REPUBLIC OF KENYA

NGEC
National Gender and
Equality Commission

Inequality Diagnostics Kenya:
Mind the Gap - Towards a More Equal Kenya

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Mind the Gap – Towards a More Equal Kenya

Report Prepared for the National Gender and Equality Commission

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Boxes

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AFD	Agence Française de Développement (French Development Agency)
BETA	Bottom-up Economic Transformation Agenda
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Federal Ministry for Economic Cooperation and Development)
CEQ	Commitment to Equity Institute
CSPS	Civil Service Pension Scheme
CT-OVC	Cash Transfers to Orphans and Vulnerable Children
CIT	Corporate Income Tax
EAP	Economically Active Population
EPL	Employment Protection Legislation
GDC	German Development Cooperation
GDP	Gross Domestic Product
HSNP	Hunger Safety Net Programme
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
IDP	Internally Displaced People
ILO	International Labour Organization
KIHBS	Kenya Integrated Household Budget Survey
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KNBS	Kenya National Bureau of Statistics
LNOB	Leave No One Behind
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OPCT	Older Persons Cash Transfer
MoH	Ministry of Health
MoL&SP	Ministry of Labour and Social Protection
MoL	Ministry of Labour
MTP	Medium-Term Plan
NGEC	National Gender and Equality Commission
NHIF	National Hospital Insurance Fund
NSSF	National Social Security Fund
PIT	Personal Income Tax
PWSD-CT	Persons with Severe Disability Cash Transfers
SDG	Sustainable Development Goals
UFS-CT	Urban Food Subsidy Cash Transfer
UNHCR	United Nations High Commissioner for Refugees
UNRISD	United Nations Research Institute for Social Development
USD	United States Dollar
VAT	Value-Added Tax
WDI	World Development Indicators

Consumable income	Disposable income plus the indirect subsidies received by individuals, less indirect taxes and contributions paid.
Disposable income	Market income minus direct taxes on personal income and contributions to social security, except for the portion earmarked for old-age pensions, plus direct transfers. Or: net market income plus direct transfers. Fiscal incidence studies assume that disposable income is equal to household expenditure and use disposable income as a starting point for the estimation of the other income concepts.
Final income or consumable income	Plus the net monetary value of social services provided by the state, or, consumable income plus in-kind transfers, minus co-payments and user fees for education and health services.
Gini coefficient or Gini index	Measure of inequality with values ranging from zero (perfect equality) to unity (perfect inequality). Consequently, the value of the Gini index ranges from zero to 100 (or from 0 to 1).
Horizontal inequality	Inequality within (groups of) the population.
Inequality of opportunity	Unequal circumstances such as gender, ethnicity, place of birth, or family background that influence a person's life chances.
Inequality of outcome	Unequal distribution of monetary outcomes such as income, expenditure or wealth, or of non-monetary outcomes such as educational attainment or health outcomes.
Informal employment	The 17th International Conference on Labour Statistics (ICLS) defined informal employment as 'comprising the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households, during a given reference period.' It thus comprises the following categories of employed people: own-account workers and employers employed in their own informal sector enterprises; contributing family workers, irrespective of whether they work in formal or informal sector enterprises; employees holding informal jobs, whether employed by formal sector enterprises, informal sector enterprises, or as paid domestic workers by households; members of informal producers' cooperatives; and own-account workers engaged in the production of goods exclusively for own final use by their household (such as subsistence farming or do-it-yourself construction of own dwellings), if considered employed according to the 13th ICLS definition of employment.
Labour force	Working age population (or potential labour force) available for economic activities, measured as the sum of the employed and the unemployed population at working age.

Labour force participation rate	The sum of the employed and the unemployed population at working age measured as a fraction of the potential labour force.
Market income	Pre-tax gross labour income (formal or informal), own consumption, capital income, imputed rent for owner-occupied housing and private transfers such as remittances and gifts.
Market income plus pensions	Market income plus contributory pensions.
Monetary Poverty	Situation of income or expenditure falling below a pre-defined poverty line. Incidence can be measured for individuals or households.
Multidimensional Poverty	Situation in which individuals or households do not meet the pre-defined threshold level of one or more dimensions of wellbeing.
Net market income	Market income plus pensions minus direct taxes and social security contributions.
Palma ratio	The ratio of the income shares of the richest 10% and the poorest 40%. This indicator is directly relevant to the UN's 'leave no one behind' (LNOB) principle which focuses on the bottom 40%. The value of the Palma ratio is 0.25 in case of perfect equality and the value will be higher the higher the degree of inequality.
Poverty line	Threshold with which actual income or expenditure of individuals or households are compared.
Progressive taxes	Taxes that reduce income inequality.
Regressive taxes	Taxes that increase income inequality.
Theil coefficient or Theil index	A generalized entropy measure of inequality with values ranging between zero and infinity, where lower values represent greater equality. Generalized entropy measures give more weight to values in the tails of the distribution, emphasizing inequality at one or both extremes. The Theil coefficient gives more weight to values in the right tail.
Underemployment	The ILO defines underemployment as the 'underutilisation of the productive capacity of the employed population in relation to an alternative employment situation in which persons are willing and able to engage'. It furthermore states that 'time-related underemployment exists when the hours of work of an employed person are insufficient in relation to an alternative employment situation in which the person is willing and available to engage'.
Vertical inequality	Inequality between groups of the population.
Vulnerable employment	The ILO defines vulnerable employment as the sum of own account workers and contributing family workers. This means that there is overlap between the definitions of vulnerable employment and informal employment with most of vulnerable employment being a sub-set of informal employment.

Inequality is a pervasive challenge that has far-reaching consequences and remains a significant obstacle to achieving sustainable development and prosperity for all. While the 21st century has witnessed a decline in global inequality, progress remains inconsistent at regional and national levels, and recent global events, such as the COVID-19 pandemic and geopolitical tensions, have threatened to reverse the gains. Kenya is one of the countries in Africa that has moderately high levels of inequality (KNBS 2020). There is an urgency to address inequality not only as a moral imperative but also as an essential element in achieving the Sustainable Development Goals (SDGs).

It is within this context that we present to you a report of an inequality diagnostic study in Kenya. The report is a result of the collaborative efforts between the Federal Ministry for Economic Cooperation and Development (BMZ) implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, and the National Gender and Equality Commission (NGEC). The report seeks to stimulate dialogue, partnerships, and further research around inequality and, ultimately, to have a positive impact on equitable and inclusive development through informed interventions.

The diagnostic study focuses on the socio-economic landscape in Kenya. It provides a macroeconomic overview of Kenya's major developments over the past decades in economic growth, poverty, and inequality. It examines the causes and drivers of inequality, with a focus on labor market dynamics, taxation policies, social transfers, and gender inequalities. The report further scrutinizes national policies and strategies to assess the extent to which they address inequality, while also considering the strategies of international donors. It presents policy options to address inequality.

The study is based on secondary sources of data drawn from international organizations, the national bureau of statistics, and other institutions that adhere to standardized measures and procedures. The key data sources include the World Development Indicators (WDI) and reports of the Kenyan National Bureau of Statistics (KNBS) augmented where necessary by local databases.

It is my hope that this report will inform further dialogue, and re-introduce strategic partnerships, and evidence-based interventions to address the emerging and multifaceted dimensions of inequality in Kenya.

Dr. Joyce Mwikali Mutinda, PhD, EBS
Chairperson, National Gender and Equality Commission (NGEC)

The completion of this inequality diagnostic study report in Kenya is the culmination of dedication, collaboration, and collective efforts that deserve recognition. I wish to extend my gratitude to all those who contributed to the completion of the Inequality Diagnostic Study Report in Kenya. First, I would like to express my sincere appreciation to the German Government, for financial support and GIZ for the technical assistance which made this study possible.

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I also wish to acknowledge the Chairperson and Commissioners of the National Gender and Equality Commission for their policy guidance and support.

I acknowledge the broader community of stakeholders, policymakers, and experts who have contributed to this report and whose specific details are listed in annexes. I appreciate your feedback during the validation workshop and the additional structured comments that you shared with NGEC 14 days after the validation workshop. This is a testament of your deep interest and engagement in addressing inequality in Kenya. Your contributions are pivotal to transforming the findings and policy options contained herein into actionable programs and policy statements.

This report is a true reflection of a collaborative spirit and shared commitment to fostering positive change. It is our hope that the findings and policy options contained within this report will serve as a catalyst for informed discussions, evidence-based policy decisions, and concrete actions aimed at reducing inequality in Kenya.

Thank you all for your invaluable contributions to this endeavor

Betty Sungura, MBS
Commission Secretary/CEO

Inequality has gained increased priority in global development agendas, with UN member countries committing to leave no one behind (LNOB) in pursuing the 2030 Sustainable Development Goals (SDGs), particularly the Sustainable Development Goal No. 10 (reduced inequalities). Yet, while inequality has decreased on a global scale this century, progress has been relatively limited at regional and national level or has even been undone because of the COVID-19 pandemic and current geopolitical tensions. In fact, "more than 70 percent of the world population now live in countries where income inequality has increased in the last three decades".[1] Incorporating inequality effectively into national development strategies and policies requires a deeper understanding of its context-specific causes and drivers, the national debate and individual perceptions, as well as the range and feasibility of potential solutions.

An inequality diagnostic aims to contribute to this understanding. It is backward-looking, in that it presents an overview of inequality and policies in past decades. At the same time, it is forward-looking, by presenting current policies/strategies and policy options. It contains descriptive statistical analysis and a review of academic and/or grey literature. Main data sources are, national data and World Development Indicators. An inequality diagnostic covers different dimensions of inequality. The relevant dimensions are: (1) vertical inequality versus horizontal inequality; (2) inequality of outcomes versus inequality of opportunities; and (3) monetary inequality versus non-monetary inequality. An inequality diagnostic also pays attention to gender inequality. Commonly used indicators of inequality are the Gini coefficient, Theil coefficient, percentage shares of total income/expenditure, the Palma ratio – which is the share received by the richest 10% of the population relative to the share received by the poorest 40% – and differences in mean values of relevant indicators, such as income, expenditure or educational attainment. The Glossary contains the definitions of the Gini and Theil coefficient and the Palma ratio and explains what their potential range of values is.

This diagnostic provides a framework for potential further collaboration between the Governments of Kenya and Germany and the National Gender and Equality Commission (NGEC). It focuses on the socio-economic perspective in Kenya and aims to address the following questions:
i.   What has inequality and poverty situation of Kenya been in past decades?
ii.   What drives inequality?
iii.   Which policies/strategies address inequality?
iv.   Which policy options are there to reduce inequality in Kenya?

The assessment aims to stimulate dialogue, partnerships and further research around inequality and, ultimately, to have a positive impact on inclusive development through informed interventions. The structure of the diagnostic is designed to build insight into how and why inequality manifests

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1 See UN website on inequality.

in different environments and its implications for development, before summarising the debates and perceptions around this topic, and outlining potential solutions and key areas for policy options and programme implementation.

The diagnostic starts with a macroeconomic overview that presents the major developments in the past decades in terms of economic growth, poverty and inequality. Focussing on inequality is important, as high inequality tends to negatively affect economic growth in the longer run and reduces the effectiveness of growth in efforts to reduce poverty. A reduction in inequality can also help to reduce poverty. The remainder of the diagnostic is structured as follows:

Section 1 describes and analyses the causes and drivers of inequality in the areas of labour market developments, taxes and transfers, and gender.
Section 2 presents the major national policies and strategies and discusses to what extent inequality features in them. This section also briefly discusses the strategies of key international donors.
Section 3 presents selected policy options to address inequality.
Section 4 identifies some potential areas for further research.

The diagnostic is mainly based on secondary data. No primary survey data was collected. Some inputs are obtained from the NGEC policy arm, why additional inputs and comments were received from stakeholders drawn from Government Ministries, Departments and Agencies, universities, think tanks and research institutions, development partners and Civil Society Organisations during a consultative meeting held in Nairobi on 22 September 2023. The bulk of analysed data is sourced from international organisations,[2] the national bureau of statistics or other institutions using standardised measures and procedures and supplemented with local databases for more detailed or more recent information. Key sources of data are the World Development Indicators (WDI) and reports of the Kenyan National Bureau of Statistics (KNBS). Where relevant and feasible, alternative estimates of inequality are presented that make a correction for underreporting of top incomes.

One limitation of this diagnostic is that it covers different dimensions of inequality, but its main focus is on inequality of outcomes and monetary measurement. Other limitations are that it does not contain systematic review of literature following a protocol for selection of literature and that no quantitative analysis is conducted of the relative importance of different causes and drivers of inequality. Current and past policies/strategies are not analysed in detail. The diagnostic also limits itself to an identification of policy options as input for policy discussions. It does not make concrete policy recommendations.

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2 Reliable sources of public data include the World Bank, OECD, United Nations (particularly UNDP) and International Labour Organisation.

Kenya experienced volatile economic growth during the past two decades. Whereas growth was high in most years, exceptions were 2000, when Kenya was hit by drought, and 2002, which was an election year. Growth was also weak in 2008, when the economy was affected by post-election violence, while 2020 was characterized by a small contraction of the economy related to the COVID-19 pandemic. The Kenyan economy recovered in 2021-2022, especially due to the performance of the services sector. Real GDP more than doubled and GDP per capita increased from approximately USD 1,100 in 2000 to USD 1,600 in 2021 (in constant 2015 prices).

According to the World Development Indicators, approximately 64% of the Kenyan population lived in monetary poverty in 2005, earning less than USD 3.65 per day. The poverty incidence decreased to 60% in 2015, but was still much higher than the 54% of the population that was poor in 1994. Extreme poverty also declined in 2005-2015, from 37% to 29%. KNBS (2020a: 14) estimated that the multidimensional poverty incidence was 53% in 2015/16.

On average, the poverty rate was not different between men and women, but monetary poverty was above-average among children under 18. In comparison, the multidimensional poverty incidence was above-average among adult and elderly women. At the same time, estimates according to both definitions clearly indicate that rural poverty was much higher than urban poverty. The degree of poverty also differed across the 47 counties of Kenya, with the monetary poverty incidence in 2015/16 ranging from 17% in Nairobi to 79% in Turkana.

Estimates for recent years based on the Kenya Continuous Household Surveys show a decrease of the monetary poverty incidence to 34% in 2019 (from 36% in 2015/16), followed by a sharp rise to 43% in the first year of the COVID-19 pandemic (KNBS, 2023b: Table 4.2).

It is likely that the strong GDP per capita growth was the main driver of the (extreme) poverty reduction between 2005 and 2015, though the observed reduction in inequality probably also helped to reduce poverty.

The Gini index of inequality was 47 in 2005, suggesting that there was not much change if compared to the Gini index in 1994. By 2015, however, its value had declined to 40. KNBS (2023b: Table 4.6) shows a slightly lower value of the estimated Gini coefficient in 2015/16 namely 39.1. The estimate for 2019 based on the Kenya Continuous Household Survey is 40.7, which points at a small increase if compared to the degree of inequality four years earlier. Surprisingly, the estimated Gini index reduced somewhat to 35.8 in 2020, before rising again to 38.9 in 2021.

While the reduction in inequality between 2005/06 and 2015/16 helped to reduce poverty, the high level of inequality itself diminishes the effect of economic growth on poverty.

The top 20% of the population received over half of the total income in 2005, whereas the share of the poorest quintile was only 4%. The changes in the quintile shares point at some improvement of the income distribution and the quintile shares in 2015 were similar to those in 1994. The changes in the extremes of the distribution – the top-10% and bottom-10% shares – were however more

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pronounced. According to estimates of the World Inequality Database, the share of the top-1% also diminished – from 21% in 2005 to 15% in 2015. Nonetheless, the richest 1% still received a large share of national income.

Female-headed households are more likely to be poor than male-headed households, but the gender differences in households' probability of being poor diminished somewhat between 2005/06 and 2015/16, whereby literacy level and secondary and university education were major factors in explaining the narrowing of the gender gap in the poverty incidence (Ichwara et al., 2023).

Disparities between regions are also large in Kenya. Urban inequality (of per capita expenditure) as measured by (among others) the Gini coefficient was higher than rural inequality in 2005/06. Rural inequality was only slightly less in 2015/16 than a decade earlier. In contrast, inequality within urban areas declined substantially and the difference between urban and rural inequality virtually disappeared. Rural income inequality as measured by the Gini coefficient marginally rose between 2015/16 and 2019, before declining to 29 in 2021. The Gini coefficient of urban income inequality remained virtually unchanged at 35 between 2015/16 and 2019 and had a value of 37 in 2021.

Especially North-western Kenya is characterised by high degrees of inequality, which tend to coincide with high poverty levels. The poorest county – Turkana – was also the county with the highest income inequality.

Agriculture is still the dominant employment sector in Kenya. The sector's low and declining labour productivity is a factor underlying inequality in Kenya. At the same time, the share of employment in industry experienced a remarkable decline from 12% to 6% in the first decade of this millennium and remained virtually unchanged afterwards.

Agriculture is a sector characterised by low and declining labour productivity, while productivity in the industrial and services sector was higher and increased in the past two decades (KIPPRA, 2020: 11, 35). The different sectoral levels of labour productivity are a factor underlying the urban-rural inequality. As KIPPRA (2020: xix) noted, 'the high poverty level in rural areas is mainly driven by over-reliance on agriculture, compounded by low productivity.'

