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Spotlight on Equity: ISSUE 7

Are counties sharing resources fairly? Evidence from three counties

Under pressure from county assembly members, many counties have adopted formal mechanisms of distributing resources to the wards through the budget. Trying to ensure a rational and transparent mechanism of sharing is a positive development. But are these approaches equitable?

Most counties have adopted, with some customization, one of two main approaches borrowed from national institutions. These two approaches are the 2012 Commission on Revenue Allocation (CRA) formula for sharing funds among the counties, and the formula used to distribute the national Constituency Development Fund (CDF) among the constituencies.

The 2012 CRA formula distributed 25% of the total share to all counties equally to ensure a standard minimum allocation and then used parameters of population, poverty, land area and fiscal responsibility to distribute the rest of the funds equitably. The formula covers the basic minimums principle and also makes a good attempt to measure need through the poverty, population and land area parameters. Fiscal responsibility was intended to measure effort, but was not applied during the 2012-2016 period. The formula does not measure other principles of fairness, such as capacity or efficiency.

CDF distributes 75% of the fund equally among the 290 constituencies. The other 25% of the fund is distributed based on poverty. The high equal share sacrifices equity for equality, and is too high to be a basic minimum share. Poverty is used as a measure of need, but is not a precise measure of the need for capital projects, which has always been the focus of CDF.

By mimicking these approaches, counties have retained their advantages and disadvantages. We look at three cases below:

Elgeyo Marakwet enacted its County Equitable Development Act (EDA) in 2015. The EDA shares 60% of all development expenditure equally among all the 20 wards and the remaining 40% shared equitably utilizing the parameters from the CRA formula, plus factors for aridity, emergencies and county flagship projects. The use of a clear formula modelled on CRA ensures some transparency and equity in distribution. However, the decision to channel the entire development budget through a ward formula raises concerns about the county's development model: the low share for county flagship projects does not leave the county enough funds to implement countywide projects.

The high equal share raises concerns about equity, and some of the parameters in the formula, such as fiscal responsibility, do not appear to be measurable at ward level.

Baringo's 2014 County Ward Development Fund Act appears to provide two different criteria for distribution of county development funds to the wards. In one section, it provides that at least 10% of the approved development budget each year should be allocated to the Ward Development Fund, which should be distributed among the 30 wards in the county using the CRA parameters. It is not clear from the language in the act if the parameters will be applied in precisely the same way as they are applied in the CRA formula. In another section, the act states that 85% of the Ward Development Fund should be shared equally among the wards, while the remaining 15% will be allocated based on each ward's share of the county population. It is not clear which approach the county actually intends to follow. The use of the CRA formula would ensure some equity in distribution, while the second approach overemphasizes equality and ignores inequalities among wards. Even the approach to equality is flawed however, as giving equal shares to wards with very different populations is neither equality nor equity.

Meru County's Ward Development Act sets aside at least 22.5 percent of "ordinary revenue" and national transfers to a Ward Development Fund to be distributed as follows: 85% of the Fund should be shared equally among the wards, and 15% allocated based on three factors (population size, poverty levels and infrastructure differences among the wards). It is not clear how these will be measured. Like Baringo, Meru's approach puts too much emphasis on equality (in the same flawed way) but it does attempt to think about equity in the remaining 15 percentage points. It is the only county that endeavors to actually measure infrastructure gaps, although it is ironically also the only county we examined that is not using its formula exclusively to distribute development funds.

Summary

The fact that these counties have attempted to draft legislation to bring order to the process of sharing revenues is a step forward, although the legislation mentioned here is not being fully implemented. Nevertheless, the approaches adopted here are not as equitable as they could be, and important gaps remain in defining parameters in ways that are fair.

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.