KENYA SOCIAL PROTECTION AND JOBS PROGRAMS
PUBLIC EXPENDITURE REVIEW

6/27/2019
Acknowledgement

The report was prepared by a team jointly led by Ramya Sundaram (Senior Economist, Social Protection and Jobs Global Practice) and Utz Pape (Senior Economist, Poverty and Equity Global Practice). The team consisted of Claudia Geiser (Consultant, Poverty and Equity Global Practice), Renata Gukovas (Research Analyst, Social Protection and Jobs Global Practice), Melis Guven (Senior Social Protection Economist, Social Protection and Jobs Global Practice), Alastair Haynes (Consultant, Poverty and Equity Global Practice), Kevin Heraniah (Social Protection Specialist, Social Protection and Jobs Global Practice), Himanshi Jain (Analyst, Social Protection and Jobs Global Practice), Melis Guven (Senior Social Protection Economist, Social Protection and Jobs Global Practice), Alastair Haynes (Consultant, Poverty and Equity Global Practice), Kevin Heraniah (Social Protection Specialist, Social Protection and Jobs Global Practice), Himanshi Jain (Analyst, Social Protection and Jobs Global Practice), Isadora Cordido (Program Assistant, Social Protection and Jobs Global Practice), Nancy Makungu Gamusa (Program Assistant for Kenya, Rwanda, Uganda, and Eritrea), and Abla Safir (Senior Economist, Social Protection and Jobs Global Practice). The team received support from Dorothy Morrow Akikoli (Senior Executive Assistant for Kenya, Rwanda, Uganda, and Eritrea), Mariam Denise Brain (Program Assistant, Social Protection and Jobs Global Practice), Isadora Cordido (Program Assistant, Social Protection and Jobs Global Practice), Nancy Makungu Gamusa (Program Assistant for Kenya, Rwanda, Uganda, and Eritrea), Anne Khatimba (Program Assistant for Kenya, Rwanda, Uganda, and Eritrea) and Caroline Kingu (Program Assistant for Kenya, Rwanda, Uganda, and Eritrea).

The report was prepared under the supervision of C. Felipe Jaramillo (Country Director for Kenya, Rwanda, Uganda, and Eritrea) as well as Rob Chase (Practice Manager, Social Protection and Jobs Global Practice) and Pierrella Paci (Practice Manager, Poverty and Equity Global Practice). The peer reviewers were Gonzalo Reyes Hartley (Senior Social Protection Specialist, Social Protection and Jobs Global Practice), Matteo Morgandi (Senior Economist, Social Protection and Jobs Global Practice) and Philip Schuler (Lead Economist, Macro and Fiscal Global Practice). The report benefitted from excellent comments provided by Paolo Belli (Program Leader for Kenya, Rwanda, Uganda, and Eritrea), Peter Chacha (Senior Economist, Macro and Fiscal Global Practice), Nduati Kariuki (ET Consultant, Poverty and Equity Global Practice), Sudha Krishnan (Operations Officer, IFC Chief Economist), Iftikhar Malik (Senior Social Protection Specialist, Social Protection and Jobs Global Practice), Emma Mistiaen (Senior Social Protection Specialist, Social Protection and Jobs Global Practice) and Fiona Stewart (Lead Financial Sector Specialist, Finance, Competitiveness and Innovation Global Practice).

The World Bank greatly appreciates the close collaboration of the Government of Kenya (GoK) and Development Partners in providing information on programs without which the report would not have been possible.
# Table of Contents

**A. INTRODUCTION** .......................................................................................................................... 1

**B. SOCIAL ASSISTANCE** ..................................................................................................................... 7
1. Coverage of social safety nets in Kenya .......................................................................................... 7
2. Expenditure on social safety nets in Kenya .................................................................................... 14
3. Targeting accuracy and adequacy of transfers .............................................................................. 20
4. Policy reform simulations and their fiscal and poverty impact ..................................................... 22

**C. SOCIAL INSURANCE** ..................................................................................................................... 31
1. Kenya’s social insurance landscape ............................................................................................... 31
2. Social insurance for the formal sector ........................................................................................... 32
3. Old age security for the informal sector ......................................................................................... 42
4. Analysis of ability of informal sector to save for old age .............................................................. 48
5. Social pension and its interaction with existing schemes ............................................................... 51

**D. JOB PROGRAMS** .......................................................................................................................... 53
1. Labor market context ...................................................................................................................... 53
2. Jobs programs as possible solutions .............................................................................................. 56
3. Expenditure on job programs ......................................................................................................... 57
4. Coverage of job programs ............................................................................................................ 65
5. Evaluation of the impact of job programs ...................................................................................... 80

**X. ANNEX: SOCIAL INSURANCE** ..................................................................................................... 83
1. Additional information on household survey data analysis ............................................................ 83
List of Figures

Figure A-1: Social Protection Coverage in Kenya ................................................................. 1
Figure A-2: Poverty rate of Kenya projected to 2030 on current growth assumptions .............. 2
Figure A-3: Frontier of annual household consumption growth and inequality reduction to achieve poverty eradication by 2030 .......................................................... 2
Figure A-4: Spending in different Social Protection and Jobs Pillars as a share of GDP ............... 6
Figure A-5: Social Protection Spending, by age group, 2016 .................................................. 6
Figure A-6: Spending on old age benefits and share of population over 65 .............................. 6
Figure B-1: Increase in recipients of the NSNP programs over time ................................... 8
Figure B-2: Poverty and Social Assistance Coverage before the introductions of the OPCT 70+ transfer ........................................................... 9
Figure B-3: Simulated Poverty and Social Assistance Coverage following the introduction of the OPCT 70+ transfer ........................................................... 9
Figure B-4: Coverage of social safety nets across selected African countries .................... 10
Figure B-5: The take-up rate of the OPCT 70+ transfer has a slight negative correlation to the poverty rate of the county .......................................................... 11
Figure B-6: Number of residents over 70 vs OPCT 70+ recipients, by county ....................... 12
Figure B-7: Poverty rates, geographic coverage, and under-coverage of the poor ........................ 13
Figure B-8: The estimated coverage of the population and of the poor, by county .................... 14
Figure B-9: Expenditure on social safety nets, percent of GDP and of government spending ...... 15
Figure B-10: Expenditure on NSNP and OPCT 70+, percent of GDP ............................... 15
Figure B-11: Expenditure on social safety nets across selected African countries ................ 15
Figure B-12: Government vs donor financing of social safety net programs ......................... 15
Figure B-13: Operating costs of various programs ............................................................. 16
Figure B-14: Potential path for expanding coverage of social safety nets to all poor in Kenya ...... 17
Figure B-15: Development Versus Recurrent Expenditure Over Time ................................. 20
Figure B-16: Targeting accuracy of various cash transfer programs, by quintile ....................... 21
Figure B-17: Targeting accuracy of various cash transfer programs to the poor ..................... 21
Figure B-18: Evolution of nominal and real value of transfers ........................................... 22
Figure B-19: Potential Coverage of a Universal Child Grant by welfare group: (a) direct beneficiaries only; (b) direct and indirect beneficiaries ....................... 24
Figure B-20 Potential coverage of a Child Grant targeting the poorest counties by welfare group: (a) direct beneficiaries only; (b) direct and indirect beneficiaries ................................. 24
Figure B-21. Adequacy of simulated Child Benefits : (a) KSh 2,000 per family; (b) KSh 3,000 per family .. 25
Figure B-22. Increasing the adequacy of current transfers .................................................. 26
Figure B-23. Total cost of various simulated policies (% GDP) ............................................ 26
Figure B-24. Percentage point reduction of each simulated policy ....................................... 27
Figure B-25. Benefit-cost ratio of the simulated policies ...................................................... 28
Figure B-26. Poverty reduction after each proposed policy option - National child Benefit ....... 29
Figure B-27 Poverty reduction after each proposed policy option - Child Benefit Targeted at the poorest counties .......................................................... 29
Figure B-28. Percentage point poverty reduction of poverty targeted policy options by age group .......................................................... 30
Figure C-1: Population share over time .............................................................................. 31
Figure C-2: Mapping Social Insurance .............................................................................. 32
Figure C-3: Accrual rates in Sub-Saharan Africa ................................................................. 33
Figure C-4: Projection of counts of employees and pensioners .......................................... 35
Figure C-5: Pension Expenditure as Percent of GDP ......................................................... 35
Figure C-6: Pension expenditure as % of GDP in baseline and proposed DC scenario ............ 37
Kenya Social Protection and Jobs Programs Public Expenditure Review