Modelled ILO estimates presented in the World Development Indicators suggest that the labour force participation rate recovered from a small decline between 2000 and 2006 and has been around 75% since 2014. The labour force participation of men is consistently higher than that of women and the gender gap widened until 2016. The gap subsequently narrowed until 2019, but increased again as a result of COVID-19, which apparently affected the labour force participation of women more than that of men. The labour force participation rate of youth declined from 50% in 2000 to 43% in 2019. The small gender gap in favour of women that initially existed gradually disappeared over time.

The unemployment rate according to ILO modelled estimates was approximately 3% in 2000-2016, with a small decline over time, but increased in more recent years and stood at nearly 6% in 2021. The unemployment figures suggest that most of the increase occurred already before the start of the COVID-19 pandemic. The rate of unemployment of women was slightly higher than that of men. The same holds true for youth unemployment.

During the pandemic, the higher unemployment rate may have contributed to increases in poverty and inequality. The rate continued to increase among women in 2021. KIPPRA (2022) observed that the 'rise of unemployment particularly among the vulnerable groups such as women and youth, and the decrease in labour force participation can have severe long-term inequality and other undesirable developmental outcomes.' In normal times, however, unemployment is not seen as a major factor causing poverty and inequality. Underemployment and the large number of working poor are considered more important labour market problems and likely causes of overall poverty and income inequality. The rate of underemployment was estimated at 20% in 2015/16, compared to an estimated unemployment rate of 7%. The combined unemployment and underemployment rate increased between 2015/16 and 2019 and was highest among women and the 15-34 years old population.

The share of wage and salaried workers showed a marked increase in the past two decades, from 34% in 2000 to 51% in 2019. The proportion of wage employment is larger for men than for women, though the gender gap is narrowing over time. Vulnerable employment and employment in the informal sector were also more common among women than among men, but the gender difference reduced in the past two decades. Limited labour mobility between the informal and the formal sector is a cause of earnings differentials between the sectors (Kimenyi, Mwega & Ndung'u, 2016). Indirectly, this contributes to income inequality.

There is paucity of data on educational attainment in Kenya. The mean years of schooling was 6.5 years in 2018 and the average for women was 6.0 years compared to 7.2 for men. The gender gap in lower levels of education was smaller than in the labour market, but more men than women complete vocational education and training and tertiary education, which 'undermines women's employability and earnings potential in the labour market'. Overall, the gender wage gap was 68% in 2019 (MoL, 2021: 4, 11).

A study using 2005/06 data of full-time wage workers found that, at the national level, the private rate of return was nearly 8% for primary education, 23% for secondary education and for college education, whereas the rate was 25% for university education (Kimenyi, Mwabu & Manda, 2006a). Using 2015/16 data, Omanyo (2021) also found evidence of positive returns to education and, accounting for the effect of other variables, that there was a gender wage (or earnings) gap that disfavoured women.

For both men and women, the earnings inequality was higher in 2015/16 than at the end of the 1990s, though lower than in 2005/06 (KNBS, 2020b: 69). In this context, Manda et al. (2021) noted that 'earnings inequality is higher than inequality of real per capita consumption expenditure, which indicates that the labour market could be contributing more to inequality.'

Kenya's tax-to-GDP ratio was around 15% in the years 2014 to 2020. Taxes on income, profits and capital gains made up nearly half of total tax revenue in 2014-2018. Taxes on goods and services became slightly more important as a source of revenue in 2019 and 2020. Taxes on international trade made up about 10% of total tax revenue. Applying the Commitment to Equity (CEQ) methodology, Manda et al. (2020) found that direct taxes, as well as health insurance and retirement contributions were progressive, but poverty-increasing in 2015/16. The Gini coefficient of the distribution of net market income (that is, income after direct taxation) was 41.4, compared to a coefficient of 45.0 for market income plus pensions. Income tax on formal wages had the

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largest marginal effect on income inequality. Indirect taxes (including the Value Added Tax, VAT) were moderately progressive – unlike what is usually found. They were also poverty-increasing. Subsidies are generally non-existent in Kenya. Consequently, the overall effect of taxation on inequality amounted to nearly 5 points of the Gini coefficient.

The Government of Kenya's expenditure on education fluctuated around 5% of GDP in the past two decades. The composition of the government spending on education clearly shifted from primary to secondary education. Current public and private health expenditure was about 5% of GDP between 2000 and 2005, about 6% in the subsequent five years, after which it dropped again, to less than 5% in recent years. The public National Hospital Insurance Fund (NHIF) accounted for nearly 5% of current health expenditure in 2015/16, while the national and subnational governments' share was little over 40% of the total. Private health expenditure – principally being out-of-pocket expenditure – still made up over half of current health expenditure in 2000, but this proportion gradually declined to 35% in recent years. The Kenyan Government's spending on social protection amounted to only 0.35% of GDP in 2016 (and 0.4% in 2018/19). In comparison, around 0.33% of GDP was spent on social protection in 2021/22. Social protection encompasses social assistance (including five main cash transfer programmes), social security and social health insurance. The coverage of social insurance programmes declined between 2005 and 2015, while that of social assistance programmes increased in that period, except for the poorest quintile. The coverage of social insurance programmes tends to increase with income, while that of social assistance programmes is inversely related to the income level. Across counties, the coverage of social assistance was less than 10% in Kisumu, Nakuru and West Pokot in 2022, while over 60% of the households in Turkana received social assistance.

Manda et al. (2020) report a relatively small effect of direct (cash) transfers on income inequality in 2015/16: the Gini coefficient of disposable income was 41.0, compared to the value of 41.4 for net market income. The combined effect of indirect taxes and indirect subsidies on inequality was also not very large: the Gini coefficient of consumable income was 40.2. The largest inequality-reducing effects of public social expenditure in 2015/16 were those of the in-kind transfers related to spending on public health and education (net of co-payments and user fees). The Gini coefficient of final income was 35.7, being 4.5 points lower than that of consumable income.

Access to education is less widespread among poorer individuals than among richer people. The net attendance ratio of the primary school-age population varied from 75% for the poorest wealth quintile to 92% for the richest quintile in 2022; the equivalent rates for secondary education varied from 27% to 69% (KNBS, 2023c: Table 2.12). Across the 47 counties, the primary school net attendance ratio was lowest in Turkana (44%) and highest in Kiambu (94%) in 2022, whereas the secondary school net attendance ratio varied from 17% in Tana River to 73% in Kirinyaga (KNBS, 2023c: Table 2.12C). Different rates of school attendance tend to lead to differences in educational attainment. Hence, inequality of opportunities tends to result in inequality of education outcomes. The degree in which pupils complete their education also depends on the income of the household in which they live. Completion rates of primary, lower secondary and upper secondary education were higher, the higher the income quintile of the household.

Similarly, access to health services and health insurance is unequal, with poorer people having more limited access. Self-reported injured or sick persons in poorer households were less often diagnosed in a health facility than injured or sick members of richer households in 2015/16

(KIPPRA, 2020: 153-154). It is likely that this is also related to the differential degree of coverage of health insurance in that year, which was 42% for the highest income quintile – ten times that of the lowest income quintile (ibid.; xxiii). Targeting of social assistance in health services was also weak, as the percentage of extremely poor persons who reported to have received free medical care was at 23% only marginally higher than for the rest of the population (KIPPRA, 2020: 154). Regarding health insurance coverage in Kenya, there is evidence that this increased from 8% to 20% in 2009-2014 and that the degree of coverage became less unequal in that period, but that it remained pro-rich (Kazungu and Barasa, 2017). The degree of health insurance coverage was 26% in 2022 and ranged from 5% for the lowest wealth quintile to 58% for the highest quintile (KNBS, 2023c: Table 2.19).

In sum, despite some improvements in the access to education and health services, substantial efforts are required to address the remaining inequalities in the access to these social services and to reduce gaps in the outcomes in these areas between people from different income groups.

Gender inequality is both a cause and effect of overall inequality in Kenya. Selected examples of relevant aspects are gender inequality in the labour market (access to employment and remuneration), gender gaps in access to social services and social protection, gender differences in education attainment and health outcomes, gender inequality in poverty, and gender differences in political representation. Regarding the latter, evidence points at gender disparity in political participation. Despite some small improvements, the target of each gender holding at least a third of the seats in National and Country Assemblies according to the 'not more than two third gender rule' formulated in the 2010 Constitution was not met.

Regarding gender inequality in the labour market, Omanyo (2021) found that there is earnings discrimination against women. Earlier studies yielded similar results. Data of various household surveys conducted since 1997 indicate that real monthly earnings of men are on average consistently higher than those of women. The 2022 Demographic and Health Survey also points at a gender gap in earnings. Data suggests that the gender gap in earnings translates into horizontal economic inequality between female- and male-headed-household members.

There is also gender inequality in poverty. Poverty rates for female-headed households are higher than those for male-headed households. The monetary poverty rate for female-headed households declined from 39% to 33% between 2005/06 and 2015/16, compared to a reduction from 30% to 26% for male-headed households (Ichwara et al. 2023). The rates in 2021 were again at the levels observed in 2005/06 (KHBS, 2023b: Table 5.1). Female-headed households are more likely to be poor than male-headed households, but the gender differences in households' probability of being poor diminished somewhat between 2005/06 and 2015/16, whereby literacy level and secondary and university education were major factors in explaining the narrowing of the gender gap in the poverty incidence (Ichwara et al., 2023).

There seem to be major gender differences in access to education at Technical and Vocational Education Training (TVET) institutes and at the university level (KNBS, 2020b: 103). This finding is in line with the observation that more men than women complete vocational education and training and tertiary education.

Gender differences in access to health services were not very pronounced in 2015/16. Women were

slightly overrepresented in the use of healthcare services but may have made less use than they actually needed (KNBS, 2020b). The emergence of the COVID-19 pandemic disproportionately affected access to health services among relatively poor female-headed households (Makate and Makate, 2022). DHS 2022 data show that males 'spend twice as much as females on inpatient admissions and that monthly expenditure for outpatient visits is on average also 'slightly higher among males than females', while – in relative terms – women had to rely more on cash payments for the services than men (KNBS, 2023: 23, Table 2.20.2).

The access of women and girls to education and health care services is related to the public expenditure on education and health. Budgeting of public expenditure in those sectors was traditionally not gender-responsive. Gender became more mainstreamed in the budget process with the adoption of the 2010 Constitution.

The 2010 Constitution was a cornerstone in the evolution of the political discourse on inequality. The long-term development strategy Kenya Vision 2030 launched in 2008 explicitly aims at reduction of inequality (SDG 10) and at achieving gender equality (SDG 5). The NGEC monitors the implementation of the strategy and particularly the progress concerning the SDGs 5 and 10. Kenya Vision 2030 is implemented by successive five-year medium-term plans (MTPs), which encompass programmes, policies and projects envisioned by the long-term strategy. Other strategies and policies developed in the context of Kenya Vision 2030 are aligned to the objectives of the long-term strategy. A key policy formulated to address inequality is the National Social Protection Policy of 2011, which was revised in 2019.

The current government programme aims at raising agricultural productivity to address poverty, which may also contribute to reducing inequality. The Kenya Kwanza Plan: The Bottom-up Economic Transformation Agenda (BETA) 2022-2027 of His Excellency, President Dr. William Ruto ideologically and explicitly refers to inequality in its plans for Kenya. The programme puts more emphasis on job creation in smallholder agriculture and the non-agricultural informal sector. It aims to finance its higher public expenditure through a tax reform that raises the tax revenue. The Medium-Term Plan 2022/23-2027/28 is ready and is grounded on the transition of the Big Four Agenda to BETA.

In Kenyan society, socio-economic inequality starts to be understood as one of the forms in which inequality is perceived as problematic, aside from the inequality between counties.

Donors align their strategies to the priorities of Kenya Vision 2030 and other national strategies and policies. Like the foreign aid of other traditional donors, the Development Cooperation of the United Nations System is based on the 2030 Agenda for Sustainable Development.

Labour market policies: There is a clear need for policies to narrow the large gender gap in labour force participation, by stimulating the participation of women in economic activities. The employability of women could be enhanced by making changes in the curricula of schools and providing training and childcare facilities. Policies are also needed to stimulate the demand for labour in non-agricultural sectors, particularly in rural areas, in order to address the large urban-rural income inequalities and more limited opportunities in rural areas than in the cities to be engaged in more productive, higher-quality and higher-remunerated employment. One

way to do this could be to step up public investment in (especially poorer) rural areas. At the same time, there is need for generating higher-quality jobs for low- and medium-skilled workers. That will require stimulation of the demand for labour in manufacturing (or industry in general) through a diversification of the economy. Specific attention needs to be paid to the tax burden in manufacturing and to disadvantages that women in manufacturing face in terms of access to capital. Efforts to boost exports could help to realise the desired structural change in the economy and the labour market. However, such efforts should avoid any adverse distributional effects of international trade.

A process of formalisation of businesses and employment can contribute to reducing both labour income inequality and overall income inequality. However, it is also necessary to try to increase the non-formal workers' income, which is in line with current government policies. Providing training to improve skills of informal/vulnerable workers can also help to increase their earnings and reduce the gap with the earning of people in formal employment. Training may also help people to find alternative and better-remunerated formal employment.

Efforts to increase labour productivity are required in both agricultural and non-agricultural employment and can involve improving the access to education and the provision of training to improve the skills of workers. Improving the access to good quality education is one of the policy priorities of the current Government. Investments in infrastructure can also contribute to raising labour productivity.

Expanding the provision of education, increasing educational attainment and improving the employability of (especially female) graduates can help to reduce both earnings inequality and overall income inequality. An increased supply of higher-educated labour (as a more long-term policy) can lead to a diminishing of the skill-premium if the demand for labour with higher levels of education does not change at the same pace.

Policies for taxes and public social expenditure: There seems to be scope to raise corporate income tax revenues.[3] It is also suggested to explore possibilities to abolish exemptions in personal income taxes, which are pro rich. That would directly improve post-tax income inequality and increase the fiscal space for public social expenditure.[4] Targeted (conditional or unconditional) transfers to poor households, lowering the costs for those households of sending their children to school, and improving the quality of education in poorer parts of the country could help to improve access to quality education for especially the poorest segments of the population. This is key for reducing the inequality of opportunity, which can help to diminish the inter-generational transmission of poverty. It is furthermore suggested to consider a universal, tax-funded mechanism that ensures health insurance revenues are equitably and efficiently collected, which is actually in line with current government policies in this area. This implies a policy of expanding the health system financed by revenues collected by the national and county governments. It would at the same time require efforts to substantially reduce further private health expenditure, which principally consists of out-of-pocket expenses that are poverty increasing.

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3   It is beyond doubt that caution needs to be exercised to prevent over-taxation of the low-income segments of the population.
4   It should be noted that the fiscal space for public social expenditure is also limited by the cost of servicing the debt of the Government of Kenya, while austerity measures imposed by international financial institutions may further limit the government to address inequality by means of social expenditure.

It is suggested to assess whether there are opportunities for merging nationwide cash transfer programmes and if that could help to raise the coverage of the bottom quintile. It is furthermore suggested to take measures to improve the adequacy of social assistance programmes by (further) increasing the benefit incidence of social safety net programmes to the bottom 40%, so as to 'leave no one behind'. At the same time, efforts are required to reverse the decline in the coverage of social security.

Gender policies: First of all, it is suggested to study, analyse and diagnose the different levels and forms of gender disparity (domestic violence, economic opportunities, access to education, finances and time spent on care activities).

Gender inequalities in the labour market might be addressed by creating a public childcare system, which could help to reduce the inequality related to time, and by stimulating companies to have a 50/50 proportion of hiring processes to level the female/male disparity in terms of employment opportunities. To address the aspect of unequal pay for equal work, it is recommended to conduct more studies on this topic and disseminate its results, to make employers more aware of this issue, to help improve empowerment of women, and to have a stronger basis for designing specific policies to address this issue, which is also a cause of overall income inequality.

One general policy option is to improve access to education of girls and women at TVET and university level. Another policy option is to improve access to health care for (especially poor) women. Broadening the coverage of the subsidised health care system, and ultimately unifying currently existing systems into a tax-based system, can help to achieve this. Finally, it is suggested to make further progress in the area of gender-responsive budgeting at national, county and ultimately local government level, by assigning more resources to efforts to improve this.

Overview: Macroeconomic development in Kenya

Kenya experienced volatile economic growth during the past two decades. Whereas growth was high in most years, exceptions were 2000, when Kenya was hit by drought, and 2002, which was an election year. Growth was also weak in 2008, when the economy was affected by post-election violence, while 2020 was characterised by a small contraction of the economy related to the COVID-19 pandemic (see Table 1 and Figure 1; Bigsten et al., 2016: 355; KIPPRA, 2020).[5] The Kenyan economy recovered in 2021-2022, when GDP grew by 7.6% in 2021 and by an estimated 4.8% in 2022 (KNBS, 2023a). This recovery was especially due to the performance of the services sector (cf. World Bank, 2021b: 4). As a result of economic growth in the past two decades, GDP more than doubled from USD 37 billion in 2000 to USD 90 billion in 2021 (in constant 2015 prices). Likewise, GDP per capita increased from approximately USD 1,100 in 2000 to USD 1,600 in 2021 (see Table 1). ILO (2013: 1-2), however, pointed at the narrow growth base, which 'adversely affected formal employment creation and hampered improvements in the living standards' in the 2000s. The data on poverty in Table 1 suggests that the performance was somewhat better in subsequent years.

