compromised even further when nepotism and political allegiance influence who is appointed to project committees.

In Kenya efforts have been made to “professionalize” CDF monitoring structures and improve their capacity. As part of recent reforms, fund or account managers were recruited and posted to each constituency to improve management and compliance. In Jamaica similar efforts have been made to improve CDF monitoring capacity. Laudable as these efforts may be, fragmenting the available project monitoring capacity between CDFs and other local structures could dilute the overall reach and undermine the rational distribution of oversight capacity.

In some cases (Tanzania, Pakistan, and India), CDF funds flow through existing administrative structures, and thus avoid the need to establish new structures. However, this arrangement could still impose significant additional monitoring and reviewing responsibilities on the already overextended subnational governments.

Deficiency #3: Weakening the oversight capacity of the legislature

The ideal roles of a legislature can be summarized as making laws and overseeing the executive’s implementation of those laws. The ability of the legislature to perform these functions is based on two key relationships: the one it has with the executive, and the one between individual MPs and their electorate. CDFs risk compromising the integrity of both.

1. Impact on the relationship between the legislature and the executive:

It has been argued that CDFs strengthen the role of the legislature by making them less dependent on the executive for funding; they now have money to spend on the projects that they think are important. But this arrangement distracts MPs from their core business and could even make them more dependent on the executive, thus making it more difficult to oversee the work of the latter.

CDFs compromise the independence required by legislatures to oversee the executive effectively. With the executive controlling large amounts of money destined for individual MPs, it is easy for the executive to pressure them into complying with its wishes. As an example, in the 2008 presidential campaign in Zambia, the incumbent president promised to raise the CDF per constituency to K1.0bn (approx. US\$ 225,000), while the opposition

candidate promised K4.0bn (approx. US\$ 900,000) per constituency if elected (Zambia CDF). This dynamic of “buying” compliance from the legislature is one factor that explains the rapid growth in the size of CDFs.

CDFs can distort the policy perspective of MPs, as well. In Pakistan, which has one of the longest running CDFs, this scheme has distracted MPs from their broader democratic role, with MPs focusing their attention on local issues to the neglect of legislative and policy interventions from a national perspective (Pakistan CDF). It also has increased the workload of MPs, who spend a majority of their time finalizing CDF schemes rather than making good laws and holding the executive to account for implementing them. In Kenya MPs were even prepared to delay the approval of the overall budget in order to force increases in CDF allocations (“MPs want Uhuru to double CDF in Budget,” *The Standard*, 25/05/2009). This illustrates to what extent the CDF can distract MPs from their core functions.

In addition to potentially compromising the ability of the legislature to perform its oversight role, CDFs can undermine the public’s ability to hold the executive to account for meeting its needs. The executive branch of governments has tended to support the introduction of CDFs because such schemes could help to shift the responsibility for capital investment away from them and onto MPs, even though CDFs normally only make up a small portion of total state expenditure (Oxford Analytica 2009). A number of anecdotes have emerged from Kenya of the executive telling people to “go and ask their MP” to build a school or a well-point.

2. Impact on MP-constituent relations

CDFs compromise not only the relationship between the executive and the legislature but also that between MPs and their constituencies. Baldeosingh (in Center for International Development 2009) argues that CDFs could contribute to further shifting the relationship between MPs and their constituents from its proper democratic basis (MPs represent constituents interests in national policy decisions) to a financial basis (MPs bring home the bacon).

Given the multitude of governance weaknesses in developing countries, it would be simplistic to argue that CDFs create clientelism, or even that they are the single most important factor that supports this practice. But there is evidence to suggest that they may play a significant role in reinforcing it.

Ideally, MPs are supposed to represent the interests of their entire constituency in the making of laws and overseeing the work of the executive. When their role narrows to one of delivering direct benefits in exchange for electoral support, important parts of their legislative and oversight roles may fall by the wayside. At the very least there is less incentive for legislators to represent their electorate’s position on issues not related to the CDF.