Figure C-7: Contribution Rates in Sub-Saharan Africa ................................................................. 38
Figure C-8: Fund Reserve in DC scheme as percent of GDP ........................................................... 39
Figure C-9: Typology of Kenyan Households .............................................................................. 49
Figure C-10: Formal sector and INV hhlds ownership/usage of mobile phone, mobile money, mobile banking and internet ................................................................. 49
Figure C-11: Proportion of INV households by counties ............................................................... 50
Figure C-12: Comparison of household type across sectors of employment ................................. 50
Figure C-13: Cost of social pension over time (as % of GDP) ......................................................... 52
Figure D-1: Labor Market Status, 2005 and 2015 ....................................................................... 53
Figure D-2: Labor Market Status 2015/16 .................................................................................. 53
Figure D-3: Demographics in rural and urban areas ..................................................................... 54
Figure D-4: Job Creation 2014—2017 ......................................................................................... 54
Figure D-5: Underemployment by Sector ..................................................................................... 54
Figure D-6: Hidden Unemployment and Underemployment in Youth ........................................... 55
Figure D-7: Educational Differences in Employed and Unemployed Youth ................................. 55
Figure D-8: School-to-Work transition for a) All Individuals ......................................................... 56
Figure D-9: International comparison of Youth Unemployment (15-24) ........................................ 56
Figure D-10: Overview of Government Programs ....................................................................... 57
Figure D-11: Job Program Budget and Expenditure in 2009 Prices ............................................ 58
Figure D-12: Job Program Expenditure ....................................................................................... 58
Figure D-13: Government and Donor Budgets for Jobs Programs in 2017 ................................. 58
Figure D-14: International Comparison of Active Labor Market Programs ................................. 59
Figure D-15: Expenditure 2017 by Job Program Type ................................................................. 59
Figure D-16: Job Program Budget and Expenditure (2009 Prices) .............................................. 60
Figure D-17: Budget and Expenditure Per Program (2009 Prices) ............................................... 60
Figure D-18: Expenditure 2016/17 by Program ......................................................................... 61
Figure D-19: Job Programs Expenditure from 2015 to 2017 ....................................................... 62
Figure D-20: Recurrent and Development Expenditure in 2009 Prices ........................................ 62
Figure D-21: Development Expenditure per Job Program ........................................................... 63
Figure D-22: Spending on Job Programs by Ministry in 2016/17 ............................................... 64
Figure D-23: Uwezo Beneficiaries since 2014/15 ...................................................................... 66
Figure D-24: Number of Groups per 1,000 population Across Counties ..................................... 66
Figure D-25: Number of Uwezo, Youth Enterprise and Women’s Fund Groups per 1,000 in Poverty ........................................................................................................ 67
Figure D-26: Uwezo Funds Ratio (Disbursement / Allocation) ...................................................... 68
Figure D-27: Funds Disbursed for the Uwezo, Women’s and Youth Enterprise Fund .................. 69
Figure D-28: Affirmative Funds Potential Beneficiary Coverage Across Wealth Quintiles .......... 70
Figure D-29: Affirmative Funds Potential Beneficiary Incidence Across Wealth Quintiles .......... 70
Figure D-30: Affirmative Funds Potential Beneficiary Coverage Across Education .................... 70
Figure D-31: Affirmative Funds Potential Beneficiary Eligibility Incidence Across Education .... 70
Figure D-32: EPZ Contributions to Exports and Manufacturing Sector Value Output and Employment ........................................................................................................ 71
Figure D-33: EPZA Potential Beneficiary Eligibility Incidence Across Education ........................ 72
Figure D-34: Distribution of Potential Beneficiaries to Receive Training by EPZ Firms ................ 72
Figure D-35: Location of OVOP Beneficiaries ............................................................................ 73
Figure D-36: Training beneficiaries of OVOP ............................................................................ 73
Figure D-37: OVOP Potential Beneficiary Eligibility Incidence Across Education .................... 74
Figure D-38: Beneficiaries of Industrial Training ....................................................................... 75
Figure D-39: Location of NITA Training Centers and Concentration of Industrial Employment .... 75
Figure D-40: Budget per NITA Training Beneficiary and per Attachment ................................. 76
Figure D-41: Budget per Sponsorship Program ................................................................. 76
Figure D-42: NITA Potential Beneficiary Coverage Across Wealth Quintiles ............................................. 77
Figure D-43: NITA Potential Beneficiary Eligibility Incidence Across Wealth Quintiles .................................... 77
Figure D-44: NITA Potential Beneficiary Coverage Across Gender .......................................................... 77
Figure D-45: NITA Potential Beneficiary Eligibility Incidence Across Gender .................................................... 77
Figure D-46: Number of (Hidden) Unemployed ......................................................................................... 78
Figure D-47: NEA Beneficiaries .................................................................................................................. 78
Figure D-48: NEA Field Office Budget Per Beneficiary .................................................................................... 78
Figure D-49: NEA Potential Beneficiary Coverage Across Wealth Quintiles .................................................. 79
Figure D-50: NEA Potential Beneficiary Eligibility Incidence Across Wealth Quintiles ..................................... 79
Figure X-1: Probability of a shock leading to vulnerability across hhlds ......................................................... 84
Figure X-2: A classification of Kenyan hhlds based on formality, poverty and vulnerability .................................. 84
Figure X-3: Per capita consumption across groups of hhlds ................................................................................. 85
Figure X-4: Schooling attainment across households ......................................................................................... 85
Figure X-5: Fraction of hhlds in urban areas ........................................................................................................ 86
Figure X-6: Distribution of non-poor, non-vulnerable hhlds by industry .......................................................... 86
List of Tables

Table A-1: Malnutrition indicators.................................................................4
Table A-2: School attendance .......................................................................5
Table B-1: Objectives of NSNP programs.......................................................7
Table B-2: Timeliness of Payments for the Four NSNP Cash Transfer Programs .18
Table B-3: Recent Timeliness of Payments ....................................................19
Table B-4: Policy options that are simulated .................................................23
Table B-5: Total cost, poverty impact and benefit-cost ratio of the simulated policies .28
Table C-1: Current DC Scheme Rules ..........................................................36
Table C-2: Proposed DC Scheme Rules .......................................................36
Table C-3: Statistics on NSSF and other private sector schemes ....................41
Table C-4: Statistics on informal sector schemes ..........................................43
Table C-5: Saving rates for Old Age in Kenya ...............................................44
Table D-1: At-risk Groups in the Labor Market ..........................................55
Table D-2: Expenditure in KSh Millions by Program ....................................61
Table D-3: Development Expenditure as Share of Total Expenditure per Job Program ...63
Table D-4: Overview of Job Programs per Ministry and Possible Overlaps ..........64
Table D-5: Overview of EPZ Contributions 2013-2017 ................................71
Table D-6: Job Creation and Local Resource Use by EPZ in 2017 ....................72
Table D-7: Beneficiaries NEA 2016-2018 .....................................................78
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGPO</td>
<td>Access to Government Procurement Opportunities Program</td>
</tr>
<tr>
<td>ALMP</td>
<td>Active Labor Market Policies</td>
</tr>
<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
</tr>
<tr>
<td>CBA</td>
<td>Commercial Bank of Africa</td>
</tr>
<tr>
<td>CIS</td>
<td>County Industrial Support</td>
</tr>
<tr>
<td>CSP</td>
<td>Civil Service Pension</td>
</tr>
<tr>
<td>CT</td>
<td>Cash Transfer</td>
</tr>
<tr>
<td>CT-OVC</td>
<td>Cash Transfer for Orphans and Vulnerable Children</td>
</tr>
<tr>
<td>DB</td>
<td>Defined Benefit</td>
</tr>
<tr>
<td>DC</td>
<td>Defined Contribution</td>
</tr>
<tr>
<td>DHS</td>
<td>Demographic and Health Survey</td>
</tr>
<tr>
<td>DSA</td>
<td>Debt Sustainability Analysis</td>
</tr>
<tr>
<td>EPZ</td>
<td>Export Processing Zone(s)</td>
</tr>
<tr>
<td>EPZA</td>
<td>Export Processing Zone Authority</td>
</tr>
<tr>
<td>FINDEX</td>
<td>Global Financial Inclusion Database</td>
</tr>
<tr>
<td>FSD</td>
<td>Financial Sector Deepening</td>
</tr>
<tr>
<td>FY</td>
<td>Financial Year</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GoK</td>
<td>Government of Kenya</td>
</tr>
<tr>
<td>HH</td>
<td>Household</td>
</tr>
<tr>
<td>hhlds</td>
<td>households</td>
</tr>
<tr>
<td>HSNP</td>
<td>Hunger and Safety Net Program</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Agency</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labor Organization</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>INV</td>
<td>Informal Non-Vulnerable</td>
</tr>
<tr>
<td>KCB</td>
<td>Kenya Commercial Bank</td>
</tr>
<tr>
<td>KCSE</td>
<td>Kenya Certificate of Secondary Education</td>
</tr>
<tr>
<td>KES</td>
<td>Kenya Economic Survey 2018</td>
</tr>
<tr>
<td>KIBT</td>
<td>Kenya Institute of Business Training</td>
</tr>
<tr>
<td>KIE</td>
<td>Kenya Industrial Estate</td>
</tr>
<tr>
<td>KIHBS</td>
<td>Kenya Integrated Household and Business Survey</td>
</tr>
<tr>
<td>KITI</td>
<td>Kenya Industrial Training Institute</td>
</tr>
<tr>
<td>KNBS</td>
<td>Kenya National Bureau of Statistics</td>
</tr>
<tr>
<td>KSh</td>
<td>Kenyan Shillings</td>
</tr>
<tr>
<td>KYEOP</td>
<td>Kenya Youth Employment Opportunities Project</td>
</tr>
<tr>
<td>LCU</td>
<td>Local Currency Unit</td>
</tr>
<tr>
<td>LE</td>
<td>Life Expectancy</td>
</tr>
<tr>
<td>LMIC</td>
<td>Lower-Middle Income Countries</td>
</tr>
<tr>
<td>MM</td>
<td>Mobile Money</td>
</tr>
<tr>
<td>MSEA</td>
<td>Micro and Small Enterprise Authority</td>
</tr>
<tr>
<td>NEA</td>
<td>National Employment Authority</td>
</tr>
<tr>
<td>NEDI</td>
<td>North and North Eastern Development Initiative</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>NITA</td>
<td>National Industrial Training Authority</td>
</tr>
<tr>
<td>NLMIS</td>
<td>National Labour Market Information System</td>
</tr>
<tr>
<td>NSNP</td>
<td>National Safety Net Programs</td>
</tr>
<tr>
<td>NSSF</td>
<td>National Social Security Fund</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization of Economic Co-operation and Development</td>
</tr>
<tr>
<td>OP-CT</td>
<td>Older Persons Cash Transfer Program</td>
</tr>
<tr>
<td>OVC</td>
<td>Orphans and Vulnerable Children</td>
</tr>
<tr>
<td>OVOP</td>
<td>One Village One Product</td>
</tr>
<tr>
<td>PER</td>
<td>Public Expenditure Review</td>
</tr>
<tr>
<td>PMIS</td>
<td>Pension Management Information System</td>
</tr>
<tr>
<td>PMT</td>
<td>Proxy Means Testing</td>
</tr>
<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
</tr>
<tr>
<td>PROST</td>
<td>Pension Reform Options Simulation Toolkit</td>
</tr>
<tr>
<td>PSSS</td>
<td>Public Service Superannuation Scheme</td>
</tr>
<tr>
<td>PV</td>
<td>Present Value</td>
</tr>
<tr>
<td>PwSD</td>
<td>Persons with Severe Disability Cash Transfer</td>
</tr>
<tr>
<td>RBA</td>
<td>Retirement Benefits Authority</td>
</tr>
<tr>
<td>SA</td>
<td>Social Assistance</td>
</tr>
<tr>
<td>SAU</td>
<td>Social Assistance Unit</td>
</tr>
<tr>
<td>SEZ</td>
<td>Special Economic Zones</td>
</tr>
<tr>
<td>SSN</td>
<td>Social Safety Net</td>
</tr>
<tr>
<td>STEP</td>
<td>Skills Towards Employment and Productivity</td>
</tr>
<tr>
<td>TVET</td>
<td>Technical Vocational Education and Training</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>UNICEF</td>
<td>United Nations International Children’s Emergency Fund</td>
</tr>
<tr>
<td>USD</td>
<td>United State Dollars</td>
</tr>
<tr>
<td>WF</td>
<td>Women’s Fund</td>
</tr>
<tr>
<td>YEF</td>
<td>Youth Enterprise Fund</td>
</tr>
</tbody>
</table>
Executive Summary