**Table 1:** Overview of selected macroeconomic indicators, 2000-2021

Indicator	1994	2000	2002	2004	2005	2006	2008	2010	2012	2014	2015	2016	2018	2019	2020	2021	5y
GDP (const. 2015 USD, billions)	31.5	36.6	38.2	41.4	43.8	46.6	49.9	55.7	61.3	66.8	70.1	73.1	80.2	84.3	84.1	90.4	+
Annual GDP growth (%)	2.6	0.6	0.5	5.1	5.9	6.5	0.2	8.1	4.6	5.0	5.0	4.2	5.6	5.1	-0.3	7.6	+
GDP per capita (const. 2015 USD, thousands)	1.2	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.4	1.4	1.5	1.5	1.6	1.6	1.6	1.6	+
Based on consumption data																	
Gini index[6]	46.0	..	..	..	47.0	..	..	..	..	..	40.4	..	..	..	..	..	-
Theil index[7]	44.6	..	..	..	45.4	..	..	..	..	..	29.1	..	..	..	..	..	-
Palma ratio[8]	2.8	..	..	..	2.8	..	..	..	..	..	2.0	..	..	..	..	..	-
Income share held by top 10%	31.2	..	..	..	41.6	..	..	..	..	..	29.8	..	..	..	..	..	-
Income share held by bottom 10%	1.4	..	..	..	1.5	..	..	..	..	..	2.4	..	..	..	..	..	+
Poverty headcount ratio (USD 3.65/day)	53.5	..	..	..	64.4	..	..	..	..	..	59.6	..	..	..	..	..	0
Extreme poverty headcount ratio (USD 2.15/day)	25.9	..	..	..	36.7	..	..	..	..	..	29.4	..	..	..	..	..	-
Poverty gap (%)	21.8	..	..	..	29.0	..	..	..	..	..	23.9	..	..	..	..	..	-
Extreme poverty gap (%)	8.9	..	..	..	12.9	..	..	..	..	..	8.6	..	..	..	..	..	-
Poverty incidence (national estimate)	40.3	..	..	..		..	..	..	..	..	36.1	..	..	..	..	..	..
Multidimensional poverty incidence (national estimate)		..	..	..		..	..	..	..	..	53.0	..	..	..	..	..	..
Based on corrected data																	
Gini index		..	..	..	51.8	..	..	..	..	..	..	..	..	..	..	..	..

Source: World Bank, World Development Indicators. KNBS (2020b) for inequality indices and national poverty estimates.
Notes: Figures for poverty and inequality are based on the Welfare Monitoring Survey (WMS) conducted in 1994 and the Kenya Integrated Budget Household Survey (KIBHS) conducted in 2005/06 and 2015/16, respectively, as presented in Table 4.2 of KNBS (2020b).. Calculation of the Palma ratio based on the decile shares in KNBS (2020b: Figure 4.2) gives the following results: 2.1 in 1994, 3.4 in 2005/06 and 1.8 in 2015/16. Similarly, calculation based on estimates of income shares presented in the World Development Indicators gives Palma ratios of respectively 2.2, 2.6 and 1.9 for these years. Cumulative changes below 10% over the past five years are indicated as zero to account for margins of error in estimation.

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5   OECD (2002) presented somewhat different growth rates of real GDP for 2000 and 2002 and saw poor governance as 'a major contributor to the poor economic performance in Kenya' (https://www.oecd.org/countries/kenya/1825372.pdf).
6   The Gini coefficient is a measure of inequality with values ranging from zero (perfect equality) to unity (perfect inequality). Consequently, the value of the Gini index ranges from zero to 100 (or from 0 to 1). The World Bank estimates are based on national survey and World Bank data on incomes that are not corrected for underreporting.
7   The Theil index is a generalized entropy measure of inequality with values ranging between zero and infinity, where lower values represent greater equality. The index gives weight to values in the tails of the distribution, emphasizing inequality at one or both extremes.
8   The Palma ratio is derived by calculating the ratio of the income shares of the richest 10% and the poorest 40%. This indicator is directly relevant to the UN's 'leave no one behind' (LNOB) principle which focuses on the bottom 40%.

Figure 1: Development of GDP, 2000-2021

(a) GDP (constant 2015 US$ Billions)

(b) GDP growth (annual %)
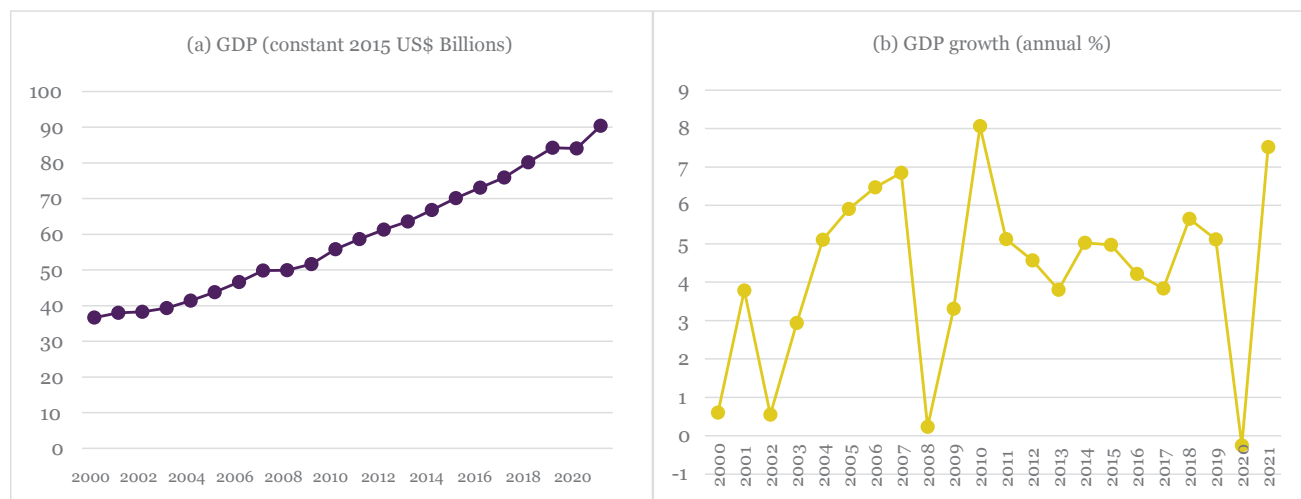
Source: World Bank, World Development Indicators.

According to the World Development Indicators, approximately 64% of the Kenyan population lived in monetary poverty in 2005, earning less than USD 3.65 per day. The poverty incidence decreased to 60% in 2015 but was still much higher than the 54% of the population that was poor in 1994. Extreme poverty also declined in 2005-2015, from 37% to 29%.

KNBS (2020a: 14) used a different poverty line and estimated that 36% of the population was monetary poor in 2015/16. This estimate compares with a headcount rate of 40% in 1994 presented in the World Development Indicators.[9] The incidence of monetary poverty in 2015/16 partially overlapped with the incidence of multidimensional poverty: 27% of the population was poor according to both definitions, 26% was multidimensionally poor only (hence, overall, the multidimensional poverty incidence was 53%), while another 9% was monetary poor only. On average, the poverty rate was not different between men and women, but monetary poverty was above-average among children under 18. In comparison, the multidimensional poverty incidence was above-average among adult and elderly women. At the same time, estimates according to both definitions clearly indicate that rural poverty was much higher than urban poverty. The degree of poverty also differed across the 47 counties of Kenya, with the monetary poverty incidence in 2015/16 ranging from 17% in Nairobi to 79% in Turkana (Figure 2).

Estimates for recent years based on the Kenya Continuous Household Surveys show a decrease of the monetary poverty incidence to 34% in 2019 (from 36% in 2015/16), followed by a sharp rise to 43% in the first year of the COVID-19 pandemic (KNBS, 2023b: Table 4.2).

It is likely that the strong GDP per capita growth was the main driver of the (extreme) poverty reduction between 2005 and 2015 according to the data in Table 1, though the observed reduction in inequality probably also helped to reduce poverty. Mwabu (2023) found that there is actually a virtuous spiral of poverty reduction, higher growth and less inequality over time and shows that human capital formation is the key mechanism underlying the virtuous spiral. Table 1 shows that the Gini index was 47 in 2005, while the Theil index stood at 45 and the Palma ratio at 2.8,

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9   Comparable estimates for 1992 and 1997 presented in the World Development Indicators are 57% and 52%.

suggesting that there was not much change if compared to the inequality indices in 1994. By 2015, however, these values were 40, 29 and 2.0, respectively.[10] So, poverty was higher in 2015 than 1994, while inequality was lower in 2015 compared to 1994. The decrease of the Palma ratio in 2005-2015 is a combined effect of a decline of the income share of the top 10% and an increase in that of the bottom 40% – the two poorest quintiles taken together (see Figure 3). Figure 3 furthermore shows that the top 20% of the population received over half of the total income in 2005, whereas the share of the poorest quintile was only 4%. The changes in the quintile shares point at some improvement of the income distribution and the quintile shares in 2015 were similar to those in 1994.[11] The changes in the extremes of the distribution – the top-10% and bottom-10% shares – were however more pronounced (see Table 1). According to estimates of the World Inequality Database, the share of the top-1% also diminished – from 21% in 2005 to 15% in 2015.[12] Nonetheless, the richest 1% still received a large share of national income.[13]

Figure 2: Poverty incidence per county, 2015
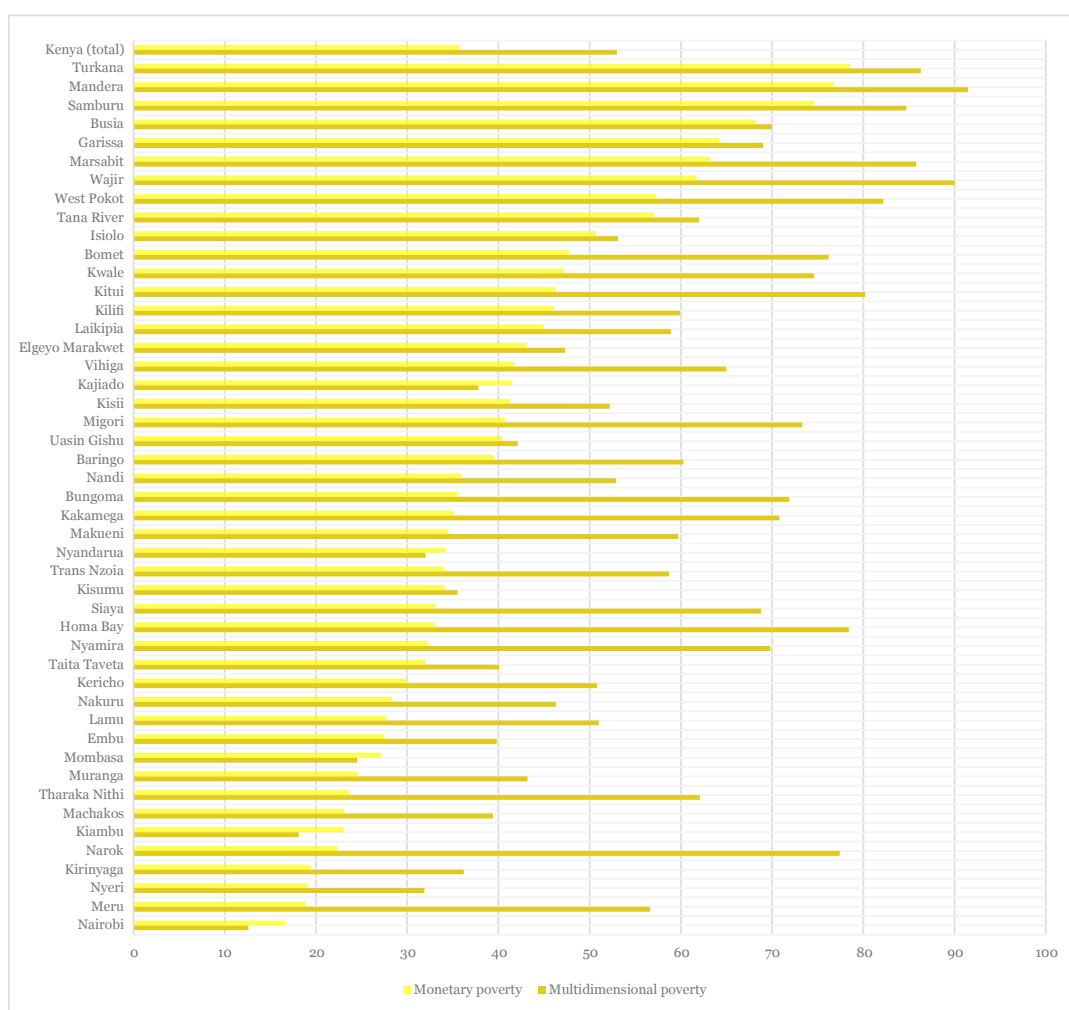
Source: KNBS (2020a: Annex 5)

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10 Although the data are not fully comparable, the quintile shares of per capita equivalent consumption expenditure were respectively 7.4%, 11.3%, 15.8%, 23.4% and 42.2% in 2021 (KNBS, 2023b: Table 3.3). As indicated in the note in Table 1, there are also alternative estimates of the Palma ratio which give a different picture of changes over time.

11 Estimates presented in Figure 4.2 of KNBS (2020b) show higher inequality in 2005/06 than the World Development Indicators data suggest, while the opposite was true for 2015/16, implying a more pronounced decline in inequality than that according to the World Development Indicators data.

12 https://wid.world/country/kenya/.

13 The distribution of wealth was even more skewed: the top 1% held 28% of total wealth in Kenya in 2015, compared to over 40% a decade earlier (https://wid.world/country/kenya/).

Inequality Diagnostics Kenya: Mind the Gap - Towards a More Equal Kenya

Figure 3: Shares of total income, 1994, 2005 and 2015
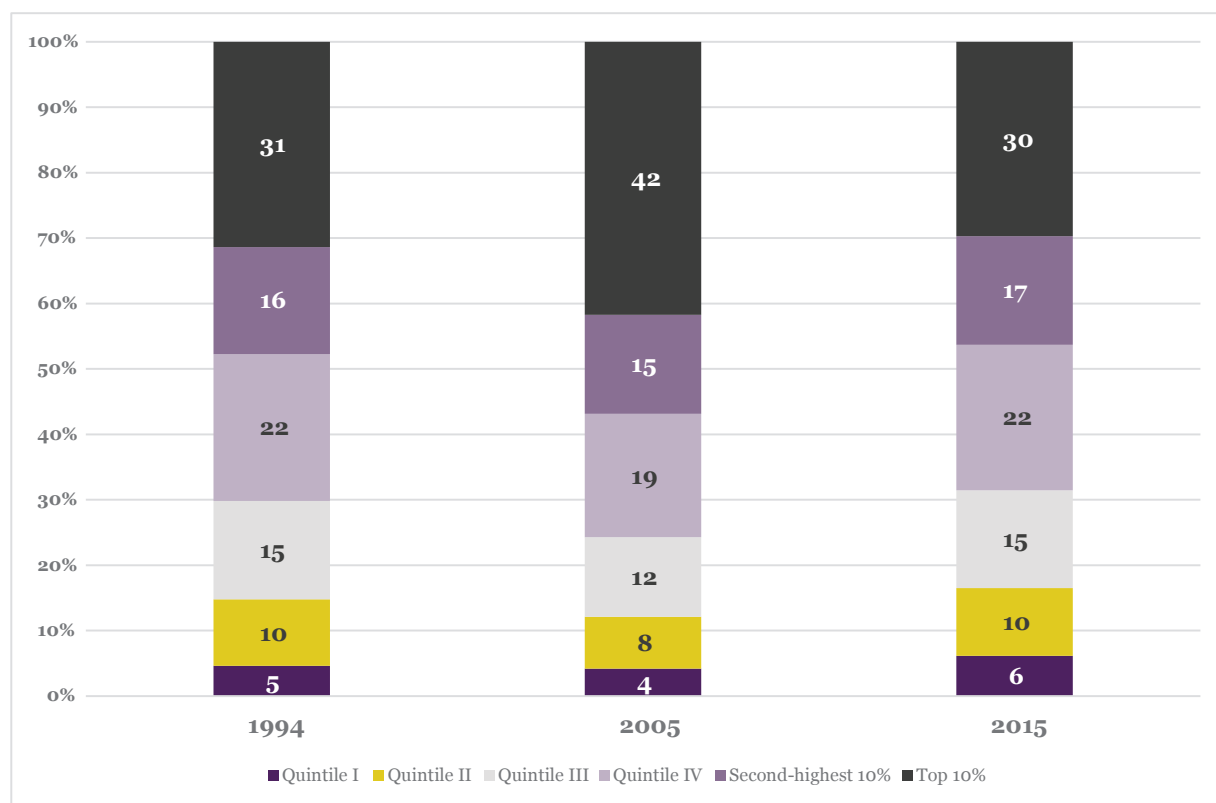
Source: KNBS (2020b). Inequality Trends and Diagnostics in Kenya 2020, Figure 4.2

KNBS (2023b: Table 4.6) shows a slightly lower value of the estimated Gini coefficient in 2015/16 than the one presented in Table 1 above, namely 39.1. The estimate for 2019 based on the Kenya Continuous Household Survey is 40.7, which points at a small increase if compared to the degree of inequality four years earlier. Surprisingly, the estimated Gini index reduced somewhat to 35.8 in 2020, before rising again to 38.9 in 2021.

While the reduction in inequality between 2005/06 and 2015/16 helped to reduce poverty, the high level of inequality itself diminishes the effect of economic growth on poverty. As UK aid (2023) argues, 'poverty in Kenya remains high for its level of GDP per capita', because 'the benefits of growth have been over-concentrated in the upper half of the income distribution'. Whereas the incidence of poverty is related to vertical inequality, horizontal inequality in the form of an unequal distribution of income across gender also plays a role. Female-headed households are more likely to be poor than male-headed households, but the gender differences in households' probability of being poor diminished somewhat between 2005/06 and 2015/16, whereby literacy level and secondary and university education were major factors in explaining the narrowing of the gender gap in the poverty incidence (Ichwara et al., 2023).[14] Approximately a third of the households were female-headed in 2015/16 (KNBS, 2020b: 132). A similar proportion was recorded in 2022 (KNBS, 2023c: 13). The proportion tended be smaller in the past. A higher proportion of female-headed households could mean that in general more households are likely to be poor than in the past.