The long-term effect of such actions is that the MP’s performance in the use of their CDF allocation becomes a measure of their effectiveness. In the Philippines, for example, the view of more and more voters is that MPs should be evaluated on their ability to bring in benefits to their constituency, not to make laws and contribute to the legislative debate (Chua and Cruz 2004). In this way CDFs could undermine MP’s national policy-making role or focus (Center for International Development 2009).

In Uganda the Africa Leadership Institute found that voters were basing their view of MPs’

performance on community projects — “material things that the member was able to bring to the constituency. Clearly the legislative role of the legislator was not well recognized or given the prominence it deserves (Africa Leadership Institute 2007).”

Keefer and Khemani (2009) demonstrate that CDFs can ultimately reduce the relationship between the MP and the electorate to absurd dimensions. They find that MPs make less effort to deliver CDF projects when they are politically secure in their constituency and do not feel compelled to provide patronage: “West Bengal, the only state where a single political party, the Communist Party of India (Marxist) has dominated state politics and leadership since 1977, stands out as a state with significantly and substantially lower MPLADS spending than other states. Average spending in constituencies in West Bengal is 18 percentage points lower than average spending in other states.”

In a recent paper, Goran Hyden describes the two competing dynamics in poor countries as “clientelist” and “developmentalist” (Hyden G. 2010). The above examples show how CDFs could contribute to clientelism and to the perceived role of MPs being “automatic teller machines” rather than being representatives of the people in the governance process.

Conclusion

This paper summarizes the growing concerns around CDF schemes. Enough evidence exists to suggest that they put unwelcome pressure on service delivery and accountability systems in countries where these systems are already weak. Rather than introduce CDFs, poor countries should strengthen their legislatures and pursue decentralization programs more vigorously. In countries where CDFs are established and unlikely to be scrapped, their weaknesses should be mitigated through increasing citizen participation, progressively distributing funds, implementing rigorous reporting and third party oversight of CDF activities, and developing sufficient project management capacity.

As indicated earlier, the impact of CDFs needs to be researched much more thoroughly than has been done to date. In February 2010 the IBP convened a meeting in Washington, D.C., that brought together civil society organizations (CSOs) concerned about the impact of CDFs in their respective contexts. In addition to discussing CDF practices in their countries, the participants developed a framework for further joint advocacy and research on CDFs.⁵ The IBP and its partners will conduct some of this research over the next two years, largely following the three areas of concern outlined in this brief. Through this research, we will endeavor to examine these fundamental hypotheses:

- CDFs breach the separation of powers,
- CDFs distribute allocations less progressively than other funding mechanisms,
- CDF allocations and project selection are used to influence the results of elections,
- CDF projects are less aligned with local development priorities than other local infrastructure projects,
- CDFs displace funding that might otherwise have gone to local governments and impose a number of administrative and monitoring burdens on the latter,
- The implementation of CDF projects is more poorly monitored than that of other projects,
- CDFs weaken the ability of the legislature to oversee the executive,
- CDF enhance clientelistic aspects of the relationship between MPs and the electorate,

⁵ The workshop was attended by CSOs from Kenya (MUHURI), Tanzania (The Policy Forum and Sikika), India (MKSS), Zambia (Economic Association of Zambia) and Pakistan (Omar Ashgar Khan Development Foundation). References to their inputs at the workshop refer simply to the country e.g. (Tanzania CDF).

- and
- weak legislatures are more likely to adopt CDFs than strong ones.

The Center for International Development (2009) observes that CDFs have come about largely in parliamentary systems. This raises the question of whether CDFs are “compensation for the parliament’s inability to amend the budget in these systems.” If this interpretation is correct, one could argue that CDFs are a poor replacement for the long-term task of reforming, capacitating, and empowering legislatures to influence budget allocations and to hold the executive to account for the implementation of the budget.

Sources

This paper draws extensively on Hickey (2010) and presentations made at the IBP workshop referred to earlier.

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