**Accelerating the pace of poverty reduction in Kenya will require faster, more inclusive growth coupled with a sharper focus on targeted poverty reduction policies**

Kenya has grown strongly over the last decade; however, growth has not translated easily into poverty reduction. Kenya grew at an average of 5.3 percent between 2005 and 2016, which exceeded the average growth of 4.9 percent observed in sub-Saharan Africa. Growth continued to be robust in 2018, with the economy expanding by 6 percent in the first three quarters of 2018. However, this growth has not translated easily into poverty reduction, with Kenya having a lower poverty elasticity than countries such as Ghana, Tanzania, and Uganda. At the current rate of poverty reduction, Kenya will still have 24 percent of the population in poverty by 2030.

**An appropriate mix of social protection and jobs programs can support both growth and inclusion.** Social safety net programs can provide households with income support to fight poverty. Combined with good quality multi-sectoral investment in service provision, such programs can also support increases in human capital investment and can help interrupt the transmission of poverty across generations. Social insurance programs can help individuals manage risk and take advantage of productive opportunities. This contributes to greater growth potential as well as better well-being among the covered population. Moreover, the design of policies, whether social assistance or social insurance, to provide protection to the elderly can influence the private savings rate. While a social pension provides the elderly with protection, it comes at a fiscal cost, and it may discourage private savings. Well-designed schemes that incentivize long-term private savings may help boost the private savings rate. And national saving—the sum of public and private saving in a country—is the main source of financing for domestic investment, even in a world with high capital mobility. Well-designed jobs programs can encourage labor demand, improve productivity, improve formalization, improve the skills of workers, and support better matching of individuals to suitable jobs.

**Social protection and jobs programs are important for Kenya to take advantage of the demographic dividend.** Currently 42 percent of the population is under the age of 15 and the country’s youth dependency ratio is high. However, fertility has declined continually since the 1970s, and is expected to decline further. In 2016 Kenya had a population of 45.3 million, an annual population growth rate of 2.6 percent, and a total fertility rate of 3.9 children per woman. Continued investment in improving human capital and in job creation would be important for Kenya to take advantage of the window when dependency ratios decline and stay low. Social protection programs can help the poor also benefit from investments in human capital, thereby making growth more inclusive. Jobs programs could be critical in supporting school to work transition for the large cohorts of youth entering the labor market in future years and in improving overall productivity.

**The design of social protection policies will have to be efficient and effective, given the fiscally constrained environment**

Kenya has improved the provision of social protection significantly over the last decade. Kenya has expanded social safety nets rapidly over the last decade and coverage reached 1.02 million households in 2015/16. It provides social insurance protection to all civil servants and to all formally employed individuals. Finally, Kenya implements job programs to counter challenges in the labor market. Social protection and jobs programs are critical to achieving the aims of the ‘Big 4’ priorities of the government, which include achieving food security, affordable housing, enhanced manufacturing, and universal health

---

1 THE FUTURE OF SAVING: THE ROLE OF PENSION SYSTEM DESIGN IN AN AGING WORLD, IMF 2019
coverage. In particular, given the changing nature of poverty, and given increases in urban poverty, social safety nets, in addition to increased agricultural productivity, would be essential to meet the government’s goals of achieving food security. Moving forward, to get the best impacts from social protection and jobs programs, it will be important that they are efficient and effective.

Kenya faces a fiscally constrained environment, and there is no room for additional expenditures in the short term. Public debt has risen sharply since FY2012/2013, with debt at 57.5 percent of GDP in 2018. The government has begun consolidation, and the fiscal deficit narrowed to 7.2 percent in FY2017/18 from 9.1 percent of GDP in FY2016/17. Over the medium term, the government is expected to deliver on an ambitious fiscal deficit target of about 3.3 percent of GDP by 2021/22. This is an extremely challenging goal and staying the course in terms of implementation of the announced fiscal adjustment plan and reducing chances for fiscal slippages remains critical. This could halt the rapid acceleration of public debt and maintain its sustainability. Combined policy actions to enhance revenue mobilization and improve efficiency of spending could help rebuild fiscal space, enabling the public sector to contribute more effectively to the advancement of the Big 4 agenda and to make room for pro-poor spending. Given the fiscal pressures, this report recommends no additional expenditures be undertaken beyond commitments already made, until the government is able to rebuild fiscal space.

The design of social protection and jobs programs will need to take account of the large informal sector in Kenya

Out of the 16.8 million people employed in Kenya, 14 million are either self-employed or work in the informal sector. And this share has grown steadily over the last decade; roughly one in ten jobs are created in the formal sector in Kenya. This has two implications for the design of social protection and jobs programs in Kenya. The first is that traditional social insurance schemes that are typically offered through formal employment is not a reality for most Kenyans. Protection for the elderly will need to be provided through some combination of encouraging voluntary savings among informal sector workers and through social assistance transfers. The second implication is that it would be important for jobs programs to target workers in the informal sector. Currently most jobs programs in Kenya – on both the demand and supply side – address the formal sector. Jobs programs which clearly address the needs of those in the informal sector can help in increasing productivity in these jobs. They also typically reach the more insecure and poorer segments of the population and can support more inclusive growth.

Overall expenditures on social protection and jobs programs will need to be better balanced across age-groups to better support all poor and vulnerable individuals

Currently overall social protection expenditures are largely skewed towards the elderly in Kenya. Some 80 percent of all social protection expenditures are received by the elderly, who represent about 4 percent of the overall population. Nearly 7 million children aged 0-5 and 13 million children aged 6 to 17 have no social protection coverage. Similarly, some 12 million youth aged 18 to 35 and 8 million adults aged 36 to 64 have no protection. It would be important for Kenya to examine realignment of expenditures, and to invest more in human capital in early years, and in providing security and protection for the working age population.

---

2 Kenya Economic Update, 19th edition
3 According to the latest Debt Sustainability Analysis (DSA, October 2018), the debt sustainability indicators show that Kenya faces a moderate risk of external debt distress.
Social Safety Nets

Increasing the coverage of targeted social safety nets, when fiscal space permits such expansion, will help improve the effectiveness of the social protection system in reducing poverty and increasing investment in human capital.

Social safety nets expanded rapidly in Kenya over the last decade; despite this expansion, overall coverage remains low given the needs of the population. Kenya has an overall poverty rate of 36.2 percent, but social assistance coverage, as measured in the 2015/16 KIHBS, is only 6.8 percent of the population. Further, only some 11 percent of the poor in Kenya receive a social assistance transfer and estimates directly from survey data show that overall social assistance in Kenya results in poverty reduction of some 0.3 percentage points. Low coverage as well as low adequacy of transfers translates to a low ability of social assistance in reducing the poverty rate in Kenya. Despite low coverage and low adequacy, cash transfer programs have important positive effects on beneficiary families. Beneficiary households have, on average, higher consumption expenditure levels than poor, non-beneficiary households. The Hunger Safety Net Program has a positive impact on the probability that a household is food secure. There is also a significant and positive impact on child enrollment in school among beneficiary households, and on reduction in stunting rates among child recipients.

Increasing coverage of families with children is of particular importance as children in Kenya are among the poorest across the age spectrum. Some 37 percent of children between the ages of 0-5 live in families that are poor. In the 6-17 age group, 44 percent live in poor households. The only cash-transfer program that is targeted at poor children at the moment is reserved for orphaned and vulnerable children. There is no nationwide cash transfer program that targets all poor children. Overall social assistance covered just 3 percent of children aged 0-5, and children aged 6-17, in 2015/16. Poverty during childhood can have long-term effects. Poorer children are more likely to have cognitive deficits, higher stunting levels, and lower levels of schooling, which can result in decreased welfare throughout their life. Policy options simulated in this Public Expenditure Review (PER) show that targeted child benefit programs can have important poverty reduction implications. A benefit targeted to the poorest 50 percent of families with children results in overall coverage to the poorest five deciles increasing to about 80 percent, while leakage to the non-poor is contained to 21 percent. Such a benefit would cost roughly 0.7 percent of GDP and would reduce the poverty rate among children aged 0-5 by nearly 8 percentage points. Given the current fiscal pressures, this report does not recommend the introduction of a targeted child benefit in the short term. It does recommend that such a benefit be considered as a priority once the government has been able to rebuild fiscal space and to create some room for pro-poor spending.

---

4 Overall social assistance in the KIHBS survey includes the coverage of the four NSNP programs as well as coverage of food and in-kind transfers and of bursary funds transfer. The coverage of the four programs included in the NSNP is only about 2.6 percent of the population. This lower coverage of poverty targeted and geographically targeted programs in the survey is unsurprising given the geographic concentration of the HSNP program compared to the sampling methodology of KIHBS, and given that the KIHBS weights are not stratified on grant receipt (such lower estimated coverage is true for most social assistance programs in most nationally representative surveys in many countries). Still there is enough power to allow us to estimate key performance indicators and to estimate the impacts of the transfers.