Nafula et al. (2020) conducted microsimulation analysis to estimate the pre- and post-COVID-19 incidence of poverty and degree of inequality, by using data of the KIHBS 2015/16, a representative

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14 The authors report a decline in the poverty rates for female-headed households from 39% to 33%, compared to a reduction from 30% to 26% for male-headed households.

sample from the Population and Housing Census 2019 and the KNBS 2020 Wave 1 and 2 surveys on "Socio-economic Impact of COVID-19 on Households in Kenya". Their simulation results suggest that the poverty incidence was 28.9% in 2019 and that it rose to 41.9% in 2020 during the first part of the COVID-19 pandemic (compared to 46.6% in 2005/06 and 36.1% in 2015/16), while the estimated Gini coefficient rose from 39.1 to 40.2 in 2019-2020. Nairobi and Mombasa were most heavily affected by the crisis, but still recorded a lower incidence of poverty in 2020 than rural areas and other urban areas. The simulated values are different from the above-mentioned actual values based on the Kenya Continuous Household Survey, but the magnitudes of the simulated changes over time are similar to those of the actual changes.

Disparities between regions are also large in Kenya. Table 2 shows that urban inequality (of per capita expenditure) as measured by the Gini and Theil coefficients and the Palma ratio was higher than rural inequality in 2005/06. Rural inequality was only slightly less in 2015/16 than a decade earlier. In contrast, inequality within urban areas declined substantially and the difference between urban and rural inequality virtually disappeared. As shown in KNBS (2023b: Table 4.6), rural income inequality as measured by the Gini coefficient marginally rose between 2015/16 and 2019, before declining to 29 in 2021. The Gini coefficient of urban income inequality remained virtually unchanged at 35 between 2015/16 and 2019 and had a value of 37 in 2021.

The Theil coefficient is a decomposable measure of the degree of inequality, with a value of zero or higher and indicating that there is more inequality, the higher the value of the coefficient. A decomposition of the national-level Theil coefficient shows that the within-area inequality explains about three quarters of national inequality, while approximately a quarter is explained by the urban-rural difference in mean incomes (KNBS, 2020b: Table 4.8). The part of overall inequality that is attributed to the urban-rural gap marginally increased between 1994 and 2015/16 (ibid.). The results for 1994 and 2005/06 are similar to those found by Boaz (2015).

Table 2: Inequality indices of per capita expenditure, 1994, 2005/06 and 2015/16

Area	Gini coefficient			Theil coefficient[15]			Palma ratio		
	1994	2005/06	2015/16	1994	2005/06	2015/16	1994	2005/06	2015/16
Rural	39	38	35	26	26	22	1.7	1.7	1.4
Urban	47	45	36	48	42	23	3.0	2.4	1.5

Source: KNBS (2020b: Table 4.4)

Figure 4 shows that the Gini coefficient varied across the counties of Kenya in 2015/16. Especially North-western Kenya is characterised by high degrees of inequality, which tend to coincide with high poverty levels. The poorest county – Turkana – was also the county with the highest income inequality.

The above-mentioned Gini coefficients are not corrected for underreporting of high incomes in the surveys. Chandy and Seidel (2017) present a national-level Gini coefficient adjusted for missing top incomes of 51.8 for Kenya in 2005, compared to an unadjusted Gini coefficient of 48.5.[16]

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15 As explained before, the Theil coefficient is a measure of inequality that takes a value of zero (in case of perfect equality) or higher. The higher the value of the coefficient, the more unequal is the distribution.
16 See https://www.brookings.edu/opinions/how-much-do-we-really-know-about-inequality-within-countries-around-the-world/.

Figure 4: Gini coefficient by county, 2015/16

Turkana, 55.9
Marsabit, 39.6
Mandera, 36.9
West...
Wajir, 27.2
Samburu, 46.3
Trans...
Isiolo, 35.2
Bung...
Baringo, 38
Bu...
Ka...
Uasi...
Nan...
Laikipia, 38.6
Meru, 34
Siaya,...
Kisumu,...
Keric...
Th...
Homa Bay,...
Nakur...
Ny...
Nyeri,...
Ki...
Emb...
Garissa, 37.9
N...
Bo...
Mur...
Ki...
Migori...
Kiam...
Narok, 35.8
N...
Machak...
Kitui, 38.4
Tana River, 40.4
Kajiado, 41.3
M...
Lamu, 36.7
Kilifi, 40.4
Taita Taveta, 36.2
Kwale, 37.7

Gini
55.9

27.2
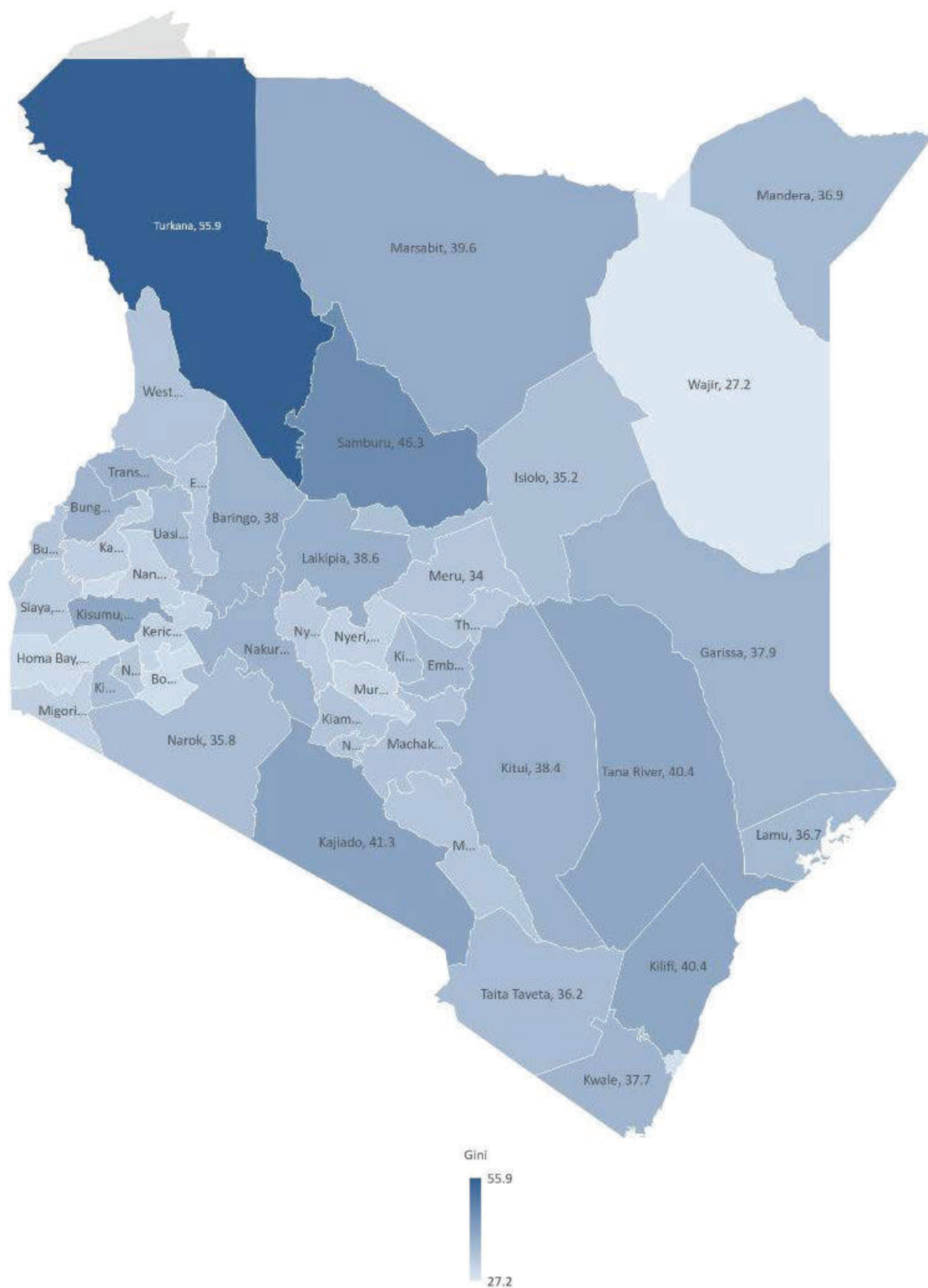
Source: Author's elaboration based on data from KNBS (2020b, annex Table A.3)

1. Causes & drivers of inequality

Box 1: Summary of causes and drivers of inequality

- *Agriculture is still the dominant employment sector in Kenya. The sector's low and declining labour productivity is a factor underlying inequality in Kenya.*
- *The gender gap in labour force participation narrowed between 2015 and 2019, but increased again as a result of COVID-19, which probably had an inequality-increasing effect.*
- *Underemployment and the large number of working poor are considered important labour market problems and likely causes of overall poverty and income inequality.*
- *The informal sector continues to account for a large share of total employment and informality remains an important driver of inequality.*
- *According to a study that uses the Commitment to Equity (CEQ) Institute methodology, the effect of indirect taxes and subsidies and direct (cash) transfers on Kenya's inequality was limited.*
- *Direct taxes and transfers in-kind related to public expenditure on education and health had a larger inequality-reducing effect.*
- *Education and health outcomes are dependent on the distribution of incomes and the educational attainment of parents, which points at limited social mobility.*
- *Gender inequality is both a cause and effect of overall inequality in Kenya. There is evidence of discrimination against women in the labour market and unequal access to social services to the disadvantage of women.*

1.1   Labour market developments

Employment structure

Structural change has brought peculiar shifts in the employment structure of Kenya. Unlike the trend of a sustained decrease of agriculture as a source of employment observed in many countries, the proportion of employment in agriculture initially rose in Kenya – from less than 50% in 2000 to over 60% in 2008. Thereafter, the proportion gradually declined again to 54% in 2019. The reverse was the case for the employment share of services, which stood at almost 40% in 2019, returning to the proportion recorded in 2000. At the same time, the share of employment in industry experienced a remarkable decline from 12% to 6% in the first decade of this millennium and remained virtually unchanged afterwards (see Table 3). The trends in the employment shares indicate that agriculture is still the dominant employer in Kenya. An implication for poverty and inequality is that agriculture is a sector characterised by low and declining labour productivity, while productivity in the industrial and services sector was higher and increased in the past two decades (KIPPRA, 2020: 11, 35). This resulted in low average annual labour productivity growth in Kenya of only 1.7% in 2013-2019 (MoL, 2021: 10). The different sectoral levels of labour productivity are a factor underlying the urban-rural inequality. As KIPPRA (2020: xix) noted, 'the high poverty level in rural areas is mainly driven by over-reliance on agriculture, compounded by low productivity.'

Table 3: Labour market indicators, 2000-2021

Indicator	2000	2002	2004	2006	2008	2010	2012	2014	2016	2018	2019	2020	2021	5y
Employment in agriculture (% of total)	48.7	54.3	58.9	61.1	61.1	60.3	59.2	57.9	56.5	55.1	54.3	..	..	0
Employment in industry (% of total)	11.6	9.1	7.3	6.5	6.1	6.0	6.0	6.1	6.1	6.2	6.2	..	..	0
Employment in services (% of total)	39.7	36.7	33.7	32.4	32.8	33.7	34.8	36.0	37.3	38.7	39.4	..	..	0
Labour force participation rate, total (% of pop 15-64)	71.8	69.4	66.8	66.6	68.9	71.0	72.6	74.0	75.3	74.8	74.6	..	..	0
Unemployment rate (% total labour force)	3.0	3.0	2.9	2.9	2.9	2.8	2.8	2.8	2.8	4.2	5.0	5.7	5.7	+
Wage and salaried workers, total (% of total)	33.7	32.8	32.1	31.5	34.8	38.4	41.9	44.9	47.7	49.7	50.7	..	..	+
Self-employed (% of total)	66.3	67.2	67.9	68.5	65.2	61.6	58.1	55.1	52.3	50.3	49.3	..	..	-
Vulnerable employment, total (% of total)	60.0	63.0	65.0	66.6	64.0	60.8	57.6	54.7	52.1	50.1	49.1	..	..	-
Informal employment, total (% of total)	..	..	..	..	..	..	82.5	83.3	83.2	82.6	83.0	83.3	83.3	0

Sources: World Bank, World Development Indicators; Kenya Labour Market Information System (informal employment 2012-2016 only). Own calculation based on KNBS (2023a: Table 3.1 for informal employment share in 2018-2021.
Note: Cumulative change below 10% over the past five years are indicated as zero to account for margins of error in estimation.

Figure 5 illustrates that the trends in the share of services in total employment were similar for women and men. It also shows that, throughout the past two decades, the share of industry employment was consistently higher for men than for women, while the opposite was true for the share of agriculture. This indicates that women have less access to higher-productivity jobs (cf. MoL, 2021: 11). Persons with disabilities were also more likely to be employed in agriculture than in other sectors and face restraints for working in manufacturing (Onsomu et al., 2022: 52, 79).

Figure 5: Employment by sector and gender, 2000-2019
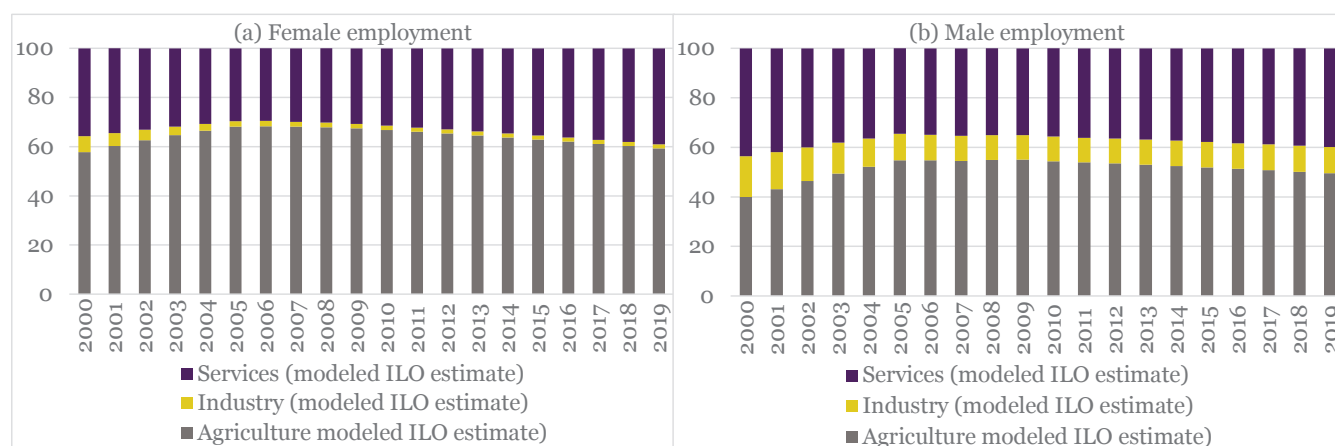
Source: World Bank, World Development Indicators.

Labour force participation and unemployment

Modelled ILO estimates suggest that the labour force participation rate recovered from a small decline between 2000 and 2006 and has been around 75% since 2014 (see Table 3).[17] Persons with disabilities tend to be less engaged in economic activities than other members of the working age population (Onsomu et al., 2022: 79). There are also large differences between men and women: the labour force participation of men is consistently higher than that of women and the gender gap

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17 The modelled estimates are based on observations for the years in which surveys or the census was conducted.

widened until 2016. The gap subsequently narrowed until 2019, but increased again as a result of COVID-19, which apparently affected the labour force participation of women more than that of men (see Figure 6a).

Figure 6: Labour force participation and unemployment by gender, 2000-2021

(a) Labour force participation rates (% of 15+ population)

- Labor force participation rate, female (% of female population ages 15+) (modeled ILO estimate)
- Labor force participation rate, male (% of male population ages 15+) (modeled ILO estimate)

(b) Unemployment rates (% of EAP)

- Unemployment, female (% of female labor force) (modeled ILO estimate)
- Unemployment, male (% of male labor force) (modeled ILO estimate)

Source: World Bank, World Development Indicators.

DHS 2022 data that point at much lower employment rates among women than among men of 15-49 years of age suggest that the gender gap persisted in recent years (KNBS 2023c: 21, Tables 3.6.1 and 3.6.2).

According to modelled ILO estimates presented in the World Development Indicators, the labour force participation rate of youth declined from 50% in 2000 to 43% in 2019. The small gender gap in favour of women that initially existed gradually disappeared over time. In itself, the observed decrease in the rate of youth labour force participation can be interpreted as a positive development, if it coincides with more young people who continue studying at higher levels of education. In the end, this will contribute to reducing income inequality, given that labour force participation of people with higher educational attainments tends to be higher than among people with lower levels of education. However, time series of labour force participation by level of education are lacking. Observations for selected years in the World Development Indicators database indicate that the labour force participation rate is indeed increasing with educational attainment. The observations suggest an increase over time in the labour force participation of people with intermediate education, followed by a decline in recent years, and changes in opposite directions for both the population with basic education and the population with advanced education.

