

## Spotlight on Equity: ISSUE 3

# Is the Equalization Fund distributed fairly?

The Equalization Fund was established by the 2010 Constitution to address historical marginalization and unequal development across Kenya. According to the Constitution, the Fund is to be used by the national government “only to provide basic services including water, roads, health facilities and electricity to marginalized areas to the extent necessary to bring the quality of those services in those areas to the level generally enjoyed by the rest of the nation.” The Fund is supposed to receive 0.5% of all the revenue collected by the national government each year as approved by the National Assembly.

How is the Equalization Fund distributed? Distribution is based on the Commission on Revenue Allocation’s (CRA) marginalization policy. The policy designates a two-step process of distributing the Equalisation Fund. First, it identifies 14 counties as marginalized areas based on the presence of marginalized communities and analysis of historical marginalization. It then gives half the funds to the marginalized counties equally, and then uses the County Development Index to distribute the other half of the Equalization Fund among these counties.

Is this criteria fair? The criteria is intended to measure only one of the five principles: need. However, it falls short for a number of reasons:

In the attempt to correct historical marginalization, the policy targets counties as the unit of distribution for the Equalization Fund. This approach leaves out constituencies, wards, and locations that are equally poor in income or access to services, but are not located in the selected 14 counties that are considered as ‘marginalized’. Inequalities in Kenya are actually more severe at constituency and ward level than at county level, thus these would have been more appropriate targets for sharing the Equalization Fund.

Second, the County Development Index uses four parameters, poverty, infrastructure, health and education, to measure need. However, these indicators do not measure need very well. Why not?

- The indicators used to measure access to health are the percentage of mothers per county who delivered in facilities with the help of a qualified medical per-

sonnel, access to improved sanitation and the percentage of immunized children in each county. These indicators measure access to very specific services, but ignore overall access to health facilities which is also highly unequal across the counties.

- The policy uses the percentage of tarmacked roads, access to improved sources of water and access to electricity to measure infrastructure gaps in the counties. Using percentage of tarmacked roads ignores the fact that each county’s need for roads is dependent on the size of the county and its population density. It is also a poor measure of need because, while a county may have all roads tarmacked, it may have very few roads to begin with.
- CRA used data from the 2005/06 Kenya Integrated Household and Budget Survey to calculate the poverty gap for each county. This survey measures income poverty, but does not directly reflect access to the services that the Fund is supposed to address.
- The criteria weights education, health, and infrastructure equally. Generally, a distributive formula should look at needs not just in terms of access but also in terms of cost of delivery. The cost of health is much higher than education for counties so weighting them equally does not correspond to their needs. Furthermore, this approach ignores other drivers of cost beyond access levels. For example, counties with larger land areas have a higher cost of service delivery due to more expensive logistics, something the CRA has recognised in its overall county revenue sharing formula.

## Summary

The Equalization Fund does not target the neediest parts of the country (at sub-county level or below). It uses measures of need that are imprecise and may result in major inequalities remaining unaddressed. It also weights certain services, such as education, which is not a target of the Fund, more heavily than others without any clear justification. Finally, the large equal share used to distribute funds is not equitable given disparities among the marginalized counties.

# What does equity mean?

Sharing resources fairly means basing our decisions on widely accepted principles. This series of pamphlets looks at those principles and then applies them to practices of resource sharing in Kenya. How fair are our current approaches to sharing resources? You decide.

Most people share the idea that creating a more equal society may require us to treat people differently depending on their differing circumstances. This idea is the basis for the concept of equity. From this notion, we can develop some additional principles of fairness.

## The need principle

The need principle states that people should be treated according to their needs. If we are distributing resources for health care, a person who is sick should receive more than a person who is healthy. This examples relate to the population's need for services and the immediate costs of providing them. For example, if it costs Ksh 100 to provide health care to one individual for a year, and we have 10 sick individuals in one area and five in another, we will want to give more to the area with 10 people. However, we may also need to take into account the starting position of the two areas. If the area with ten people has a well-equipped hospital, and the area with five people lacks a facility, then need would suggest we may need to give some additional funding to the area with fewer sick people to "catch up" to the area with more.

## The capacity principle

Capacity is the idea that we should not do for people what they can do for themselves. A rich person can afford to pay for more of their own services than a poor person. Assuming that both a rich and a poor person are sick (they have the same **need** for health care), we would be likely to give more to the poor person because they have lower capacity to meet their needs.

## The effort principle

Effort is the idea that we should reward, or at least not punish, people who do more for themselves with what they have. Consider two poor people who are both sick. They have the same needs and the same capacity. One of the poor people decides to sell his second cow to pay for his health care, while the other keeps both of his cows and requests help from the government. We

would feel that the first person was making more of an effort to cater for his own needs given his capacity, while the second was not. We would be uncomfortable giving money to the second person while giving nothing to the first, because this would reward people who do less for themselves.

## The efficiency principle

Capacity and effort both relate to how much people have and how much they can generate for their needs. Efficiency is about how people use the resources they have. Returning to our poor, sick farmers: one farmer may use the funds they have to purchase highly effective medicines at a low price, while another may choose to spend funds on ineffective procedures at a clinic known for over-charging patients. We would likely feel that we should not give as much money to someone who chooses to spend it on ineffective or over-priced services as we should to someone who uses money prudently.

## The basic minimum principle

The principle of a basic minimum is that when we distribute funds, we may look at need, effort, capacity, efficiency, and even other principles not discussed here. After doing so, we might end up deciding that all of the funds should go to one person, or one community or one region. The basic minimum principle would tell us that we should first ensure that everyone gets some small share of the total before we distribute the rest according to other principles. Many people would feel that everyone should get at least a token from the resources available, so that everyone feels that they are part of the system and receive something from it.

## The fair process principle

The fair process principle emerges from the realization that the principles above may conflict with one another, and that balancing them is a difficult task. There is no one right way to do this. For example, we might find that the person with the greatest needs makes the least effort. What should we do in this case? We will want to give them more due to their needs, but we will want to give them less due to their lack of effort. As there is no one correct solution to this problem, the only way to address it is to ensure that we make the decision through a fair and transparent process in which people give their reasons, these are thoroughly debated, and a decision that people may disagree with, but can agree is well-reasoned, is reached.