Is the way that we share CDF money fair?

The Constituency Development Fund (CDF) was established in 2003 to address infrastructure gaps and poverty within constituencies in Kenya. CDF received Kshs. 35.2 billion in the 2015/16 financial year. CDF is distributed as follows:

- **75% of the fund** is shared equally among the 290 constituencies.
- **25% of the fund** is distributed based on number of poor in the constituencies.

Let's see how the formula for sharing CDF stacks up against our five key principles. From a quick review, we can see that the formula only really attempts to address two of the principles: basic minimums (all constituencies receive funding) and the need principle (those areas that are more marginalized receive more). We consider how well it addresses these principles below.

**Need.** The CDF formula does attempt to measure need, but it does not do so very well. Why not?

1. Poverty is not a direct measure of the need for “development projects”. There are poor people that live close to good roads, bridges, schools and hospitals. The problem these poor people face is that they cannot access all of the opportunity around them, not that it does not exist. If we want to address the need for infrastructure, we should measure the lack of infrastructure, not the income of the population. While poverty may be a decent measure of the need for recurrent spending, like education bursaries, using poverty as a measure of the need for capital funds may not be equitable because it gives more capital spending to areas that may not need it. It is also the case that CDF funds are used for a number of other non-capital items, the needs for which are also not measured, such as sports, environmental projects, etc.

2. Using the number of people below the poverty line does not fully capture poverty because even among poor people, there are large differences in how poor people are. Suppose the poverty line is set at Ksh 100 per day. Now suppose that one person earns Ksh 90 per day while another has Ksh 20 per day. Are these two people equally poor? Using the poverty line approach, they appear to be, but we can measure directly how far below the poverty line people are to get a more realistic picture of poverty (known as the “poverty gap” and already in use in the CRA formula).

**Basic Minimum.** The CDF formula ensures that every constituency receives some funding, consistent with the basic minimum principle. However, the very large equal share (75% of the fund) cannot be considered a “minimum” and can be considered unfair.

1. First, the equal share does not recognize the large differences in population between constituencies. Why should Juja, with a population of about 486,121, receive the same amount as a constituency like Saku, with a population of 46,502?

2. Second, the stark differences in access to infrastructure across the country suggest that the share of CDF that should be based on need should be much higher, and should be based on the actual households in need of specific services.

**Fair Process?**

A final concern about the CDF distribution criteria is the data that it is based on. The CDF used data from a 2005 Ministry of Planning report, collected in the late 1990s. Looking at the current CDF distribution formula, it is, however, difficult to tell if this data is currently in use. If it is, it is unclear how it was adjusted to estimate poverty rates for the many new constituencies created in 2013/14 as there were many fewer constituencies when the data was generated in the 1990s. The current bias in favour of rural areas in the CDF is also unclear from official sources.

**Summary**

The CDF distribution model is not ideal as it overemphasizes equality relative to equity, and does not recognize the massive disparities in levels of development across the country. The excessive focus on equal shares does not even lead to per capita equality, given large differences in population across constituencies. Poverty is also a poor measure of real need, and it is also not measured well in the CDF formula.
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.