5 Due to lower coverage of social assistance transfers in survey data the estimate of the reduction in the poverty headcount directly from the survey is likely to a lower bound estimate. The Fiscal Incidence Analysis study for Kenya (World Bank, 2018) corrects for such under-reporting and tries to match macro-administrative numbers for the four main cash transfer programs. Several assumptions are made in the modelling, including giving statutory transfer amounts to all households assigned to receive a certain type of benefit. This study finds that the direct cash transfers reduce the poverty rate by 0.7 percentage points -- which could be an upper bound. In sum, the overall reduction of the poverty headcount by social assistance in Kenya is very small.
Kenya can improve the equity of spending and efficiency of social safety net expenditures by improving the targeting performance.

The targeting performance of overall social assistance can be increased in Kenya. Targeting accuracy measures the proportion of expenditures on social safety nets that reach the poorer segments of the population. By increasing the targeting accuracy of the various social safety net programs, Kenya can improve both the efficiency of social protection as well as the equity of spending. Targeting accuracy can be improved by redesigning (or eliminating) current programs, such as bursary funds, that transfer benefits overwhelmingly to the richer segments of the population. The targeting performance of several of the large cash transfer programs that are targeted both categorically and on correlates of poverty (such as the program to poor orphans and children) is good, though they can be improved further. This can be achieved by recertifying recipient households, some of whom have been selected 10 years ago with no re-evaluation of welfare since then. The Government has just adopted a recertification strategy for the National Safety Net Programs (NSNP) and recertification will commence soon. The harmonized targeting tool (HTT) that is used to target beneficiary families can be improved by updating it using the KIHBS 2015/16 survey (the current HTT was developed based on KIHBS 2005/06). The government is in the process of updating the HTT using the new KIHBS data. Targeting can be further improved by doing away with quotas for beneficiaries by county. Finally, the establishment of a social registry can help improve targeting by improving the quality of information on both beneficiaries and potential beneficiaries to policy makers.

The recent introduction of a cash transfer program targeted at all 70 years and above has a low benefit-to-cost ratio. Simulated impacts of this transfer show that it reduces poverty among the elderly, but 73 cents to every Kenya Shilling spent on this goes to the non-poor elderly. Analysis of administrative data also shows that the elderly in less poor areas were more likely to take-up this universal benefit. Correlation between benefit take-up rate and poverty rate at the county level is -0.49.

It would be important to consider possible spillover effects of introducing new programs on existing initiatives. Currently a very small proportion, some 400,000, of the nearly 14.1 million self-employed and informal sector workers save in voluntary schemes. Well-designed and regulated savings schemes could help a greater proportion of those currently not covered by any insurance to self-insure. It would also be important to consider the spillover effects of introducing new programs on existing initiatives. For instance, the already low levels of voluntary savings by self-employed and informal sector workers may go down further given the introduction of a universal social pension.

Kenya can improve the adequacy of social safety net transfers, which would help improve the effectiveness and impact of these transfers

The nominal value of cash transfers in several of the large cash transfer programs have not been increased since 2012, resulting in the decline in the real value of these transfers. It would be important to provide inflationary cover to beneficiaries through indexation of benefit amounts with annual inflation. Adequacy would also increase if the amount of the benefit expands with family size – currently each family receives a constant transfer regardless of the size of the family. This makes the adequacy of the program even lower for larger families which tend to be poorer.

Social Insurance

A large majority of workers lack social insurance and the design of voluntary savings schemes need to be improved to attract more people to consider self-insuring

Kenya has close to full coverage of formal sector workers but a majority of the labor force, which comprises of informal sector workers, is uncovered. Social insurance in Kenya which covers formal sector
workers is fragmented, with separate schemes for the public and private sector. Public servants are covered under an unfunded defined benefit scheme while private sector workers are required to enroll in a provident fund scheme. Since traditional social insurance is based on an employer-employee arrangement, most of the labor force in Kenya, which is in the informal sector, is uncovered. To attain Kenya’s vision 2030 of providing “a high quality of life for all its citizens,” efforts need to be made to expand the coverage of social insurance. This is particularly important given the beginning of the demographic transition. If those who are middle aged and young today start saving, then the fiscal burden on the government will go down as this population begins aging. If the savings rate does not improve, the elderly will need to be continued to be supported by a social pension to prevent poverty in old age. As the share of the elderly grows, the fiscal burden on the government will also grow.

Kenya has a few voluntary retirement savings schemes designed for informal sector workers, but they struggle with low coverage, high rates of withdrawals, and high transaction costs. The MBAO Pension Plan and a new NSSF scheme allow for flexible contributions from informal sector workers facilitated through mobile money platforms. Despite the tie-ups of these schemes with mobile money providers and in the case of MBAO, with the Jua Kali association, coverage has been low. Allowing for flexibility in withdrawals has been an important feature to attract the informal sector but the MBAO plan, which has been in existence for longer, is witnessing high rates of withdrawals after only three to five years of contributions. The rules around withdrawal for the new scheme by NSSF are still being discussed and they are currently planning to limit withdrawals to 50% of funds after three years. It will be important to think of incentives to keep savings locked in, otherwise it will be hard to provide any substantial income for old age to these workers.

The informal sector is very heterogeneous – understanding the characteristics of informal sector workers can help with designing schemes that have a greater probability of success. The heterogeneity of the informal sector means that while some workers face significant barriers to save for old age, others have a higher propensity to overcome them. A cross-sectional analysis using KIHBS 2015/16 survey reveals that 24 percent of Kenyans households are in the informal sector, but above the poverty line and do not report facing severe economic shocks. They are found to be comparable to formal households with regards to parameters of consumption, ownership of mobile phones and mobile money usage. These households are much more prevalent in some regions (e.g. Kiambu, Kirinyaga, Nyandarua, Meru) than others (e.g. Marsabit, Nyamira), and tend to work in service and construction industries. Additional analyses using panel data and focus group discussions could provide a better understanding of saving patterns, risk coping strategies, and the intrinsic value these households place on old age savings. This in turn would help schemes design custom old-age savings products for the informal sector work force.

**Civil Service Pensions schemes represent the largest social protection expenditure item and face issues of affordability**

Civil service pensions (CSP) paid from general revenues to a small group of workers in the labor force are increasingly unaffordable. The expenditure on the civil service pension scheme has more than tripled in a decade, going up from KSh 27 billion in 2008 to KSh 90 billion in 2018. In the absence of reforms the expenditure on pensions, excluding military and police, is expected to grow from 0.6 percent of GDP (or 3.8 percent of fiscal revenues) currently to 1.2 percent by 2080. Since CSP are promised benefits that are paid from general revenues, a continued increase in costs will crowd out benefits for other social expenditures such as for social safety nets, education and health.

---

6 The expenditures will be higher if we include military and police.
The proposed law which would require new and existing civil servants (below the age of 45) to switch to the new Defined Contribution (DC) scheme will cause an increase in government expenditure in the short run but will lead to a reduction in deficits after 2040. The short-term cost of a move to the DC scheme will be higher as the government will now be required to pay 15 percent of worker’s salaries as contributions while also making payments to upcoming retirees. Since civil servants who switch are required to pay 7.5 percent as contributions, the government recently announced wage hikes coinciding with the contribution collection. Therefore, to the extent that wages were increased by more than usual, the fiscal cost to the government in the short run is higher under this reform. In the long run as CSP moves from the unfunded DB scheme of today to a fully funded DC scheme, the costs will reduce significantly as the government would only be liable to pay contributions to the scheme and any administrative costs related to management of funds. At the same time, the government has to be cognizant of the very real fiscal pressures in the short term and needs to carefully manage these transition costs so as to reduce the chances of any fiscal slippages and to stay the course on fiscal consolidation.

Private sector workers face challenges with the adequacy of benefits at the time of retirement

Although private sector workers have close to full coverage, the benefits they receive at time of retirement from NSSF are very low. While all private sector workers are mandated to join NSSF, required contributions remained flat and levels have stayed low. The average contribution received by NSSF in 2017 was less than 1 percent of the prevailing average wage. The low and irregular contributions combined with ad-hoc returns and high administrative costs results in inadequate income at time of retirement for most private sector workers. The new law which will address some concerns around adequacy is currently held up in court.

Occupational schemes tend to provide higher replacement rates in old age relative to NSSF, but they cover only a quarter of all private sector workers. The average contribution in voluntary schemes is seventeen times that in NSSF, administrative costs are less than half and returns are marginally higher, thereby providing higher benefits on average for its members. However, only a quarter of all salaried workers are covered under a voluntary scheme while the rest are dependent on NSSF for income at retirement.

Job Programs

Job Programs can address some of the labor market challenges that Kenya faces.

The overall employment rate increased substantially in Kenya between 2005 and 2015; however, some challenges remain. About 60 percent of the working age population in Kenya was employed in 2005, and this has increased significantly, to 76 percent, in 2015. The increase has been shared by all groups, with the employment rate increasing for all workers, young and old, male and female. Despite the impressive increase in the employment rate, Kenya is not producing sufficient jobs to keep pace with demographic change, and this will contribute to a growing job deficit in the labor market in the future. In addition to creating more jobs, Kenya will also need to improve the quality of jobs created. In Kenya, only 6 percent of total employment is in the formal non-agricultural sector. Almost half of total employment, 49 percent, is informal non-agricultural employment, with the remaining 45 percent employed in agriculture. Agriculture is a low-productivity sector with high rates of underemployment. Finally, it is important that attempts are made to facilitate the entry of groups at-risk of unemployment and underemployment into

---

7 The government could recoup some of the cost by also enacting parametric reforms for existing CS for e.g. increasing retirement age, gradually reducing accrual rate, moving from final pay to average pay in benefit calculation or taxing pensions above a ceiling (as done in Brazil). The fiscal savings in short run is directly proportional to the pace of reform. The government would need to weigh its budget priorities against potential fallout from a sudden reform which will adversely affect rights of upcoming retirees.
better quality employment. Such groups include young adults, women, individuals residing in rural areas, and those with low levels of education.