The unemployment rate according to ILO modelled estimates was approximately 3% in 2000-2016, with a small decline over time, but increased in more recent years and stood at nearly 6% in 2021 (see Table 3). The unemployment figures suggest that most of the increase occurred already before the start of the COVID-19 pandemic.[18] Figure 6b shows that the rate of unemployment of women in all the years was slightly higher than that of men. The same holds true for youth unemployment,

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18 It is possible that this finding is simply a result of the way the ILO modeled the unemployment rates.

Causes and drivers of inequality

though the rates of unemployment among male and female youth were more than double the overall female and male unemployment rates (see World Development Indicators database).

During the pandemic, the higher unemployment rate may have contributed to increases in poverty and inequality. The rate continued to increase among women in 2021. KIPPRA (2022) observed that the 'rise of unemployment particularly among the vulnerable groups such as women and youth, and the decrease in labour force participation can have severe long-term inequality and other undesirable developmental outcomes.' In normal times, however, unemployment is not seen as a major factor causing poverty and inequality. Underemployment and the large number of working poor are considered more important labour market problems and likely causes of overall poverty and income inequality (cf. Bigsten et al., 2016: 359; World Bank, 2021a: 30).[19] The rate of underemployment was estimated at 20% in 2015/16, compared to an estimated unemployment rate of 7% (MoL, 2021: 11). The combined unemployment and underemployment rate increased between 2015/16 and 2019 and was highest among women and the 15-34 years old population (World Bank, 2021a: Figure 56).

Wage and self-employment, vulnerable work and informal employment

The share of wage and salaried workers showed a marked increase in the past two decades, from 34% in 2000 to 51% in 2019. Consequently, the share of self-employment dropped from two-thirds of the total workforce to slightly less than half (see Table 3). Figure 7a illustrates that the proportion of wage employment is larger for men than for women, though the gender gap is narrowing over time. Using KNBS survey data of 2015/16, Omanyo (2021) found that males are more likely to be in wage employment than females. In addition, he found that, for both men and women, the likelihood of wage employment increased with age and educational attainment. Table 3 also reveals that the share of employed people doing vulnerable work initially rose, but subsequently decreased over time, dropping to just below 50% in 2019. Vulnerable employment was more common among women than among men, but the gender difference reduced in the past two decades (Figure 7b). Persons with disabilities are also more likely to be engaged in vulnerable employment than the population in general (Onsomu et al., 2022: 80). They are also overrepresented in informal employment (ibid.: 79)

Employment in the informal sector is generally more vulnerable than in the formal sector. Informal employment makes up a large part of total employment (see Table 3).[20] Informal sector activities are especially dominant in trade and food services.[21] This coincides with the observation of Bigsten et al. (2016: 357) that 'the vast majority of labour outside agriculture is in the informal rather than the formal sector,' since the service sector is the largest sector after agriculture. Limited labour mobility between the informal and the formal sector is a cause of earnings differentials between the sectors (Kimenyi, Mwega & Ndung'u, 2016). Indirectly, this contributes to income inequality.

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19 The ILO defines underemployment as the 'underutilisation of the productive capacity of the employed population In relation to an alternative employment situation in which persons are willing and able to engage'. It furthermore states that 'time-related underemployment exists when the hours of work of an employed person are insufficient in relation to an alternative employment situation in which the person is willing and available to engage' (https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/presentation/wcms_210979.pdf).
20 The estimated share was 83.4% in 2022 (own calculation based on data from KNBS, 2023a: Table 3.1).
21 https://labourmarket.go.ke/klmis/informal-sector-skills/.

Figure 7: Wage employment and vulnerable employment, by gender, 2000-2021

Source: World Bank, World Development Indicators.

Educational attainment and returns to education

There is paucity of data on educational attainment in Kenya. The World Development Indicators contain observations for 2009 and 2010 only, which suggest relatively large shifts in one year, which are not plausible. MoL (2021: 4) mentions that the mean years of schooling was 6.5 years in 2018 and that the average for women was 6.0 years compared to 7.2 for men. It furthermore mentions that the gender gap in lower levels of education was smaller than in the labour market, but that more men than women complete vocational education and training and tertiary education, which 'undermines women's employability and earnings potential in the labour market'. Overall, the gender wage gap was 68% in 2019 (ibid., 11).

A study using 2005/06 data of full-time wage workers found that, at the national level, the private rate of return was nearly 8% for primary education, 23% for secondary education and for college education, whereas the rate was 25% for university education (Kimenyi, Mwabu & Manda, 2006a). The authors explain that an increasing supply of skilled labour tends to reduce the skill premium of people with university education, but that the negative effect on that skill premium disappears (and that the return to primary education is lower) if the estimation of the returns to education accounts for the effect of the human capital of others. Omanyo (2021) also found evidence of positive returns to education using 2015/16 data. He furthermore found that, accounting for the effect of other variables, there was a gender wage (or earnings) gap that disfavoured women. A detailed decomposition of the latter into endowment, discrimination and residual effects showed that the gap was higher in the private formal and informal sectors than in the public sector, that it decreased along the wage distribution – that is, that it tended 'to be smaller in the group of employees with higher wages' – and that the discrimination effects tended to account for most of the gap (Omanyo, 2021). Another group that suffers from discrimination are persons with disabilities, who 'are largely unemployed or earn low earning because of employer perceptions, discrimination and academic qualifications' (Onsomu et al., 2022: 130).

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22 Overall, the Gini index of earnings inequality was 60 in 2015/16, compared to 70 in 2005/06 and 50 at the end of the 1990s. Earnings were somewhat more unequally distributed among women than among men (KNBS, 2020b: 69).

Causes and drivers of inequality

For both men and women, the earnings inequality was higher in 2015/16 than at the end of the 1990s, though lower than in 2005/06 (KNBS, 2020b: 69).[22] In this context, Manda et al. (2021) noted that 'earnings inequality is higher than inequality of real per capita consumption expenditure, which indicates that the labour market could be contributing more to inequality.'

1.2 Taxes, social spending and access to education and health services

Taxes

According to World Bank figures, Kenya's tax-to-GDP ratio was around 15% in the years, 2014 to 2020 (see Table 4).

Table 4: Tax revenue indicators

Indicator	2000	2004	2008	2012	2014	2015	2016	2017	2018	2019	2020	5y
Tax revenue (% GDP)	..	..	..	..	15.2	14.8	15.0	15.1	14.4	15.1	14.3	0
Taxes on goods and services (% of taxes)	..	..	..	..	39.7	39.6	..	41.6	41.6	45.7	44.0	+
Taxes on income, profits and capital gains (% of taxes)	..	..	..	..	49.9	50.4	..	49.5	49.4	44.4	46.2	0
Taxes on international trade (% of taxes)	..	..	..	..	10.4	10.0	..	8.9	8.9	9.9	9.9	0
Profit tax (% commercial profits)	..	..	33.2	27.4	29.8	29.8	30.1	30.1	30.1	30.1	30.1	0

Source: World Bank, World Development Indicators.
Notes: Percentage shares of taxes calculated on the basis of data from the World Development Indicators. Cumulative change below 10% over the past five years are indicated as zero to account for margins of error in estimation.

Table 4 also shows that the profit tax rate is approximately 30% of commercial profits. It furthermore shows that taxes on income, profits and capital gains made up nearly half of total tax revenue in 2014-2018, while the proportion was slightly lower in 2019 and 2020, when taxes on goods and services became more important as a source of revenue. Finally, it can be seen that taxes on international trade made up about 10% of total tax revenue.

Applying the Commitment to Equity (CEQ) methodology, Manda et al. (2020) found that direct taxes, as well as health insurance and retirement contributions were progressive, but poverty increasing in 2015/16. The Gini coefficient of the distribution of net market income (that is, income after direct taxation) was 41.4, compared to a coefficient of 45.0 for market income plus pensions (see Box 2 for the income concepts of the fiscal incidence analysis). The household income tax on formal wages had the largest marginal effect on the Gini coefficient of income. Surprisingly, indirect taxes (including the Value Added Tax, VAT) were also progressive – unlike what is usually found in such cases.[23] They were however much less progressive than direct taxes and social contributions and reduced the Gini coefficient by less than one (percentage) point. Indirect taxes had at the same time a much larger poverty-increasing effect than these other sources of government revenues. Within indirect taxes, only import duties had a regressive direct effect on the income distribution. All excises, with the exception of those on cigarettes and kerosene, were progressive, albeit with relatively small inequality-reducing effects.[24] Manda et al. (2020) explain that 'subsidies are generally non-existent' in Kenya. Consequently, the overall effect of taxation on inequality amounted to nearly 5 points of the Gini coefficient.

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23 Using the same data, Pape and Lange (2018) also found that the VAT was 'mildly progressive but close to neutral'. Their explanation is that poorer people disproportionately consume exempt and zero-rated items and that consumption instead of income is used as the relevant welfare indicator, given that VAT is clearly regressive if 'measured against a welfare indicator based on actual household income'.
24 Pape and Lange (2018) also found that excise taxes were progressive in 2015/16, except for tobacco products.

Box 2: Income concepts in the fiscal incidence analysis and estimated Gini coefficients in 2015/16

	Gini coefficient 2015/16
Market income *+ Contributory pensions =*	..
Market income plus pensions *-/- Direct taxes and Social Insurance Contributions =*	45.0
Net market income *+ Direct transfers =*	41.4
Disposable income (proxied by household expenditure) *+ Indirect subsidies* *-/- Indirect taxes =*	41.0
Consumable income *+ In-kind transfers* *-/- Copayments and user fees for education and health services =*	40.2
Final income *+ In-kind transfers* *-/- Copayments and user fees for education and health services =*	35.7

Source: Manda et al. (2020)
Note: The study assumed that disposable income is equal to household expenditure and used disposable income as a starting point for the estimation of the other income concepts. The estimate of the Gini index differs somewhat from the one presented in Table 1.

Public social expenditure[25]

The Government of Kenya's expenditure on education fluctuated around 5% of GDP in the past two decades, except in 2000-2006, when it was 6-7% (World Development Indicators).[26] Oxfam, however, observes that Kenya's level of spending for education has gradually fallen each year since the early 2000s.[27]

As a percentage of GDP per capita, the spending on primary education indeed declined over time, but this is not true for spending on secondary education. The composition of the government spending on education clearly shifted from primary to secondary education in 2000-2015, the period for which the World Development Indicators present data.

According to the World Development Indicators, the current public and private health expenditure was about 5% of GDP between 2000 and 2005, about 6% in the subsequent five years, after which it dropped again, to less than 5% in recent years. Domestic general government health expenditure as a share of GDP rose however from 1.3% in 2000 to about 2% in recent years.[28] It comprised about 6-8% of general government expenditure. In 2019, it represented nearly half of the current health expenditure, compared to less than 30% in 2000.

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25 There are no consistent figures of overall public social expenditure. OHCHR (2021: 2) reports that it amounted to only 3% of GDP in 2018-2021, but this cannot be correct, given that spending on education alone already exceeded 5% of GDP in most years.
26 The World Development Indicators of November 2022 report a figure of 4.8% in 2021.
27 https://www.oxfam.org/en/kenya-extreme-inequality-numbers.
28 A small part of the domestic general government health expenditure concerns capital formation. The government health expenditure rose especially between 2012/13 and 2015/16, which has been attributed to the creation of county governments in 2012 (MoH, 2020: 18).

In Kenya, there is a public National Hospital Insurance Fund (NHIF), which is 'a national contributory scheme that provides health insurance for Kenyans including insurance subsidies for the poor and vulnerable' (MoL&SP, 2020: 6).[29] The NHIF accounted for nearly 5% of current health expenditure in 2015/16, while the national and subnational governments' share was little over 40% of the total (MoH, 2020: 19). Kabia et al. (2022) explain that the Kenyan health system 'is financed by revenues collected by the government (national and county) through taxes and donor funding, NHIF and private health insurance companies (through member contributions), and out-of-pocket (OOP) payments paid by citizens at the point of care.' Private health expenditure – principally being out-of-pocket expenditure – still made up over half of current health expenditure in 2000, but this proportion gradually declined to 35% in recent years (World Development Indicators). This decline is likely to be associated with the removal of user fees for primary health care and maternal health care in 2013 and the increase in public spending following the creation of the county governments in 2012 (see, e.g., Pape and Lange, 2018; MoH, 2020: 18). According to estimations presented in the World Development Indicators database, the OOP expenditure declined also as a proportion of private health expenditure – from 4/5th in 2000 to 2/3rd in 2019. This decrease appears to reflect the above-mentioned removal of user fees. It is also likely a result of an increased importance of private health insurance (see MoH, 2020: 19). The WDI database furthermore shows that an estimated 1.6% of the population became poor in 2005 as a result of OOP expenditure in health and that the percentage was marginally lower (1.3%) in 2015.

The Kenyan Government's spending on social protection amounted to 0.35% of GDP in 2016 (MoL&SP, 2017). In 2018/19, 'the Government of Kenya financial commitment to social protection remained steady at 0.4 percent of GDP' (MoL&SP, 2020: 5). In comparison, around 0.33% of GDP was spent on social protection in 2021/22.[30] Social protection encompasses social assistance, social security and social health insurance. Regarding social assistance, there are five main cash transfer programmes: (i) the Older Persons Cash Transfer (OPCT); (ii) the Cash Transfers to Orphans and Vulnerable Children (CT-OVC); (iii) the Hunger Safety Net Programme (HSNP); (iv) the Urban Food Subsidy Cash Transfer (UFS-CT); and (v) the Persons with Severe Disability Cash Transfers (PWSD-CT), see KNBS (2020b: 26).[31] Coverage of PWSD-CT is still low (Onsomu et al. 2022: 115). Social security consists of the contributory National Social Security Fund (NSSF) and the fully tax-financed Civil Service Pension Scheme (CSPS) as well as complementary contributory (employer-based) occupational schemes and (voluntary) individual schemes. Social health insurance includes the government-managed National Hospital Insurance Fund (NHIF) and government-regulated private health insurance (MoL&SP, 2020: 15). OHCRC (2021: 7) reports that the 'contribution pattern adopted by NHIF is rather regressive—lower-income earners pay a relatively high share compared to high income earners'. The current Kenya Kwanza Government has corrected this by reducing the contributions for low-income earners.[32] The social health insurance was already mentioned above as part of the total health expenditure and should therefore not be counted as additional social protection expenditure.

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29 The subsidy part constitutes public spending on social protection.
30 https://www.ohchr.org/sites/default/files/Documents/Countries/KE/Human_Rights-Based-Analysis-Kenya-Budget-2021-2022.pdf. The National Treasury and Planning (2020, Annex III) show the proportions of total government spending on education, health and social protection, which suggest that the proportion for social protection is of the same order of magnitude as that for health. It is possible, however, that that proportion spent on social protection includes the earlier-mentioned insurance subsidies for the poor and vulnerable.
31 Currently, elderly have to visit registered financial institutions to collect their monthly stipend, but the government will introduce a facility for receiving the stipend through mobile phone, see https://www.kenyanews.go.ke/elderly-to-receive-stipend-via-mobile-phone/.
32 https://www.standardmedia.co.ke/article/2001472097/ruto-reduces-nhif-contributions-for-low-income-earners.

The coverage of social insurance programmes declined between 2005 and 2015 while that of social assistance programmes increased in that period, except for the poorest quintile (see Figure 8). Figure 8 shows that the coverage of social insurance programmes tends to increase with income, while that of social assistance programmes is inversely related to the income level. DHS data indicate that, nationally, 17% of households received some form of social assistance in 2022, while social assistance programmes of the national or county government covered 11% of households (KNBS, 2023c: Table 2.21.1). The proportion of households receiving social assistance varied from 22% for the lowest wealth quintile to 12% for the richest quintile (ibid.; Table 2.21.3). Across counties, the coverage of social assistance was less than 10% in Kisumu, Nakuru and West Pokot, while over 60% of the households in Turkana received social assistance (ibid.: Table 2.21.3C). On average, the **adequacy** of social assistance declined from 8% to 6% of the population between 2005/06 to 2015/16 (World Development Indicators).[33] Despite this decline, the benefit incidence of social safety net programmes to the poorest quintile rose from 8% to 20% (World Development Indicators).[34] Hence, the share of the programmes going to other quintiles must have decreased.

Regarding individual social protection programmes, MoL&SP (2020: 18) shows that OPCT covered 77% of its target population in 2018/19, while NHIF and NSSF only covered respectively 25% and 15% of the population of 18-65 years of age.

Figure 8: Coverage of social insurance and social assistance by income quintile, 2005 and 2015
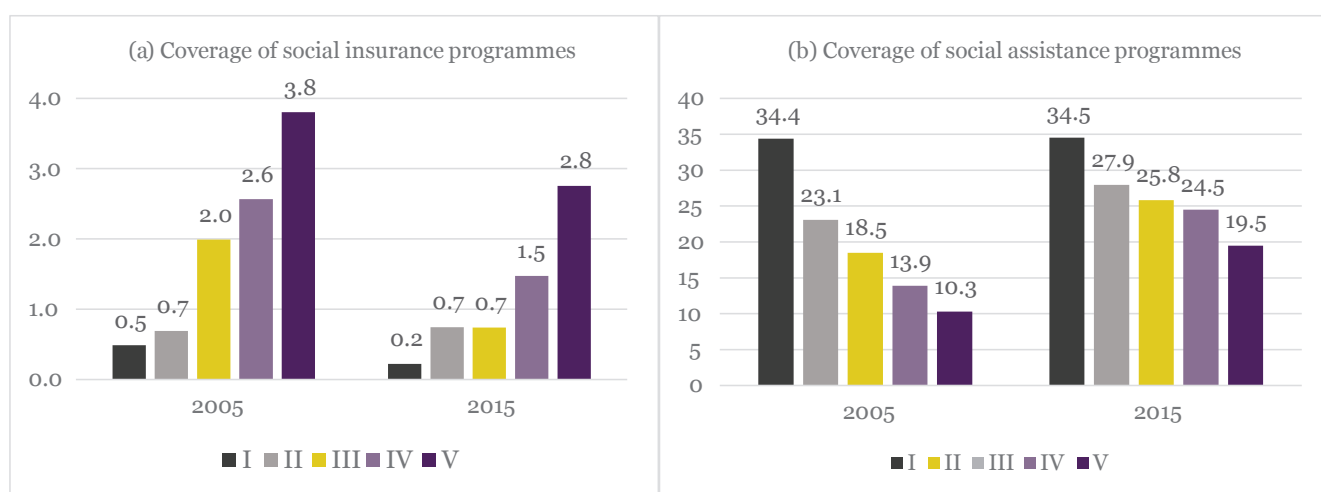
Source: World Bank, World Development Indicators.

