POLICY DIALOGUES

Inequality in Kenya: Trends and Policy Responses

December 2020 – No. 18 | EU-AFD Research Facility on Inequalities

PITCH

New analysis[1] of trends in inequality in Kenya draws on three household surveys spanning a period of 20 years and a range of indicators of inequality. The findings reveal wide differences across households and regions, not only in per capita income but also in assets and access to social dimensions of wellbeing – including secondary and tertiary education, and key public services, such as safe drinking water, improved sanitation, and electricity.

From a policy perspective, the result of the study are important for monitoring Goal 10 of the Sustainable Development Goals (SDGs) adopted by Kenya and other member states of the United Nations. The findings can also inform policy interventions to reduce inequality, which is critical for enhancing the country's social cohesion and boosting economic growth.[2,3]

MOTIVATION

Kenya's government has implemented a number of reforms over the years in an effort to reduce inequality. Some of the main policies include pursuit of economic growth on the assumption that it would trickle down to reduce poverty and inequality – as well as decentralization of fiscal funds; cash transfers to vulnerable groups; and devolution of government functions and services. The government has also put in place measures as part of the structural adjustment programs implemented mainly in the 1990s, and numerous 'pro-poor' and 'pro-equity' reforms in sectors such as education, health, and agriculture.

Yet measures to redistribute income have failed to yield the desired results, and inequality has widened even as the economy achieved relatively high rates of economic growth.[4] There are several possible explanations for the lackluster performance of these interventions:

- First, inequality-reducing objectives were rarely explicit: rather it was assumed that employment creation would automatically reduce inequality.
- Second, the creation of a more inclusive growth process requires good quality economic and political governance, which has been elusive.
- Third, the growth rates achieved may not have been high enough to create the required momentum to alleviate poverty and reduce inequality.

METHODS

The study uses per capita expenditure as a proxy for welfare to compute a number of indicators of inequality: not only the widely used Gini coefficient, but also the Lorenz curve, Theil indices, Atkinson indices, and the Palma ratio.

Asset inequality is analyzed using an asset index. In the social domain, access to education, health, and basic services such as sanitation are computed.

The three main datasets used in the analysis are the 1994 Welfare Monitoring Survey II and the Kenya Integrated Household Budget Surveys for 2005/06 and 2015/16.

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Key words Inequality trends, asset inequality, Kenya

Geography Kenya, East Africa

Themes Inequality, poverty, Economy

*Find out more about this project: Inequality Trends and Diagnostics in Kenya

Funded by the Development Cooperation Instrument of the European Union

AFD AGENCE FRANÇAISE DE DÉVELOPPEMENT

RESULTS

Inequality has remained high in Kenya over the 20-year period since 1994, with real mean and median annual expenditure on a decline. The average annual mean expenditure of non-poor individuals was at least triple that of their poor counterparts, except in 2015/16, when it was about double.

While the ten-year period from 1994 did not see a reduction in most measures of per capita spending inequality, the ten-year period from 2005/06 was marked by a significant decrease. The decline in the per capita spending Gini coefficient from 47% in 2005/06 to 40% in 2015/2016 went in tandem with declines in the Theil and Atkinson indices and the Palma ratio.

Inequality of per capita consumption expenditure is higher in urban areas, among the non-poor, and among households whose heads have higher education. There is wide variation in inequality across counties. For example, in 2015/16, the Gini coefficient ranged from 27.2% to 55.9% for the counties of Wajir and Turkana, respectively. Regionally, 12 counties experienced an increase in inequality while most (35 out of 47) counties experienced a reduction. Evidence points to larger asset inequality (a Gini of 54%) relative to per capita consumption expenditure inequality (a Gini of 40.4%) in 2015/16. Land inequality among landholders is even larger: Gini coefficients of 71% in 2005/06 and 61% in 1997.

In the labor market, a larger proportion of women and young people do not have access to decent jobs. Earnings inequality is higher than inequality of real per capita consumption expenditure, which indicates that the labor market could be contributing more to inequality.

In the social domain, there are disparities in access that disadvantage rural areas, the poor, and arid and semi-arid counties. Relative to 1994, more poor and non-poor populations (about 70%), as well as rural and urban residents, are seeking healthcare in public facilities – which signals quality improvements but also lack of positive discrimination in favor of poorer households.

Although there has been a substantial increase in households accessing safe drinking water, waste disposal, and improved sanitation across the three points in time, there is still a large group of households without access. There are also large cross-county disparities in access, an example being access to improved sanitation, which exceeded 90% in counties like Kisumu and Nairobi - 15 times greater than in Wajir at 6.7%.

Inequality between men and women is widespread. There is high and widening inequality in access to higher education, while representation of women on various legislative bodies is still very low, at below 10%. Men have higher labor force participation rates and higher earnings, and they own more assets than women. Furthermore, households headed by men have relatively greater access to safe drinking water, piped water, and improved sanitation compared with households headed by women.

RECOMMENDATIONS

- Lower overall inequality could be achieved by reducing all forms of asset inequality. Further research would reveal the main drivers of inequality reduction in some regions for potential replication in lagging regions. Key policy areas include:
- Increasing access to education at secondary and tertiary levels, with particular attention to achieving gender parity in tertiary enrolment and addressing adverse labor market outcomes, including earnings inequality.
- Increasing access to key public services, including safe drinking water, improved sanitation, and electricity. These are essential across the whole country, but enhanced interventions are needed in rural areas.
- Enhancing the periodicity and quality of household budget survey data by: collecting data in five-year cycles and/or launching panel data; and collecting data on time use and the quality of services accessed by households.

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[1] This Policy Dialogue is based on a study titled: *Inequality Trends and Diagnostics in Kenya (2020)*
[2] Alesina, Alberto; Rodrik, Dani (1994). 'Distributive Politics and Economic Growth'. *Quarterly Journal of Economics*. 109 (2): 65–90.
[3] Ezcurra, Roberto; Palacios, David (2016). 'Terrorism and spatial disparities: Does interregional inequality matter?'. *European Journal of Political Economy*. 42: 60–74.
[4] World Bank (1994), *Kenya: Poverty Assessment*, The World Bank, Washington D C.

Publishing Director Rémy Rioux
Editor-in-Chief Thomas Melonio

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Legal deposit 4th quarter 2020
ISSN in process | © AFD

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