The Government of Kenya implements job programs to counter challenges in the labor market. Challenges in the labor market include a growing job deficit affecting at-risk groups, a gap in job creation between the formal and informal sector and the low productivity and quality of jobs. These challenges can be divided into supply and demand side issues, which can be targeted by different job programs. To address these challenges and to contribute to the creation of 6.5 million new jobs by 2030, the Government of Kenya has introduced several job programs. These programs tackle issues on the supply side to contribute to the improvement of skills, the demand side to create more jobs, and programs that support intermediation to match employers with job seekers in the labor market.

Government expenditures on job programs have increased in recent years but remain a small share of GDP.

Total government expenditures on job programs have gradually increased since 2014 but have stagnated as a share of GDP. Both the budget allocation and government spending on job programs have increased between 2014 and 2017 to over KSh 4 billion. However, government expenditure on job programs remains a very small share of GDP (0.1 percent) and government expenditure (0.3 percent). Most expenditures are dedicated to demand side programs whilst supply side programs received 13 percent of overall spending.

Job program expenditures on development increased relative to recurrent spending between 2014 and 2017. Spending on job programs can be dedicated to development or recurrent expenditures. Development expenditure includes all capital spending, as well as all spending which is funded by loans. Recurrent expenditures cover spending on recurrent costs such as wages. Whilst in 2014, recurrent expenditures accounted for close to 60 percent of total spending on job programs, in 2016 development expenditures exceeded recurrent expenditures by KSh 960 million.

Job Programs can contribute to solving challenges in the labor market, however, coverage gaps and targeting remain a concern.

Three affirmative funds disburse loans to increase self-employment with coverage varying across counties. The Uwezo, Youth Enterprise and Women’s Funds are demand side programs aimed at increasing self-employment and facilitating job creation. The three funds target groups of young adults and women to promote self-employment. The coverage of the three funds differs between counties, with poorer areas display a lower concentration per group. Furthermore, due to differences in loan environments, loan disbursement per county for the Uwezo Fund varies significantly.

Wealthy and uneducated individuals are overrepresented among potential beneficiaries for the three funds. Potential beneficiaries for the Uwezo, Youth Enterprise and Women’s Fund are determined by all individuals in the target demography, who are either unemployed, hidden unemployed, inactive or self-employed. For the three funds, over one-quarter of potential beneficiaries belong to the top wealth quintiles. Low educated individuals are also more often potential beneficiaries than highly educated individuals, as they represent up to three quarters of these potential beneficiaries. Therefore, the funds are available to low-educated individuals who are at-risk but may miss individuals who are in the lower wealth quintiles.

The Export Processing Zone Authority has increased manufacturing employment and contributed to local economic development. The Export Processing Zone Authority is a demand side program, which aims at increasing employment through the provision of attractive business conditions for export-oriented companies. Between 2013 and 2017, Export Processing Zone Authority firms have created over 14,000
new jobs and in 2017 contributed close to 20 percent of total manufacturing employment in Kenya. Furthermore, the program also contributed to indirect job creation by demanding local services and goods. However, given the lack of a valid counterfactual it is hard to say how many jobs would have been created without the Export Processing Zone Authority.

The County Industrial’s Support initiative “One Village One Product” offers training in rural areas for lower income individuals. The County Industrial Support, which implements business development services manages the One Village One Product initiative. This program provides trainings on adding value to local products to enhance local economic development in rural areas. Most beneficiaries are located in rural areas, though with decreasing beneficiary numbers (-34 percent between 2016 and 2017). Potential beneficiaries mostly belong to the poorest quintile, indicating good accessibility of the program.

The supply side programs of the National Industrial Training Authority offer low-cost skills trainings to workers in industrial areas. The National Industrial Training Authority provides technical training and attachments to industrial workers. The training centers of the authority are located in industrial areas. However, the authority does not cover all areas with industrial employment and therefore displays coverage gaps. The programs of the National Training Authority are cost efficient with the majority of costs per beneficiary below KSh 2,800.

More wealthy individuals and men are potential beneficiaries for training programs by the National Industrial Training Authority. To be a potential beneficiary for the trainings, individuals need to have completed at least primary or secondary education, depending on the program and be working in industry. Wealthier individuals are potential beneficiaries for the training and attachments, amounting to over 50 percent of overall potential beneficiaries for industrial training. Furthermore, men are more often potential beneficiaries than women for training.

The National Employment Authority matches job seekers with employers, displaying considerable coverage gaps in NEDI counties. The National Employment Authority is an intermediation program, which provides counselling and placement services to job seekers. In 2017/18, the authority placed 6,000 beneficiaries in employment. Even though unemployment is highest in NEDI counties, the services of authority are only available in central and southern provinces of Kenya. Opening new offices of the National Employment Authority in counties more affected by unemployment can help to increase coverage.

Budgets per beneficiary vary for National Employment Authority field offices and most potential beneficiaries are highly educated and wealthy. Due to differences in the number of beneficiaries for the Authority’s field offices, the budget per beneficiary varies considerably. Furthermore, wealthier individuals are more often potential beneficiaries to benefit from the authority’s services than poorer individuals.

Monitoring and evaluation, more beneficiaries, coordination between ministries, better targeting, and alternative approaches to solving issues in the labor market can help to increase the effectiveness of job programs in the future. This report does not recommend increases in expenditures on job programs before proper evaluation of their effectiveness is undertaken.

The impacts of job programs cannot be properly assessed due to a lack of data, while existing evidence points to limited effects on employment and earnings. Missing data on job programs in Kenya limits the evaluation of their effectiveness. Evidence of job programs from other countries, however, highlight the often small effects on starting a business and employment. Demand side programs are known to have positive effects on business practices and employment creation, with varying magnitude of impact. Supply side programs are often more expensive but also contribute to employment. Intermediation programs
are cost-effective but have often limited impacts due to low retention. Increasing monitoring and evaluation of programs will help to assess their effectiveness in the future.

**The low level of expenditures on job programs has limited the number of beneficiaries.** Spending on job programs in Kenya amounts to 0.3 percent of government expenditure. Spending has stagnated in recent years, limiting the reach of job programs. Given the current and prospective challenges in the labor market, increasing the number of beneficiaries needs to be a focus in the future. However, it would be important to carefully evaluate the effectiveness of job programs before increasing expenditures so that expenditures are focused on the most effective programs. In addition, given the tight fiscal constraints this report does not recommend increases in expenditures until the government is able to create fiscal space.

**Coordination between ministries and job programs in the future will increase efficiency and quality.** The high fragmentation of programs across ministries and their overlapping activities can be addressed through better coordination between programs. This will strengthen the common understanding of programs and a more effective achievement of program goals. Furthermore, efficiency can be increased through merging programs and their responsibilities to one authority for each program type. This is particularly relevant given the small proportion of government expenditure on jobs programs.

**Further programs should target rural, uneducated individuals as well as young adults and women.** Uneducated individuals in rural areas have limited coverage through the affirmative funds and the One Village One Product initiative, which often support low-productivity employment. Programs that specifically address these individuals and help them to move from low- to higher productivity will be crucial in the future. Although young adults and women are covered more than rural and uneducated individuals, these two groups are especially at risk of unemployment or not participating in the labor market. Job programs, which improve the school-to-work transition for young adults and women and help to integrate or reintegrate women in the labor force are needed.

**Whilst more attention needs to be paid to the informal sector, formalization and the improvement of the business environment need to be a priority too.** Furthermore, the informal sector dominates the labor market. Since many job programs like EPZA, NITA and NEA target the formal sector, future programs need to focus on the informal sector. This will reach more workers and can have a greater impact than formal sector programs. Formalization needs to be a priority too, but not without improving the business environment. Many formal firms in Kenya struggle to create new jobs and suboptimal resource allocation might hinder firms to enter the market. A maintained focus on the business environment together with formalization programs will help to contribute to employment growth in the future.
A. INTRODUCTION

1. **Kenya has improved the provision of social protection significantly over the last decade.** Kenya has expanded social safety nets rapidly over the last 10 years and coverage reached 1.02 million households in 2015/16. It provides social insurance protection to all civil servants and to all formally employed individuals. Finally, Kenya implements job programs to counter challenges in the labor market.

2. **Despite such achievements, the overall coverage of social protection is low in Kenya.** Only a small fraction of the working age population and the elderly are covered by social insurance. As of 2016, 800,000 civil servants (including military and police) were covered under the Public Service Superannuation Scheme (PSSS). The National Social Security Fund (NSSF), which covers salaried employees in the private sector, had 2.4 million active members in 2018, out of a working age population of 25 million, of which 18 million are employed. About 9 percent of all households in Kenya received a social assistance transfer in 2015/16. Figure A-3 shows coverage of overall social protection by age-group. While the elderly have the highest rate of coverage, they also represent the smallest population group. A large number of children and those of working age have no coverage.

3. **Accelerating the pace of poverty reduction will require faster, more-inclusive economic growth coupled with a sharper focus on targeted poverty-reduction policies.** An appropriate mix of Social Protection and Jobs Programs can support both growth and inclusion. Social safety net programs can provide households with income support to fight poverty. Combined with good quality multi-sectoral investment in service provision, such programs can also support increases in human capital investment and can help interrupt the transmission of poverty across generations. Social insurance programs can help individuals manage risk and take advantage of productive opportunities. This contributes to greater growth potential as well as better well-being among the covered population. Moreover, the design of policies, whether social assistance or social insurance, to provide protection to the elderly can influence the private savings rate. While a social pension provides the elderly with protection, it comes at a fiscal cost, and it may discourage private savings. Well-designed schemes that incentivize long-term private

![Figure A-1: Social Protection Coverage in Kenya.](image-url)
savings may help boost the private savings rate. And national saving—the sum of public and private saving in a country—is the main source of financing for domestic investment, even in a world with high capital mobility. Well-designed jobs programs can encourage labor demand, improve productivity, improve formalization, improve the skills of workers, and support better matching of individuals to suitable jobs.