Manda et al. (2020) report a relatively small effect of direct (cash) transfers on income inequality in 2015/16: the Gini coefficient of disposable income was 41.0, compared to a Gini coefficient of 41.4 for net market income. Among the direct transfers, the OPTC transfer was most progressive and had the largest marginal effect on inequality, which was followed in importance for reducing inequality by the HSNP and OVC transfers. These direct transfers were also the most important ones for poverty reduction.

According to the fiscal incidence analysis of Manda et al. (2020), the combined effect of indirect taxes and indirect subsidies on inequality was also not very large: the Gini coefficient of consumable

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33 Adequacy is expressed as a percentage of the welfare of the beneficiary population.
34 The benefit incidence is measured as a percentage of total safety net benefits.

income was 40.2. was not much lower than that of disposable income (41.0). As mentioned above, the effect of indirect taxation on income inequality was limited. The effect of indirect subsidies, such as school feeding, was also limited.

Manda et al. (2020) found that the largest inequality-reducing effects of public social expenditure in 2015/16 were those of the in-kind transfers related to spending on public health and education (net of co-payments and user fees). The Gini coefficient of final income was 35.7, being 4.5 points lower than that of consumable income. All net in-kind health and education transfers were progressive, except for spending on public post-secondary education, which had a direct marginal increasing effect on inequality as measured by the Gini coefficient. The spending in-kind on public education, especially on primary education, had larger inequality and poverty-reducing effects than the expenditure in-kind on public health. The net education transfers reduced the Gini coefficient by more than 3 (percentage) points, while the reduction as a result of the net health transfers was less than 1 (percentage) point.

The findings of Manda et al. (2020) regarding the progressiveness of public spending on education are largely in line with those of Pape and Lange (2018), who found that overall government spending on education was progressive, while that on public universities was regressive. The findings of Pape and Lange (2018) regarding the degree of progressiveness of public health expenditure in general also coincide with those of Manda et al. (2020). They found that spending on government health centres and government dispensaries was more progressive than spending on government hospitals.[35]

Education and health access and outcomes

Access to education is less widespread among poorer individuals than among richer people. The percentage of persons aged 3-24 years who had ever attended school was 85% in 2015/16 for the poorest quintile of the population, compared to 96% for the richest quintile (KIPPRA, 2020: Figure 9.1). The net attendance ratio of the primary school-age population varied from 75% for the poorest wealth quintile to 92% for the richest

Access to education and health by individual's hinges on the income and education of their parents.

(KIPPRA, 2020: 220).

quintile in 2022; the equivalent rates for secondary education varied from 27% to 69% (KNBS, 2023c: Table 2.12). The secondary-school net attendance ratio of girls wa consistently higher than for boys, while there were only marginal male-female differences in the case of primary education (ibid.). Across the 47 counties, the primary school net attendance ratio was lowest in Turkana (44%) and highest in Kiambu (94%) in 2022, whereas the secondary school net attendance ratio varied from only 17% in Tana River to 73% in Kirinyaga (KNBS, 2023c: Table 2.12C). It must be noted that persons with disabilities are also disadvantaged in terms of school attendance,

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35 Kenyans used to have free access to public health services before co-payments were introduced in 1989. Poor Kenyans were provided free health services in state-run dispensaries and health centres as of July 2004 (https://www.thenewhumanitarian.org/report/50327/kenya-free-medical-care-public-health-centres). The Kenyan government now plans to provide free of charge treatment at level 1, 2 and 3 hospitals to all Kenyans, see https://nation.africa/kenya/health/ruto-says-kenyans-to-be-treated-free-of-charge-at-level-1-2-and-3-hospitals-4407854.

especially in poorer counties (Onsomu et al., 2022: 61-62, 70). Different rates of school attendance tend to lead to differences in educational attainment. Hence, inequality of opportunities tends to result in inequality of education outcomes. For example, only 36% of 15-year olds had successfully completed primary education in 2015/16 if the parent had completed primary education only, while that share was 57% if the parent had attained at least secondary education (KIPPRA, 2020: Figure 9.3).

Similarly, the proportion of young adults aged 21-23 years with tertiary education is higher if they live in higher-income households, while the proportion of them with only secondary education is inversely related to the income group of the household to which they belong (ibid., Table III.5). The degree in which pupils complete their education also depends on the income of the household in which they live.

Figure 9 clearly illustrates that, in 2014, the completion rates of primary, lower secondary and upper secondary education were higher, the higher the income quintile of the household. Only 63 out of each 100 children among the poorest quintile of the population completed primary education in 2014, while nearly all children among the richest quintile of the population did complete that level of education. The quintile differences for lower secondary and, especially, upper secondary education were even more pronounced.

World Bank (2022a) observes that 'the main challenges remaining in the education sector are increasing the enrolment in post-primary education, improving learning outcomes and reducing deep inequalities.'

The public health service delivery system in Kenya comprises community units, primary care dispensaries and health centres, county (first and second) referral hospitals, and national (tertiary care) referral hospitals (Kazungu and Barasa, 2017; Kabia et al., 2022). The availability of health facilities varies across urban and rural areas and the counties of Kenya, with implications for the degree of access to the services (see also KNBS 2023c). The **access to health services and health insurance is unequal,** with poorer people having more limited access.[36] Self-reported injured or sick persons in poorer households were less often diagnosed in a health facility than injured or sick members of richer households in 2015/16 (KIPPRA, 2020: 153-154). It is likely that this is also related to the differential degree of coverage of health insurance in that year, which was 42% for the highest income quintile – ten times that of the lowest income quintile (ibid.; xxiii). Targeting of social assistance in health services was also weak, as the percentage of extremely poor persons who reported to have received free medical care was at 23% only marginally higher than for the rest of the population (KIPPRA, 2020: 154).

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36 In 2022, the coverage of health insurance varied from 5-6% in Tana River and Mandera to over 40% in Nairobi City and the Laikipia, Nyeri and Kiambu counties (KNBS, 2023c: Map 2.3).

Causes and drivers of inequality

Figure 9: Completion rates by income quintile, 2014
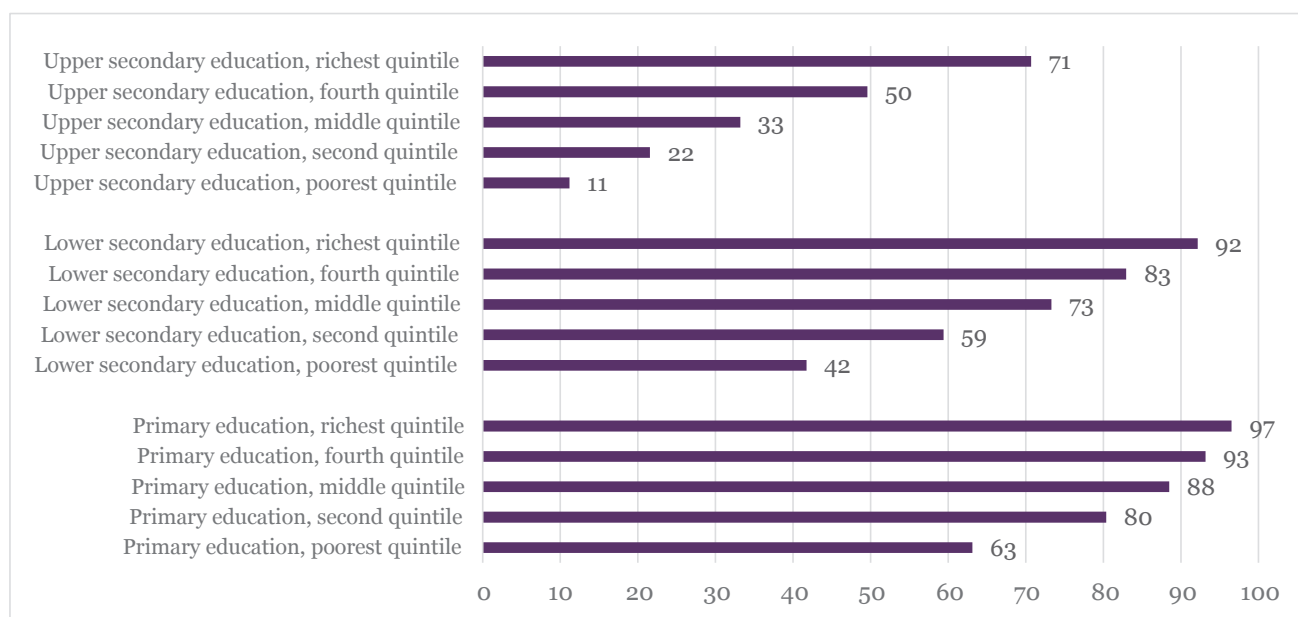
Source: World Bank, Data Bank, Education Statistics

The findings for 2005/06 indicate that poorer sick people sought treatment less often than richer people did and that the proportion of sick persons seeking treatment in a hospital among those who sought public treatment increased with income. That proportion was approximately 23% for the poorest income quintile and about twice as large for the richest quintile (Demery & Gaddis, 2009: Table IV.3). Similarly, three quarters of women aged 15-49 years in the lowest wealth quintile had at least one problem to access healthcare in 2022, compared to only 30% of the women in the highest wealth quintile (KNBS, 2023c: Table 9.19). Obtaining money for treatment was the key problem for women and was inversely related to their wealth level. Distance to a health facility was also a more common problem for poorer women than for women in higher wealth quintiles. For that reason, the proportion of women of 15-49 years who faced at least one problem to access health care was relatively high in rural areas and in counties such as Kwale, Tana River, Marsabit and Kisumu (KNBS, 2023c: Table 9.19C).

Regarding health insurance coverage in Kenya, there is evidence that this increased from 8% to 20% in 2009-2014 and that the degree of coverage became less unequal in that period, but that it remained pro-rich (Kazungu and Barasa, 2017). According to MoH (2020: 18-19), overall, 17% of the Kenyan households had a form of health insurance in 2013, but only 3% of the poorest quintile of the population was covered by health insurance, compared to 42% for the richest quintile. The degree of health insurance coverage was 26% in 2022 and ranged from 5% for the lowest wealth quintile to 58% for the highest quintile (KNBS, 2023c: Table 2.19). The coverage was 40% in urban areas, but less than 20% in rural areas; it was extremely low in counties such as Tana River, Garissa, Mandera, Marsabit and West Pokot, whereas over 46% of the population of Nairobi had any form of health insurance (KNBS 2023c: Table 2.19C).

In sum, despite some improvements in the access to education and health services, substantial efforts are required to address the remaining inequalities in the access to these social services and to reduce gaps in the outcomes in these areas between people from different income groups.

1.3 Gender

This part of the inequality diagnostic will deepen the analysis of inequality from the gender perspective. It will cover both inequality of opportunities and inequality of outcomes. According to household survey data, per capita expenditure was somewhat less unequally distributed among female-headed households than among male-headed households in 1994 and 2005/06, but the opposite was the case in 2015/16 (Table 5). This holds for all the three inequality indices in the table, except for the Palma ratio in 2015/16, which did not reveal a difference between male- and female-headed households in terms of the distribution of per capita expenditure.

Table 5: Inequality indices of per capita expenditure, by gender, 1994, 2005/06 and 2015/16

Gender of household head	Gini coefficient			Theil coefficient			Palma ratio		
	1994	2005/06	2015/16	1994	2005/06	2015/16	1994	2005/06	2015/16
Male	46.9	47.1	39.9	47.5	45.8	28.7	2.9	2.9	2.0
Female	42.7	46.3	41.4	34.0	43.5	29.8	2.2	2.8	2.0
Total	46.0	47.0	40.4	44.6	45.4	29.1	2.8	2.9	2.0

Source: KNBS (2020b: Table 4.2)

Welfare of households thus appears to be less unequally distributed among households headed by women. Further analysis shows that the inequality among all households in Kenya as measured by the Theil coefficient is mainly attributed to the within-group inequality of male and female-headed households, though gender also explains a small part of overall inequality (KNBS, 2020b: Table 4.6). It is possible to distinguish also several other aspects of gender inequality, such as those related

One of the crucial dimensions of inequality in Kenya is gender inequality

(KNBS, 2020b: 103)

to the targets of SDG 5 or the 12 Critical Areas of Concern of the Bejing Platform for Action.[37] It is beyond the scope of this study to cover all of them. Selected examples of relevant aspects are gender inequality in the labour market (access to employment and remuneration), gender gaps in access to social services (education, health) and social protection (assistance, insurance), gender differences in education attainment and health outcomes, gender inequality in poverty, and gender differences in political representation. Regarding the latter, the **gender disparity in political participation** is reflected by the very low rate of participation of women in the National and County Assemblies of Kenya in 2013 and 2017, which was on average less than 8% (KNBS, 2020b: 119). The share of women among the elected members of the National Assembly was 6% in 2013, 8% in 2017 and 10% in 2022.[38] Similarly, the corresponding shares of women in case of the County

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37 https://www.unwomen.org/en/news/in-focus/csw59/feature-stories.
38 Own calculations based on ENA (2023: Table 1). The numbers of elected women among the 290 directly elected National Assembly members were 16, 23 and 29 in the general elections of 2013, 2017 and 2022, respectively. In addition, in 2017 there were 6 female Nominated members to the National Assembly (out of 12 in total) and 47 exclusively women elected as County Women members to the National Parliament, zero female governors (out of total of 47 governors (ibid.). The percentage female member of among a total of 350 members of the National Assembly was

Assemblies are 6, 7 and 8 percent.[39] Hence, despite the small improvement, the target of each gender holding at least a third of the seats in National and Country Assemblies according to the 'not more than two third gender rule' formulated in the 2010 Constitution (and in line with the SDG 5 targets) was not met.

Gender inequality in the labour market was discussed in Section 1.1. Omanyo (2021) found that there is earnings discrimination against women. Earlier studies yielded similar results (KNBS, 2020b: 104). Data of various household surveys conducted since 1997 indicate that real monthly earnings of men are on average consistently higher than those of women (ibid.: Figure 4.50). The 2022 Demographic and Health Survey also points at a gender gap in earnings: 'Seventy-one percent of women earned less than their husband's cash earnings' (KNBS 2023c: 497). Similarly, 'Women report lower average earnings across all age cohorts relative to males' (ibid.: 498). At the same time, 'male-headed households have higher mean and median real per capita consumption expenditure than individuals in female-headed households (KNBS, 2020b: 122). A third of the Kenyan population lived in female-headed-households in 2015/16, which accounted for only a quarter of total expenditure in Kenya (KNBS, 2020b: 132). This suggests that the gender gap in earnings translates into horizontal economic inequality between female- and male-headed-household members. The proportion of female-headed households was also 33% in 2022 (KNBS, 2023c: 13). The DHS 2022 does however not report on total expenditure, but as mentioned above, shows that average monthly earnings were lower for women than for men (see also KNBS 2023c; Table 15.1.3).

There is also **gender inequality in poverty** (cf. Ichwara et al. 2023; Ngugi et al., 2023). KNBS (2020a: 49) notes that 'Thirty-eight percent of adult men are neither multidimensionally nor food poor compared to 30 percent of women.' Poverty rates for female-headed households are higher than those for male-headed households. The rate for female-headed households declined from 39% to 33% between 2005/06 and 2015/16, compared to a reduction from 30% to 26% for male-headed households (Ichwara et al. 2023). The rates in 2021 were again at the levels observed in 2005/06 (KNBS, 2023b: Table 5.1). Analysis by Ichwara et al. (2023) shows that female-headed households are more likely to be poor than male-headed households, but that the gender differences in households' probability of being poor diminished somewhat between 2005/06 and 2015/16, whereby literacy level and secondary and university education were major factors in explaining the narrowing of the gender gap in the poverty incidence.[40] In a similar fashion, KNBS (2020a: Annex 34 and Annex 35) indicate that children under 18 tend to have a lower probability of being poor if the mother has completed secondary or higher education. Access of women to those levels of education could then help to diminish gender inequality in poverty.

As far as access to **gender inequality in education** is concerned, it is found that there are 'no major differences by gender in enrolment in primary and secondary education', but 'there seem to be major gender differences in access to education at Technical and Vocational Education Training (TVET) institutes and at the university level' (KNBS, 2020b: 103). This finding is in line with the

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39 Ibid. The numbers of elected women among in the County Assembles were, respectively, 82 (out of a total of 1450 members), 96 (out of a total of 1430) and 114 (out of a total of 1450) in the three election years. Including these numbers, the proportions of women in the National Assembly are 20%, 22% and 23% in these years.

40 The authors report a decline in the poverty rates for female-headed households from 39% to 33%, compared to a reduction from 30% to 26% for male-headed households. They conducted multi-variate analysis combined with a Oaxaca-Blinder decomposition analysis to assess gender inequality in poverty.

observation in MoL (2021: 4) referred to in Section 1.2, that more men than women complete vocational education and training and tertiary education. Over time, the gender gap in the access to post-primary TVET first narrowed somewhat, but markedly increased again between 2005/06 and 2015/16; the gap in 2021 was equal to that in 2015/16 (Table 6). Available data suggests that the gender parity in access to university education that existed in 1994 disappeared, as men were overrepresented in university education in 2015/16 (KNBS, 2020b: Figure 4.54).

Table 6: Male and female shares of post-primary TVET students, 1994-2015/16 (percent of total)

	1994	2005/06	2015/16	2021
Male	54.6	52.8	57.6	55,1
Female	45.4	47.2	42.2	42.9

Sources: KNBS (2020b: Figure 4.52); for 2021, own calculation based on KNBS (2023a: Table 15.13).

The results presented by KNBS largely coincide with the gender parity indices in terms of enrolment presented in the Second Voluntary National Review Report on the Sustainable Development Goals (The National Treasury and Planning, 2020: Table 4.1). The figures in Table 7 show that there was near-gender parity in enrolment in early-childhood development, primary and secondary education in 2015-2019, that the gender parity index improved somewhat in TVET in that period, while the index for university education deteriorated somewhat.

It must be emphasized that near-gender parity in enrolment in education does not necessarily mean that there is also equal access to education, and especially to quality education. The study of Korir et al. (2021) on the relationship between climate change and access to (quality) education among girls, for example, makes clear that such an automatic link cannot be taken for granted. For other evidence on girls missing out on education despite being enrolled, see, for instance Equal Measures 2023.[41]

Table 7: Gender parity indices by category of education, 2015-2019

	2015	2016	2017	2018	2019
Early-Childhood Development Education	0.97	0.96	0.95	0.96	0.96
Primary education	0.97	0.97	0.97	0.97	0.97
Secondary education	0.90	0.95	0.95	0.95	1.00
TVET	0.66	0.78	0.78	0.77	0.75
University education	0.72	0.71	0.70	0.70	0.68

Source: The National Treasury and Planning (2020: Table 4.1).
Note: The gender parity indices are the ratios of female to male enrolment in the categories of education.

The KNBS (2020b) study on inequality found that gender differences in access to health services were not very pronounced (Table 8). Women were thus slightly overrepresented in the use of healthcare services, but may have made less use than they actually needed.

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41 https://www.equalmeasures2030.org/story/silent-suffering-kenyan-girls-missing-out-on-education/.

Table 8: Male and female shares of use of healthcare services, 1994-2015/16 (percent of total)

	1994	2005/06	2015/16
Male	46	44	42
Female	54	56	58

Source: KNBS (2020b: 108).

Among the poor and non-poor populations alike, individuals in female-headed households also more often sought healthcare than individuals in male-headed households (KNBS, 2020b: 112). At the same time, members of male-headed household were somewhat more likely to attend public healthcare facilities than members of female-headed households in 2015/16 (KNBS, 2020b: 110). While gender difference in access to health services were limited in 2015/16, this changed with the emergence of the COVID-19 pandemic, which disproportionately affected access to health services among relatively-poor female-headed households (Makate and Makate, 2022). In terms of spending on health care services, the DHS 2022 data show that males 'spend twice as much as females on inpatient admissions' and that monthly expenditure for outpatient visits is on average also 'slightly higher among males than females', while – in relative terms – women had to rely more on cash payments for the services than men (KNBS, 2023: 23, Table 2.20.2).

The access of women and girls to education and health care services is related to the public expenditure on education and health. Budgeting of public expenditure in those sectors was traditionally not gender-responsive. Gender became more mainstreamed in the budget process with the adoption of the 2010 Constitution (SID, 2012). NGEC formulated guidelines for **Gender-Responsive Budgeting (GRB)** in 2014 (see NGEC, 2014).[42] A baseline survey of GRB in Kenya commissioned by the SDG Kenya Forum assessed the degree in which the national budget and the budgets of selected counties responded to gender needs in 2016-2019 (Carillion Consultants, 2020). The study showed 'that both national and county government recognize GRB as ultimate planning and budgeting tool to close ever growing gender inequalities and a single most effective strategy of supporting Kenya achieve all set targets within the SDGs.' However, 'no efforts are made to delineate quantifiable impact on women and men' in the budgets of these governments. The study furthermore observed that 'gender equality was not a primary consideration in budget allocations, realignments and reporting'. The report shows among others that the resources allocated to closing gender gaps are limited if compared to the existing degree of gender inequality.

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42 A year later it launched county guidelines for GRB.

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2. Inequality in the political & societal discourse

Box 3: Summary of inequality in the political and societal discourse

- *The 2010 Constitution was a cornerstone in the evolution of the political discourse on inequality.*
- *The long-term development strategy Kenya Vision 2030 explicitly aims at reduction of inequality.*
- *Other strategies and policies developed in the context of Kenya Vision 2030 are aligned to the objectives of the long-term strategy.*
- *The current government programme aims at raising agricultural productivity to address poverty, which may also contribute to reducing inequality.*
- *The programme puts more emphasis on job creation in smallholder agriculture and the non-agricultural informal sector. It aims to finance its higher public expenditure through a tax reform that raises the tax revenue.*
- *In Kenyan society, socio-economic inequality starts to be understood as one of the forms in which inequality is perceived as problematic, aside from the inequality between counties.*
- *Donors align their strategies to the priorities of Kenya Vision 2030 and other national strategies and policies.*

2.1 Existing policies and strategies

Kenya Vision 2030 is the long-term development strategy developed by the Government of Kenya on the basis of a participatory and consultative process that took place in 2006/07. The strategy was launched in 2008 and has three main pillars: (1) an economic and macro pillar; (2) a social pillar; and (3) a political pillar; it furthermore contains so-called 'foundations for the pillars'.[43] Kenya Vision 2030 aims among others at reduction of inequality (SDG 10) and at achieving gender equality (SDG 5). The NGEC monitors the implementation of the strategy and particularly the progress concerning the SDGs 5 and 10. Kenya Vision 2030 is implemented by successive five-year medium-term plans (MTPs), which encompass programmes, policies and projects envisioned by the long-term strategy. The first two MTPs covered the periods 2008-2012 and 2013-2017, respectively. MTP3 covers the period 2018-2022. In line with MTP3 'and building on the progress made so far under Vision 2030', the Kenyan Government has in recent years been implementing the so-called "Big Four" Agenda of the former President Uhuru Kenyatta, which comprised food security, affordable housing, manufacturing and affordable healthcare for all. This agenda was 'designed to help achieve the social and economic pillars of our Vision 2030 and the development aspirations espoused in the Kenyan Constitution.' Actualization of policies and programmes under each pillar was 'expected to accelerate and sustain inclusive growth, create opportunities for decent jobs, reduce poverty and income inequality and ensure that we create a healthy and food secure society in which Kenyans have access to affordable and decent housing.[44] The MTP IV 2022/23-2027/28 is ready and is grounded on the transition of the Big Four Agenda to the Bottom-up Economic Transformative Agenda (BETA).

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43 https://vision2030.go.ke/about-vision-2030/.
44 https://www.treasury.go.ke/kenya-economy/; https://vision2030.go.ke/towards-2030/; https://big4.delivery.go.ke/.

A key policy formulated to address inequality is the National Social Protection Policy of 2011, which encompassed three pillars of social protection: social assistance, social security and social health insurance. The policy was revised in 2019. The revised Kenya Social Protection Policy reorganises social protection into a system with four pillars: income security, social health protection, shock-responsive social protection, as well as complementary programmes (MoL&SP, 2020: 5; MoL, 2021: 5).

In relation to affordable healthcare for all, one of the three specific objectives of the Kenya Health Financing Strategy 2020-2030 developed against the background of Kenya Vision 2030 and the Kenya Health Policy 2014–2030 is to 'ensure equity in the mobilization and allocation of health funds to guarantee fairness in use' (MoH, 2020: 7).

In 2012, the Ministry of Education elaborated a Policy Framework for Education, which emphasizes the Free Primary Education introduced in 2003 and the Free Day Secondary Education introduced in 2008 and a policy to improve the coverage of marginalized, hard-to-reach and vulnerable groups (MoE, 2012). Later on, the Ministry developed the Education for Sustainable Development Policy for the Education Sector (MoE, 2017). The objective of the policy is 'to re-orient education and learning towards sustainable development'. The policy does not explicitly refer to inequality, but includes measures for accelerating solutions at local level for disadvantaged communities.

The 3rd Decent Work Country Programme 2021-2024 formulated by the Ministry of Labour and her social partners in collaboration with the ILO is also aligned to Kenya Vision 2030. It envisages, among others, a reducing of gender inequalities, strengthening of social protecting programmes and systems, increases in productivity and increased access to decent jobs, particularly for disadvantaged groups of the population (MoL, 2021).

The Bottom-up Economic Transformation Agenda (BETA) 2022-2027 of President Dr. William Ruto ideologically and explicitly refers to inequality in its plans for Kenya.[45] BETA proposes to establish an 'engagement platform' that will recognise various stakeholders 'to address the cohesion and inequality challenges of the country' (The Kenya Kwanza Plan, 2022: 59). It does mention ending (extreme) poverty as a goal and raising agricultural productivity as a way to address poverty (ibid.; 15). It explicitly promises to improve the opportunities for people with disabilities (ibid.; 54). However, The Kenya Kwanza Plan became the plan of the coalition government and in the implementation of the plan there is evidence that poverty, inequality of opportunity and inequality of outcome are addressed.

The National Treasury and Planning (2022) lists the five Sectors that form the core pillars of the Government Manifesto: (1) Agriculture; (2) Micro, Small and Medium Enterprise Economy; (3) Housing and Settlement; (4) Healthcare; and (5) Digital Superhighway and Creative Economy.

Figure 10 presents a timeline of selected key national policy strategies and programmes since 2008. Relevant for all strategies and programmes is the Constitution of Kenya of 2010 and that Kenya is a signatory to various international and regional conventions and/or treaties.

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45 In speeches, the President mentioned inequality explicitly that his government programme 'is about not leaving anyone behind' He furthermore noted that 'inequality breeds suspicion' (https://ke.opera.news/ke/en/others/5a5bd0e9cdcb6743a77c71346a715a94). He also referred to the tax system to be reformed …. to reduce inequality (https://www.africanews.com/2022/09/30/kenya-president-ruto-wants-to-reform-tax-system-to-reduce-inequality/).

Figure 10: Timeline of selected key national policy strategies and programmes, 2008-2023
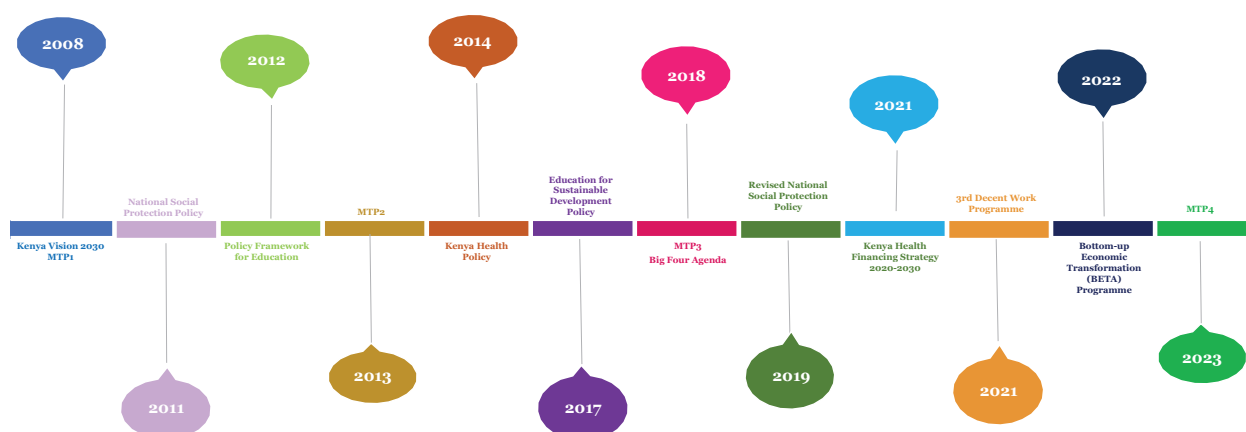
Source: Authors' own compilation.

2.2 The political and societal discourse

Like other African countries, Kenya traditionally focused its economic policies on poverty alleviation with a "trickle down" approach, which aims for economic growth that would create wealth and in the end up benefit the poorest (KNBS-SID, 2013). Therefore, inequality was not integrated in the political discourse until recent years in Kenyan history.

It seems that the 2010 Constitution (voted for in favour by a 67% majority of the electorate in the 2010 constitutional referendum) was a cornerstone in the evolution of the political discourse on inequality, as it integrates reduction of inequality as one of the expected outcomes and it positions inequality as a cross-cutting objective and field of action. This perspective is very different from that of the 1963 Independence Constitution, which was much more oriented towards addressing the government structure, institutional arrangements, and state functions (Wilson Center, 2011). Regional inequality (within and between counties, for instance), as well as socio-economic inequality, started to become more present in political discourses, accompanied with proposals to improve living conditions.

This is noticeable in both the Jubilee Manifesto's of 2013 and 2017, as well as in the Kenya Kwanza Plan 2022-2027. The term employed in the Jubilee Manifesto of 2013 to refer to the proposed transformation is "revolution," considering that it required a complete set of changes to improve living conditions, by ensuring food and clean water, offering quality education to every child, wealth creation and improving healthcare (The National Alliance, 2013). It is important to remind that for the elections of 2013, an alliance between the four most prominent parties was created, taking the victory at the polls. One of the central points in its agenda was inequality (National Alliance, 2013: 5). The coalition also won the elections of 2017. The 2017 Jubilee manifesto was mostly a continuation of the 2013 manifesto. It put special emphasis on a massive yearly creation of employment, aiming to strengthen human capital for one specific industry for each county, increasing the number of citizens receiving cash transfers, facilitating mass affordable housing production, and creating sponsored apprenticeship programmes for graduates of universities and technical education to increase their job and economic opportunities, among other actions also aimed at tackling inequality.

Comparatively, the Kenya Kwanza Plan 2022-2027 also puts emphasis on finding solutions and ways to address inequality, but with a different perspective. It recognizes that the non-formal economy and smallholder agriculture play main roles in efforts to reduce inequality. In other words, current President Dr. William Ruto proposed during the 2022 campaign period a "bottom up economic transformation" agenda in which boosting the economy will mainly focus on increasing the non-formal workers' income, trying to ensure income stability and dignity for the thousands of people that have traditionally worked in the "lottery economy" (United Democratic Alliance, 2022). According to the Kenya Kwanza Plan, this economic model would generate aggregate demand that would end up dynamizing the entire industry. Granting access to capital in order to formalize a micro-, small- or medium-sized enterprise (MSME) or boost MSME production and/or productivity is, thereby, a top priority for the 2022-2027 government. It is the way to guarantee that scarce capital is allocated to the economic sectors that potentially create more jobs, i.e. smallholder agriculture and the non-agricultural informal sector. This matches with the current 2023 executive order, which aims to end what some have considered economic apartheid and to democratise resources and power.

The government order claims that this entire plan is financially feasible if a tax reform is approved and implemented. Expanding the tax base, focusing on collecting taxes from wealth more than trade, and diminishing/controlling tax evasion are some of the main features in this tax reform proposal. Taxing the highest classes and the main wealth holders, mostly in the private sector, represents a change in the way inequality is being addressed and reveals that there is a deliberate political will and discourse focused on narrowing the socio-economic gaps.

Regarding the social discourse or perception about inequality, it is important to mention that economic topics are among the issues that make Kenyans worry the most. According to a survey of PEW Research Center (2016), 87% of Kenyans worry about lack of employment opportunities, 86% declare to worry about poverty. In terms of life quality, there are some others aspects that are particularly worrying, such as poor health care and lack of clean drinking water, with 75% of people worrying about both aspects. All these are central elements and/or features of inequality and reveal how legitimate and accepted it is to talk about it at a social level, as well as putting at the top of the public and political agenda. This same survey asks specifically about how much Kenyans worry about the gap between rich and poor and the result is that 72% of the population worries about inequality. This means that inequality is something that is on top of the mind of Kenyans, both as a general and macro phenomenon and taking apart all the elements that constitute it. This is relevant and slightly surprising as inequality is often considered as an interregional phenomenon, more than a disparity between social classes, as mentioned in the Kenya Country Report 2022 (BTI, 2022). This means that socio-economic inequality starts to be understood as one of the forms in which inequality is perceived as problematic, aside from the inequality between counties.

2.3 Donor support and strategies

The **European Union's** international cooperation with Kenya is aligned to the objectives and priorities of Kenya Vision 2030, the MTPs and the Big Four Agenda. According to the indicative financial allocations during MTP3 presented in the Joint Cooperation Strategy 2018-2022, France and Germany were going to be the largest European bilateral donors, followed by the United Kingdom. Other important EU development partners were the EU institutions and the European Investment Bank.[46] One of the four priority areas of the Joint Strategy is employment creation, with focus on supporting the demand and supply sides of the labour market, addressing skill mismatches and strengthening the business-enabling environment. The strategy furthermore argues that gender equality 'is one of the most important conditions for achieving progress in the fight against poverty and inequality'.[47]

The EU's Multiannual Indicative Programme for Kenya for 2021-2024 has a budget of 324 million Euros. Its three priority areas are: (1) the green transition, which supports a paradigm shift towards an economic model that combines sustainable growth and decent job creation with environmental conservation and climate-resilience; (2) leave no-one behind and digitalisation, which focuses on human development, social inclusion, education, skills and inclusive urbanisation with youth and women as key beneficiaries; and (3) democratic governance, peace and stability, which helps to advance transparency and accountability, including anti-corruption and public finance management, boosting service-delivery, legal and judicial empowerment, as well as the regional/'s peace and security agenda.[48] Priority area 2 departs from the premise that 'Kenya faces high levels of poverty and inequality' (EU, 2021: 5). Regarding priority area 3, the document identifies income inequality as one of the factors that 'can fuel unrest'.