4. **Poverty rates have declined over the last decade in Kenya but remain high by the standards of lower-middle-income countries.** The share of the population living below the national poverty line fell from 46.8 percent in 2005/06 to 36.1 percent in 2015/16, reflecting a modest but sustained improvement in living standards over the decade. Meanwhile, Kenya’s poverty rate with respect to the international poverty line also declined, falling from 43.7 percent in 2005/06 to 36.8 percent in 2015/16, below the Sub-Saharan Africa average and among the lowest levels in the East African Community. However, Kenya’s poverty rate is roughly twice the average for lower-middle-income countries worldwide.

5. **With current growth assumptions and unchanged policies, poverty will persist through 2030.** Each percentage point of GDP growth in recent years has been associated with only a 0.57 percentage-point reduction in the extreme poverty rate. Kenya’s poverty elasticity of growth is thus below that of Tanzania, Ghana, and Uganda, and is weaker than would be expected given the country’s per capita GDP. To eradicate extreme poverty by 2030, Kenya’s poverty rate (measured at US$ 1.90 PPP) would have to fall by 6.1 percentage points each year, yet the country’s decade average is just 1.6 percentage points per year. If poverty reduction continues at its current pace the poverty rate will remain around 24 percent in 2030 (Figure A-1).

6. **Effective social protection and jobs programs can contribute to both growth and poverty reduction; at the same time, the report recognizes the very tight fiscal constraints the government currently faces and recommends that no additional expenditures on social protection (beyond those...**

---

8 THE FUTURE OF SAVING: THE ROLE OF PENSION SYSTEM DESIGN IN AN AGING WORLD, IMF 2019

9 Kenya’s national poverty line is defined as consumption necessary to reach a minimum caloric intake of 2,250 Kcal per person per day, including a non-food allowance. This translates into KSh 3,252 for urban households and KSh 5,995 for rural households per person per month.

10 The international poverty line is a consumption level equivalent to US$ 1.90 per person per day in 2011 purchasing-power-parity terms.
already committed by the government) be undertaken until the government rebuilds fiscal space. The broad fiscal policy in Kenya is anchored on robust economic performance with real GDP growth of about 5.7 percent for the last five years (2013-2018). The macroeconomic environment remains stable (inflation is within target) and the current account deficit has narrowed (driven by lower imports) and is adequately funded by the surplus in capital and financial inflows (corporate and government debt flows). Nonetheless, growth has been state-led rather than private sector driven (as reflected in ramp-up in public sector investment and relatedly slowdown in private sector investment and limited private sector credit growth). This has pushed Kenya close to a point where fiscal sustainability would be in question, resulting in fiscal consolidation to rein in rising public debt stock and create fiscal space for the Big 4.

7. Reflecting commitment to fiscal consolidation, overall fiscal deficit has decreased but risks of slippages are increasing due to challenges in revenue collection. Notwithstanding underperformance in revenues (tax revenue collected have dropped from 18.1 percent of GDP in FY2013/14 to 15.7 percent in FY2017/18), the fiscal deficit narrowed to 7.2 percent in FY2017/18 from 9.1 percent of GDP in FY2016/17 due to a significant contraction in development expenditures and a marginal decrease in recurrent expenditures. So far in FY2018/19, the government projects a fiscal deficit of 6.8 percent of GDP before easing to 5.6 percent of GDP in FY2019/20. Over the medium term, the authorities are expected to deliver on their fiscal deficit target of about 3.3 percent of GDP by 2021/22, which is extremely challenging in the context of revenue shortfall. Thus, staying the course in implementation of the announced fiscal adjustment plan and reducing chances for fiscal slippages remains critical and could halt the rapid acceleration of public debt to GDP and maintain its sustainability.

8. Both revenue raising and expenditure containment measures are needed to expand Kenya’s fiscal space. Tax revenue mobilization remains below Kenya’s potential (in terms of its income level) and has been declining as a share of GDP. Reversal of this trend is essential to rebuild fiscal space. In addition, the country has ramped up spending on social sectors (education) and infrastructure, while wage agitations and rising interest payments have made recurrent budget adjustment quite rigid (approximately 68 percent of the central government budget is on items of high to medium rigidity—items that cannot easily be adjusted due to high judicial, political or social costs). A combined policy action to enhance revenue mobilization and improve efficiency of spending could help rebuild fiscal space, enabling the public sector to contribute more effectively to the advancement of the Big 4 and make room for pro-poor spending, including critical services delivery.

9. Despite recent progress in poverty reduction, poor households remain constrained by demographic characteristics, low levels of human capital, and limited access to basic services. Poverty rates are higher among households headed by women and those with low levels of educational attainment. Poor households also tend to be larger and have higher dependency ratios than wealthier households, and these demographic factors tend to hinder poverty reduction. In addition, poor households have less access to safe drinking water, improved sanitation, electricity, and other basic services compared to wealthier households. Efforts to expand the coverage of basic services — without compromising service quality — will be vital to continued progress in reducing poverty and improving nonmonetary wellbeing.

10. Malnutrition indicators are worse among the poor in Kenya, and primary net school attendance is much lower among poor children. All nutrition indicators are worse in the poorest households, with 35% of children between 0-2 years in the poorest households being stunted (see Table A-1). While vaccination rates are relatively high, the poorest have lower rates than those in the other wealth declines.

11 According to the latest Debt Sustainability Analysis (DSA, October 2018), the debt sustainability indicators show that Kenya faces a moderate risk of external debt distress.
The polio vaccine is the least complete, with only 66% on children between 0-2 years old having received all three polio vaccines. Secondary net attendance ratios are much lower for poor children, while they also have the highest proportion of school-aged children not attending school (see Table A-2). Having more than primary education is a key enabler for youth to find better and more formal jobs (see the Jobs section of the report). Cash transfer programs to the poor have been shown to have a significant and positive impact on beneficiary families – resulting in higher consumption expenditures, a positive impact on the probability that a household is food secure, and a significant and positive impact on child enrollment in school among beneficiary households.

Table A-1: Malnutrition indicators

<table>
<thead>
<tr>
<th>Wealth Quintiles</th>
<th>Poorest</th>
<th>Poorer</th>
<th>Richest</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stunted</td>
<td>35%</td>
<td>30%</td>
<td>26%</td>
<td>26%</td>
</tr>
<tr>
<td>Severely Stunted</td>
<td>12%</td>
<td>9%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Wasted</td>
<td>7%</td>
<td>3%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Severely Wasted</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Underweight</td>
<td>18%</td>
<td>11%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Severely Underweight</td>
<td>4%</td>
<td>3%</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Vaccines

<table>
<thead>
<tr>
<th>Vaccines</th>
<th>Poorest</th>
<th>Poorer</th>
<th>Richest</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Polio vaccine at birth</td>
<td>54%</td>
<td>66%</td>
<td>72%</td>
<td>69%</td>
</tr>
<tr>
<td>Polio vaccine - 1</td>
<td>94%</td>
<td>99%</td>
<td>98%</td>
<td>97%</td>
</tr>
<tr>
<td>Polio vaccine - 2</td>
<td>91%</td>
<td>96%</td>
<td>94%</td>
<td>94%</td>
</tr>
<tr>
<td>Polio vaccine - 3</td>
<td>84%</td>
<td>91%</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>Polio vaccines 1,2,3</td>
<td>50%</td>
<td>63%</td>
<td>68%</td>
<td>66%</td>
</tr>
<tr>
<td>DPT – 1</td>
<td>94%</td>
<td>98%</td>
<td>98%</td>
<td>97%</td>
</tr>
<tr>
<td>DPT – 2</td>
<td>92%</td>
<td>98%</td>
<td>97%</td>
<td>96%</td>
</tr>
<tr>
<td>DPT – 3</td>
<td>84%</td>
<td>90%</td>
<td>92%</td>
<td>90%</td>
</tr>
<tr>
<td>DPT - 1,2,3</td>
<td>84%</td>
<td>90%</td>
<td>92%</td>
<td>90%</td>
</tr>
<tr>
<td>BCG</td>
<td>93%</td>
<td>97%</td>
<td>98%</td>
<td>97%</td>
</tr>
</tbody>
</table>

Early Life Mortality

<table>
<thead>
<tr>
<th>Early Life Mortality</th>
<th>Poorest</th>
<th>Poorer</th>
<th>Richest</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 5 mortality rate per 1,000 live births (2010-2014)</td>
<td>53</td>
<td>56</td>
<td>47</td>
<td>52</td>
</tr>
<tr>
<td>Infant mortality rate per 1,000 live births (2010-2014)</td>
<td>37</td>
<td>37</td>
<td>37</td>
<td>39</td>
</tr>
</tbody>
</table>

Source: Staff computations from DHS survey.
Table A-2: School attendance

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>Poor</th>
<th>Vulnerable (Non-Poor)</th>
<th>Non-Poor &amp; Non-Vulnerable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty headcount</td>
<td>43%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Net Attendance Ratio (children 6-14)</td>
<td>82%</td>
<td>76%</td>
<td>85%</td>
<td>89%</td>
</tr>
<tr>
<td>Secondary Net Attendance Ratio (children 14-18)</td>
<td>37%</td>
<td>24%</td>
<td>40%</td>
<td>56%</td>
</tr>
<tr>
<td>% of school-aged child not attending school</td>
<td>7%</td>
<td>11%</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>% of children (&lt;18) that have lost one/both parents</td>
<td>10%</td>
<td>11%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>% of children (5-14) engaging in child labor</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on the KIHBS 2015/16

11. **Social protection and jobs programs can support Kenya in efficiently investing in human capital; which can help Kenya derive further benefits from the demographic change that it is currently undergoing.** In 2016 Kenya had a population of 45.3 million, an annual population growth rate of 2.6 percent, and a total fertility rate of 3.9 children per woman. As a consequence of this fertility, 42 percent of the population is under the age of 15 and the country’s youth dependency ratio is high. However, fertility has declined continually since the 1970s, when women had more than 8 children on average. This decline is expected to continue, causing a change in the age structure of Kenya’s population and potentially bringing economic benefits. Over a 30-year period, countries experiencing a demographic dividend can increase per capita consumption by an additional 41 percentage points.\(^\text{12}\) Along with good quality service provision, and investments in family planning, education and job creation, Kenya may save the lives of more than 5 million children and 350,000 mothers. Social safety nets transfers can lead to lower levels of stunting, and higher levels of educational attainment among the poorest recipients.\(^\text{13}\) Such investments can help Kenya grow its GDP per capita more than 12 times above current levels and experience a potential demographic dividend of US$2,500 per person.\(^\text{14}\)

12. **Expenditure on Social Protection and Jobs Programs has been growing and comprised some 1.3 percent of GDP in 2016.** Expenditures on public sector pensions have seen the greatest increase since 2014/15 (see Figure A.13). This presents a particular challenge given the demographic change. In fact, social protection expenditures are largely skewed towards the elderly in Kenya (see Figure A.14), with 80 percent of expenditures being spent on the elderly – who comprise 4 percent of the population. This makes Kenya an outlier among countries around the world (see Figure A.15). It would be important for Kenya to examine realignment of expenditures, and to invest more in human capital in early years, and in providing security and protection for the working age population. This is of particular urgency given the upcoming demographic transition. The next sections of the report examine each of the pillars of Social Protection and Jobs Programs in turn – with section B focusing on social assistance, section C on pensions, and section D on Jobs Programs.

\(^\text{12}\) Mason et al, 2016
\(^\text{13}\) The Kenya Social and Economic Inclusion Project (KSEIP) is investing in nutrition sensitive safety nets. It targets 23,500 current cash transfer recipient families in 5 counties and provides them with a top up to the current cash transfer. Beneficiary families are chosen if they have either a pregnant or lactating woman or children under the age of 2.
\(^\text{14}\) NCPD & HPP, 2014
Figure A-4. Spending in different Social Protection and Jobs Pillars as a share of GDP

Source: Administrative data

Figure A-5: Social Protection Spending, by age group, 2016.

Source: Authors’ calculations based on the KIHBS 2015/16

Figure A-6. Spending on old age benefits and share of population over 65

Source: International comparisons - SOCX, ASPIRE (spending on old age), WDI (population over 65). For Kenya – administrative data (spending on old age) and KIHBS survey (population over 65).
B. SOCIAL ASSISTANCE

1. Coverage of social safety nets in Kenya

13. Social safety net transfers reached some 9 percent of all households in Kenya in 2015/16. In 2015/16, there were 1,022,000 households in receipt of social assistance transfers in Kenya – constituting 9 percent of all households in the country. Out of this, 799,039 households, some 7 percent, received transfers through the National Safety Net Programmes (NSNP), in 2015/16. The NSNP is an umbrella term encompassing the four major cash transfer programs in Kenya. These include the (a) Cash Transfer for Orphans and Vulnerable Children (CT-OVC); (b) Older Persons Cash Transfer Program (OPCT); (c) Persons with Severe Disability Cash Transfer (PwSD); and (d) Hunger Safety Net Program (HSNP) (Table B-1 specifies the program objectives of NSNP programs).  

<table>
<thead>
<tr>
<th>Program</th>
<th>Core objectives</th>
<th>Amount</th>
<th>Targeting</th>
<th>Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Transfer for Orphans and Vulnerable Children (CT-OVC)</td>
<td>• Retention of orphans and vulnerable children within families/communities • Human capital development • Civil registration</td>
<td>KSh 4,000 paid every two months</td>
<td>• PMT (Extremely poor; OVCs; HH not enrolled in another CT program)</td>
<td>National</td>
</tr>
<tr>
<td>Older Persons Cash Transfer Programme (OPCT)</td>
<td>• Poverty reduction and providing protection to the elderly population</td>
<td>KSh 4,000 paid every two months</td>
<td>• (previously) 65 years and above (now) 70 years and above • (previously) Poor and vulnerable (now) Universal</td>
<td>National</td>
</tr>
<tr>
<td>Persons with Severe Disability Cash Transfer (PwSD)</td>
<td>• Strengthen capacities and livelihoods of households whose members have disabilities • Poverty reduction of households whose members have disabilities</td>
<td>KSh 4,000 paid every two months</td>
<td>• HH member with severe disability • Poor HH members not enrolled in other CT program, not receiving pension, not employed</td>
<td>National</td>
</tr>
<tr>
<td>Hunger Safety Net Programme (HSNP)</td>
<td>• Reduce extreme hunger and vulnerability</td>
<td>KSh 5,400 paid every two months</td>
<td>• PMT (extremely poor) • Community-based targeting</td>
<td>Mandera, Marsabit, Turkana, Wajir.</td>
</tr>
</tbody>
</table>

Source: National Social Protection Secretariat (2018); modified appropriately following OPCT 70+ introduction.

14. Social safety nets expanded rapidly in Kenya over the last decade. Expansion of NSNP programs contributed largely to this increase in coverage, with the total number of households covered by NSNP more than doubling from 387,583 in 2013/14 to 810,648 in 2017/18. Further, the government reformed the OPCT program in 2017, legislating the OPCT 70+ cash transfer program for everyone 70

---

15 There are several other small safety net programs in Kenya — the Kenya Social Protection Sector Review (2017) presents a thorough review of all social safety net programs in Kenya. In this PER we focus on the main four cash transfers, while discussing fragmentation and targeting accuracy of the overall set of programs.

16 In 2017, the government legislated a cash transfer program (OPCT 70+) for everyone 70 years and older. The OPCT 70+ program, which is targeted based only on age (to persons over 70 years of age) will gradually replace the poverty targeted OPCT program, which targeted the poor and vulnerable older than 65.
years and older in 2017. The OPCT 70+ program, which is targeted based only on age will gradually replace the poverty targeted OPCT program, which targeted the poor and vulnerable older than 65. By mid-2018, 566,000 persons have been registered and paid through OPCT 70+. In addition, the government aims to expand the CT-OVC program to an additional 30,000 households in 2018, and to expand the HSNP to four additional counties in the coming years. Figure B-1 shows the overall expansion in coverage.17

Figure B-1: Increase in recipients of the NSNP programs over time.

Source: Administrative data

15. Despite such impressive expansion, overall coverage remains low given the needs of the population. Kenya has an overall poverty rate of 36.2 percent, but overall social assistance coverage, as measured in the 2015/16 KIHBS is only 6.8 percent of the population18. When one looks across age groups, prior to the introduction of the OPCT 70+ program, overall social assistance covered just 3 percent of children aged 0-5, and children aged 6-17 (see Figure B-2). The coverage of youth aged 18-35 was an even lower 2 percent, as was the coverage of adults between the ages of 36 and 64. The age-group for whom coverage approached reasonable levels are the 65+, with a coverage of 9 percent (this higher coverage of the elderly is mainly due to the program specifically targeted to the elderly – the OPCT program). Such low coverage as well as low adequacy of transfers (small transfer amount) translates to a low ability of social assistance in reducing the poverty rate in Kenya. Only 11 percent of the poor in Kenya receive a social assistance transfer and estimates directly from survey data show that overall social assistance in Kenya results in poverty reduction of some 0.3 percentage points.19

Note that the numbers for 2018/19 include estimates provided by SAU.

Overall social assistance in the KIHBS survey includes the coverage of the four NSNP programs as well as coverage of food and in-kind transfers and of bursary funds transfer. The coverage of the four programs included in the NSNP is only about 2.6 percent of the population. This lower coverage of poverty targeted and geographically targeted programs in the survey is unsurprising given the geographic concentration of the HSNP program compared to the sampling methodology of KIHBS, and given that the KIHBS weights are not stratified on grant receipt (such lower estimated coverage is true for most social assistance programs in most nationally representative surveys in many countries). Still there is enough power to allow us to estimate key performance indicators and to estimate the impacts of the transfers.

Due to lower coverage of social assistance transfers in survey data the estimate of the reduction in the poverty headcount directly from the survey is likely to a lower bound estimate. The Fiscal Incidence Analysis study for Kenya (World Bank, 2018) corrects for such under-reporting and
Figure B-2: Poverty and Social Assistance Coverage before the introductions of the OPCT 70+ transfer

Figure B-3: Simulated Poverty and Social Assistance Coverage following the introduction of the OPCT 70+ transfer

Source: Authors’ calculations based on the KIHBS 2015/16

16. Coverage of the population in Kenya is below East Africa comparators and well below coverage rates in Southern African countries. Coverage of the population in Kenya by social safety nets is higher than in several Western African countries but is below that of Rwanda and Tanzania. It is well below the coverage in Southern African countries such as Lesotho (see Figure B-4).

tries to match macro-administrative numbers for the four main cash transfer programs. Several assumptions are made in the modelling, including giving statutory transfer amounts to all households assigned to receive a certain type of benefit. This study finds that the direct cash transfers reduce the poverty rate by 0.7 percentage points – which could be an upper bound. In sum, the overall reduction of the poverty headcount by social assistance in Kenya is very small.
17. Although coverage and adequacy are low, cash transfer programs have had overall positive impacts on recipient families. Beneficiary households have, on average, higher consumption expenditure levels than poor, non-beneficiary households. The HSNP program has a positive (though small) impact on the probability that a household is food secure. There is also a significant and positive impact on child enrollment in school among beneficiary households.\textsuperscript{20}

18. The introduction of the OPCT 70+ program in 2018 has expanded overall coverage, particularly among the elderly. However, given that this program is targeted towards all the elderly, no matter their income status, it comes at a cost.\textsuperscript{21} The simulated impacts of the OPCT 70+ program on poverty by age-group are illustrated in Figure B-3. Coverage of those 65+ increases from 9 percent to 34 percent, an impressive 25 percentage point increase. Although no formal evaluation of this program has been undertaken yet, simulations show that poverty among those 65+ comes down from 39 to 34 percent, a 5-percentage point reduction. It is important to remember though that those over 65+ represent only 4 percent of the overall population. And the OPCT 70+ does little to reduce the poverty rate among other age-groups, even for those co-residing with the elderly.