The **USA** is also an important bilateral donor of Kenya. Annual ODA disbursements of USAID averaged around USD 500 million in the past decade, compared to USD 65 million in 2001.[49] USAID's 2021-2025 strategy for development cooperation with Kenya has the following goal: 'Kenya's competitive private sector, resilient communities and civil society organizations, and citizen-responsive public sector better collaborate to drive inclusive growth and well-being for Kenya's self-reliance'.[50] Key areas in which USAID has worked together with Kenyan partners are access to education, access to quality health services, laying the foundations for long-term economic growth, as well as governance.[51]

Like the foreign aid of other traditional donors, the Development Cooperation of the **United Nations System** is based on the 2030 Agenda for Sustainable Development. With the approval of that agenda, the participating countries and other partners for development committed themselves to working together in promoting sustainable and inclusive growth, social development and environmental protection, with the goal of addressing inequalities, particularly inequality of opportunities, and end all forms of discrimination with the aim that no one is left behind. The UN Development Assistance Framework 2018-2022 for Kenya is aligned to Kenya Vision 2030 and the priorities outlined in the MTP3, the Big Four Agenda and the Sustainable Development Goals.[52]

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46 https://www.eeas.europa.eu/sites/default/files/joint_cooperation_strategy_2018_-2022_1.pdf.
47 Ibid.
48 https://international-partnerships.ec.europa.eu/system/files/2022-01/mip-2021-c2021-9088-kenya-annex_en.pdf.
49 https://foreignassistance.gov/cd/kenya/2020/disbursements/1.
50 https://www.usaid.gov/sites/default/files/2022-05/Kenya_CDCS_External_Sept_2021.pdf.
51 https://www.usaid.gov/kenya.
52 https://kenya.un.org/en/sdgs.

Inequality also features in the **World Bank's** strategies for its work in Kenya. The new Country Partnership Framework for the Period FY23-FY28 identifies several policy areas for reducing inequality of opportunity and outcomes, including extending basic service provision to most of its population, providing infrastructure services to poorer counties, further reforms to education focused on improving learning outcomes, as well as further expansion of the social safety net system.[53]

Finally, the overall objective of the **African Development Bank's** Country Strategy Paper 2019-2023 for Kenya is 'to support structural transformation to address persistent challenges of poverty, unemployment, income inequality and spatial socioeconomic disparity through industrialization.[54] The country strategy is articulated around two pillars – i.e. industrialization and capacity development, which are aligned with the Government of Kenyan's policies and strategies. Based on the 2021 mid-term review of the Country Strategy Paper, the management of the African Development Bank proposed to keep the pillars unchanged.[55]

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53 http://documents.worldbank.org/curated/en/099421512052241562/SECBOS01bdb49b00208e1f0d132ef1fbe94.
54 https://www.afdb.org/en/documents/document/kenya-bank-group-country-strategy-paper-2019-2023-and-country-portfolio-performance-review-109105.
55 https://www.afdb.org/en/documents/kenya-country-strategy-paper-2019-2023-mid-term-review-and-country-portfolio-performance-review-cppr.

3. | Policy options

Box 4: Summary of policy options

- *Narrow the gender gap in labour force participation by stimulating economic activity of women.*
- *Increasing labour demand, particularly in rural areas and non-agricultural sectors.*
- *Improve earnings in informal and vulnerable work and promote formalisation of informal enterprises.*
- *Increase labour productivity, among others though training and education.*
- *Reform the tax system, to make taxes more progressive (by abolishing exemptions) and to enlarge fiscal space for public social expenditure.*
- *Address gender inequalities in the labour market (i.e. discrimination against women in terms of access to employment and earning).*
- *Strengthen social protection systems and improve coverage for poorer population.*
- *Improve access to quality education and health care, especially for women and girls.*
- *Improve gender-responsive budgeting.*

The purpose of this section of the diagnostic is to present options for policies to reduce inequality. A vast number of policies exist with the potential to address inequality. Not all of them are however feasible or relevant in every context. Given the focus on labour market developments, taxes and transfers, and gender in the diagnostic (see Section 1), the policy options concentrate on these as well. In prioritising interventions, policy makers should consider the current and potential future capacity of the state, the stage of development, and the nature of existing institutions (UNRISD 2010; Klasen et al. 2016; ILO 2017) which collectively determine the policy environment. It is also important that policy makers take into consideration any available evidence on the effect of particular policy measures on inequality and poverty. A general review of the effectiveness of policy measures was however beyond the scope of this diagnostic. Several policy options presented here are in line with current government policies.

3.1 Labour market policies

There is a clear need for policies to narrow the large gender gap in labour force participation (which increased again during the COVID-19 pandemic), by stimulating the participation of women in economic activities. The employability of women could be enhanced by making changes in the curricula of schools and providing training and childcare facilities. Financial inclusion and promoting the development of micro-, small and medium enterprises (MSMEs) can also create opportunities for women to participate more in economic activities.

Policies are needed to stimulate the demand for labour in non-agricultural sectors, particularly in rural areas. Such policies are needed to address the large urban-rural income inequalities and more limited opportunities in rural areas than in the cities to be engaged in more productive, higher-quality and higher-remunerated employment – issues that were referred to in earlier sections of this diagnostic. One way to do this could be to step up public investment in (especially poorer) rural areas. At the same time, as discussed in Section 1, there is need for generating higher-

quality jobs for low- and medium-skilled workers. That will require stimulation of the demand for labour in manufacturing (or industry in general) through a diversification of the economy. Specific attention needs to be paid to the tax burden in manufacturing and to disadvantages that women in manufacturing face in terms of access to capital. Efforts to boost exports could help to realise the desired structural change in the economy and the labour market. However, such efforts should avoid any adverse distributional effects of international trade.

As indicated in Section 1, people engaged in informal and/or vulnerable work usually earn less than their counterparts in formal (wage) employment do. Hence, a process of formalisation of businesses and employment can contribute to reducing both labour income inequality and overall income inequality. It is therefore suggested to make more efforts to formalise employment. At the same time, the very high proportion of informal employment makes it also necessary to try to increase the non-formal workers' income, which in line with current government policies. Providing training to improve skills of informal/vulnerable workers can also help to increase their earnings and reduce the gap with the earning of people in formal employment. Training may also help people to find alternative and better-remunerated formal employment.

Efforts to increase labour productivity in both agricultural and non-agricultural employment can involve improving the access to education and the provision of training to improve the skills of workers. Improving the access to good quality education is one of the policy priorities of the current Government (see Section 2). Investments in infrastructure can also contribute to raising labour productivity.

Expanding the provision of education, increasing educational attainment and improving the employability of (especially female) graduates can help to reduce both earnings inequality and overall income inequality. An increased supply of higher-educated labour (as a more longer-term policy) can lead to a diminishing of the skill-premium if the demand for labour with higher levels of education does not change at the same pace. Improving the access to quality education for the poorer population by increasing the supply of education services and reducing the cost of studying for the poor (by means of targeted transfers) can contribute to diminishing the inequality in completion rates according to income level and reducing the gaps in completion rates between levels of education.

3.2 Policies for taxes and public social expenditure

Tax policies

World Bank (2020: Box 1.2) explores options for enhancing revenue mobilisation in Kenya. It estimates that 1.5-3.2% of potential CIT revenue and about 5% of potential VAT revenue was forgone in 2015-2017 because of exemptions. This means that there would be scope to raise revenues in these tax categories.[56] OHRCR (2021: 12) noted, however, that 'increases in regressive taxes such

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56 It is beyond doubt that caution needs to be exercised to prevent over-taxation of the low-income segments of the population.

as Value Added Tax should be avoided at this time of reduced income and job losses, as they are likely to severely affect the poor and most vulnerable.'[57] It is suggested to also explore possibilities to abolish exemptions in PIT that are pro rich. That would directly improve post-tax income inequality and increase the fiscal space for public social expenditure.

Policies concerning public social expenditure and improving access to education and health services

With respect to public social expenditure, OHRCR (2021: 12) notes that 'in order to sustainably finance the social sectors, the Government needs to expand fiscal space by increasing domestic resource mobilization, particularly by exploring more progressive tax measures on income and wealth.' The above-mentioned measures could contribute to increasing the fiscal space for higher public social expenditure (while at the same time in itself directly contributing to reducing post-tax income inequality).

Improving access to quality education for especially the poorest segments of the population is key for reducing the inequality of opportunity, which can help to diminish the inter-generational transmission of poverty. It is expected that in the end it will also contribute to reducing the inequality of outcomes, if poor children receive better education, which will enhance their opportunities in the labour market later in their lives. Measures to improving access to quality education among disadvantaged children can take the form of targeted (conditional or unconditional) transfers to poor households, lowering the costs for those households of sending their children to school, and improving the quality of education in poorer parts of the country.

Regarding the NHIF and contributions of the population to this Fund, OHRCR (2021) reported that 'a more progressive contribution would ensure that the most disadvantaged and marginalised groups are not left behind. Also, enrolling workers in the informal sector will be key.' In this context, Kazungu & Barasa (2017) argue that 'in a context where over 80% of the population is in the informal sector, and close to 50% live below the national poverty line, achieving high and equitable coverage levels with contributory and voluntary health insurance mechanism is problematic. Kenya should consider a universal, tax-funded mechanism that ensures revenues are equitably and efficiently collected, and everyone (including the poor and those in the informal sector) is covered.' It is suggested to do this, which is actually in line with current government policies in this area. This implies a policy of expanding the health system financed by revenues collected by the national and county governments, given that the government-financed part currently makes up less than half of the health system. It would at the same time require efforts to substantially reduce further private health expenditure, which principally consists of out-of-pocket expenses that are poverty increasing.

In terms of social protection, it is suggested to examine why the coverage of social assistance programmes did not increase for the poorest quintile of the population, in contrast to increases for the other quintiles. It is furthermore suggested to assess whether there are opportunities for merging nationwide cash transfer programmes and if that could help to raise the coverage of

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57 https://www.ohchr.org/sites/default/files/Documents/Countries/KE/Human_Rights-Based-Analysis-Kenya-Budget-2021-2022.pdf, page 12.

the bottom quintile. In any case, there is a need to target the programmes more on the poorer population. In addition, it is suggested to take measures to improve the adequacy of social assistance programmes by (further) increasing the benefit incidence of social safety net programmes to the bottom 40%, so as to 'leave no one behind'. Establishing a sort of Social Protection Authority that covers all services in addressing the concerns of vulnerable groups might help to streamline the services and raise both coverage and adequacy of social assistance programmes. At the same time, efforts are required to reverse the decline in the coverage of social security, and particularly raise the coverage among the population in the lowest quintiles, which includes the poor population.

3.3 Gender

The National Policy on Gender and Development (Republic of Kenya, 2019) is deeply anchored on the Constitution of 2010. The policy aims at achieving gender equality in different dimensions – including the ones covered in Section 1 of this diagnostic. It proposes priority actions related to the dimensions of gender equality or inequality. The policy priority actions are aligned with some guiding principles derived from the Constitution (Ibid.: 28-29). The most relevant principles are:
- Equality, equity and non-discrimination;
- Recognition of differences, diversities and inequalities among women and men;
- Sustainable development and inclusive growth; and
- Protection, inclusion and integration of the marginalized and special interest groups.

It is also relevant to bear in mind the policy approaches that guide, in a general way, the actions that are intended to be implemented (Ibid.: 29). These approaches are:
- Gender mainstreaming and integration in all planned interventions;
- Affirmative action to ensure that temporary special measures are used to address past gender inequalities and injustices;
- Empowerment of women, men, boys and girls to facilitate equality, equity and non-discrimination;
- Involvement of men in addressing gender issues;
- Institutional and human capacity building;
- Gender responsive development planning budgeting;
- Generating data and indicators that are disaggregated by sex, age and disability.

A selection of the policy priority actions listed in Republic of Kenya (2019: 32-38) is:
a) Poverty eradication: Ensure equal opportunities and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action. Empower women and men to have access to and control over economic opportunities and resources.
b) Access to labour and economy: Eliminate discrimination in access to employment, promotion and training including equal remuneration to enhance income security for men and women.
c) Access to education: Enhance and sustain measures to eliminate gender disparities in access to, retention, transition, performance and quality in education for women, men, girls and boys.
d) Access to health care: Facilitate affordable, accessible, acceptable and quality health care services including reproductive health care, emergency services, family planning, HIV and AIDS service for women and men, girls and boys.

First, it is suggested to study, analyse and diagnose the different levels and forms of gender disparity (domestic violence, economic opportunities, access to education, finances and time spent on care activities).

Address gender inequalities in access to land

Nunow et al. (2020) recommend implementing deliberate government policies such as giving women more power in the land restitution process, which can reduce gender inequality. It is suggested to explore this further.

Address gender inequalities in the labour market

Inequality related to time is one of the factors that puts women at a disadvantaged position in the labour market, because women often bear the brunt of household chores.

Creating a public childcare system could help to reduce the inequality related to time. It is suggested to look at the experience of Bogotá, and of Colombia in general, in this area. Providing social protection to women as providers of unpaid care work is an option that might be considered.

But even if women can and want to participate (more) in economic activities, they do often not have the same degree of access to jobs as men, because of discrimination. A suggestion to address this is to stimulate companies and the private sector in general to have a 50/50 proportion of hiring processes to level the female/male disparity in terms of employment opportunities.

As discussed in sub-section 1.3, another aspect of gender inequality in the labour market is unequal pay for equal work. It is recommended to conduct more studies on this topic and disseminate its results, to make employers more aware of this issue, to help improve empowerment of women, and to have a stronger basis for designing specific policies to address this issue, which is also a cause of overall income inequality.

Address gender inequalities in education

Korir et al. (2021) emphasizes the 'need to ensure provision of quality education among children now to promote future resilience to climate change'. This is also to avoid adverse effects of climate change on inequality of opportunity (in terms of children's and especially girls' access to quality education). The authors recommend that education programmes become more responsive to the pastoralist way of live. It is suggested to follow up this recommended change, as it has the potential to address both inequality of opportunities and inequality of outcomes.

In general, a policy option is to improve access to education of girls and women at TVET and university level.

Address gender inequalities in access to health care

A policy option is to improve access to health care for (especially poor) women. Broadening the coverage of the subsidised health care system, and ultimately unifying currently existing systems into a tax-based system, can help to achieve this. But there is also need to take other factors into account that may inhibit (poor) women to make use of health facilities, such as cost and time required to visit them.

Gender-Responsive Budgeting

It is suggested to make further progress in this area, at national and county level, and ultimately also on local government level, by assigning more resources to efforts to improve this. Both national and county governments should fully adopt gender-responsive budgeting. The application should be consistent and systematic with the aim of allocating more resources to programmes and interventions aimed at reducing inequalities in all spheres of development.

4. Potential areas for further research

This diagnostic has presented estimates of inequality in Kenya in the past decades and has identified causes and drivers of inequality, as well options for policies to address inequality. Inequality is a complex issue, has several dimensions, and many different factors can be a cause or driver of inequality, but the scope of the diagnostic was limited. Examples of potential areas for further research are deepening the analysis of the non-monetary inequality of opportunities and outcomes in the areas of education and health, paying more explicit attention to the distinction between pre-market, market and post-markets factors affecting inequality, assessing the effects of technology and digitalisation on inequality, the importance of the debt situation of Kenya in limiting the fiscal space for social expenditure, and the effects of particular policy measures on inequality, as well as studying the question of social mobility and the transgenerational transmission of inequality.

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List of Partners: Validation Meeting of the Inequality Diagnostic Study in Kenya held on 22nd September, Nairobi

Ministries, Department and Agencies

1. Ministry of Education
2. Ministry of Environment, Climate Change and Forestry
3. State Department for Gender and Affirmative Action
4. State Department for Trade
5. State Department for Devolution
6. Kenya Institute for Public Policy Research and Analysis
7. Kenya National Bureau of Statistics
8. Kenya National Commission on Human Rights
9. Kenyatta University, Women Economic Empowerment Hub
10. National Council for Population and Development
11. National Drought Management Authority
12. National Gender and Equality Commission
13. Council of Governors
14. Central Bank of Kenya

Academia/Research Institutions

15. University of Nairobi
16. University of Nairobi, Women Economic Empowerment Hub
17. Catholic University of East Africa
18. Kenyatta University Development Partners
19. European Union
20. Japan International Corporation Agency
21. GIZ
22. German Embassy
23. World Bank
24. International Labour Organization

Private Sector/Non- State Actors

25. Abdul Latif Jameel Poverty Action Lab (J-PAL)
26. Black Albinism
27. Enableme Kenya
28. Equity Bank
29. Economists Society of Kenya
30. GenAfrica
31. Gertrude's Hospital
32. Institute of Economic Affairs
33. Kenya Bankers Association
34. Kabete Distinct Person's with Disability Network
35. Kenya Association of Manufacturers
36. Nutritional International
37. Oxfam International
38. Persons With Disability
39. Population Council
40. United Disabled Persons of Kenya
41. World Vision
42. Zamara Group Limited