19. Varying degrees of take-up of the 70+ program across the country is one of the reasons for why the coverage of the 65+ age group increased only to 34 percent and not much higher. The reason that coverage of this age group is not 100 percent following the introduction of a universal program is two-fold. The first is that the program only covers those 70 and older, leaving those between 65 to 69 without coverage. Further, the gradual discontinuation of the previously poverty targeted OPCT program deprives the poor and vulnerable between the ages of 65 and 69 of the protection they would have otherwise had. The second reason for why coverage has not increased more is due to the slow take-up of the OPCT 70+ program as illustrated in the administrative data. The average take-up rate across the country is 43 percent.\textsuperscript{22} And there is a lot of variance in the take-up rate across counties (see Figure B-6); in fact, there is a slight negative correlation between the take-up rate of the OPCT

\begin{figure}
\centering
\includegraphics[width=\textwidth]{Figure-B-4.png}
\caption{Coverage of social safety nets across selected African countries}
\end{figure}

\textit{Source: Realizing the full potential of social safety nets in Africa. World Bank}

\begin{itemize}
\item \textsuperscript{20} Kenya Poverty and Gender Assessment, 2018.
\item \textsuperscript{21} Further details on the fiscal impacts of this program are in the expenditure section.
\item \textsuperscript{22} Only 43 percent of those over 70+ are currently recipients of this program.
\end{itemize}
The 70+ program and the poverty rate at the county level (see Figure B-5). To date, people have only been able to register to the 70+ program at one point in time – ongoing registration for this program has not been implemented yet. The extent to which more informed people register first for any universal program, and the extent to which people who are better off are also better informed determines the extent to which a universal program reaches the poor. It may be important for the government to deploy outreach programs to the poorest counties and to poor communities within counties to ensure that all those 70+, and particularly those most excluded, can benefit from this program. Systems to identify and target the poor and vulnerable, including targeting tools and social registries, are important not just to improve the targeting accuracy of programs aimed at the poor, but also to improve the access to universal programs by the poor.

*Figure B-5: The take-up rate of the OPCT 70+ transfer has a slight negative correlation to the poverty rate of the county.*

*Source: Authors’ calculations based on the KIHBS 2015/16*
20. **Geographical coverage of NSNP programs varies considerably across counties.** The more established NSNP programs (such as CT-OVC, HSNP, etc.) also have considerable variation in terms of coverage of the poor across counties (Figure B-7). Households in counties in the northern and eastern parts of Kenya receive proportionally more assistance with respect to their population size. The four counties in which the HSNP operates (Turkana, Marsabit, Wajir and Mandera) are also the four with the highest number of recipients of all assistance. Such geographical concentration of coverage is due to the fact that some of the counties in the north and in the northeast have the highest poverty rates. However,
even among the four HSNP counties, coverage varies, with coverage of the population and of the poor being much higher in Marsabit and Wajir and lower in Mandera and Turkana. In fact, Turkana is among the top three counties in terms of the estimated number of poor who remain uncovered by transfers (See the last map under Figure B-7).

*Figure B-7: Poverty rates, geographic coverage, and under-coverage of the poor*

[Map image]

Source: Authors’ calculations based on administrative data and KIHBS 2015/16

21. **Social safety net programs could aim to cover all poor, wherever they live.** The counties with the highest poverty rates are not necessarily the counties where most of the poor live. Figure B-8 illustrates this best; Nairobi (at the far left of the graph) has one of the lowest poverty rates. At the same time, due to population size, the number of poor in Nairobi is about 745,000. Mandera (to the far right of the graph) has one of the highest poverty rates in the country. However, because the overall population in Mandera is smaller, the total number of poor in Mandera is about 554,000. To better serve all of the poor in Kenya it would be important for social safety net programs to improve the national coverage of the poor and not to focus just on the poorest counties.
2. Expenditure on social safety nets in Kenya

22. Overall spending on social safety nets in Kenya has remained relatively stable, fluctuating between 0.4 to 0.6 percent of GDP over the last decade (Figure B-9). Although overall spending remained more or less constant, the spending on NSNP programs has increased as a percentage of GDP, from some 0.18 percent in 2013/14 to 0.35 percent of GDP in 2018/19 (Figure B-10).23 They now represent a large share of overall expenditures on social safety nets, while other social assistance – including Asset Creation and General Food Distribution – has declined overall. Moreover, increasingly a majority of spending on social safety nets is by the government, with a declining share of financing from donors (Figure B-12). In 2017/18, the share of government spending was just above 87 percent of all spending on social safety nets. With the introduction of the OPCT 70+ program, which is financed entirely by the government, the proportion of overall social safety net spending by the government will increase even further.

---

23 Expenditure numbers for 2018/19 are an estimate.
Figure B-9: Expenditure on social safety nets, percent of GDP and of government spending.


Figure B-10: Expenditure on NSNP and OPCT 70+, percent of GDP.

Source: Authors’ calculations from administrative data. 2018-19 expenditure on HSNP is an estimate

Figure B-11: Expenditure on social safety nets across selected African countries.

Source: Realizing the full potential of social safety nets in Africa. World Bank.

Figure B-12: Government vs donor financing of social safety net programs.

Source: Authors’ calculations from administrative data.
23. **Expenditure on social safety net programs in Kenya is lower than other East African countries and much lower than countries in Southern Africa.** Kenya spends less than countries such as Rwanda in Eastern Africa, and considerably less than countries such as Namibia, South Africa and Lesotho in Southern Africa (Figure B-11). Despite the strong fiscal pressures that Kenya currently faces, investing in children and youth through cash transfers, in complement with improving services in education, health, water and sanitation, could support improvement in the overall human capital index, and may be growth enhancing in the longer term.

24. **Operating costs of various programs vary but are reasonable on average.** The team was able to obtain the operating costs for some of the programs, and for some years (Figure B-13). Overall the operating costs fluctuate between 0.3 percent of the total amount of transfers of the program to nearly 9 percent. As one would expect, the larger the overall program, the lower the operating costs as a proportion of the transfer amount – thus, the operating costs of the CT-OVC program declines as the size of the program grows over time (except for sudden increase in the estimated operating costs for the CT-OVC program in 2018-19.) The OPCT program has the highest operating costs among NSNP programs but has been coming down over time. It would be useful to continue to monitor this with the introduction of the OPCT 70+. Finally, the PWSD-CT is a smaller program in terms of total expenditures – and operating costs of this program are consistently above 5 percent.

*Figure B-13: Operating costs of various programs.*

![Operating Costs of Various Programs](chart.png)

*Source: Authors’ calculations from administrative data.*

25. **An improvement that would make an immense difference to beneficiaries and that can come at little cost to the government would be to improve the timeliness of transfer payments.** In recent years, the HSNP has been making regular timely payments. In contrast the other three programs (CT-OVC, OPCT and PWSD) have continued to suffer from delays in payment and unpredictable payment schedules. Delays in payments and unpredictable payment schedules have a negative effect on the welfare of the recipient households as they cannot rely on having funds by a particular date which makes household financial planning very difficult. Critical operational issues related to funds flow from
Treasury to the State department of Social Protection need to be resolved. Box B-1 provides further details on this issue and possible ways to improve the timeliness of payments.

26. **Despite the tight fiscal conditions, it is important that Kenya maintain at least the current levels of spending on social safety nets as a percentage of GDP in the short run.** In the medium term, when more fiscal space becomes available – to have a better impact on inclusive growth and to mitigate poverty it is very important that Kenya aims for coverage of all poor. More specifically, it is important that poor households with children get priority when expanding coverage. There is strong evidence (both in Kenya and globally) that investment in early years of life has better returns on future learning and earning capabilities which are essential ingredients for sustainable growth of the country. See Figure B-14 for a first proposal on steps to reach full coverage of the poor.

*Figure B-14. Potential path for expanding coverage of social safety nets to all poor in Kenya*

---

**Box B-1: Timeliness of Payments**

Timeliness of payments is a key ingredient in ensuring effective safety net support to the poor and vulnerable. In recent years, the HSNP has been making regular timely payments, while the other programs (CT-OVC, OPCT and PWSD) have suffered from delays in payment and unpredictable payment schedules. Despite beneficiaries often receiving their payments in arrears, delayed and unpredictable payment schedules still have a negative effect on the welfare of the recipient household.  

Delays in payments and unpredictable payment schedules mean recipient households cannot rely on having funds by a particular date, which makes household financial planning challenging. Recent studies...

---

24 Inua Jamii Progress Report; Towards a more effective National safety net for Kenya, pg. 19
in Malawi and Kenya show that the consequences of delayed payments can be counterproductive to beneficiaries’ welfare. These effects include:

1) Beneficiaries resorting to negative coping strategies such as begging, sex work, distressed sale of assets, reducing number of meals etc.
2) Cash transfers are mostly spent on increasing food consumption, diversity and quality of diet and promoting school enrolment and attendance. Delayed payments have unintended consequences of increasing child labor to augment the gap.
3) Undermining the ability of poor and vulnerable families to respond adequately to shocks when they occur during the waiting period.  

Table B-2 below shows the timeliness of payments made by the four NSNP cash transfer programs since 2013.

Table B-2: Timeliness of Payments for the Four NSNP Cash Transfer Programs

<table>
<thead>
<tr>
<th>Payment Cycle</th>
<th>HSNP</th>
<th>OPCT</th>
<th>PWSD-CT</th>
<th>CT-OVC</th>
<th>NSNP - All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul – Aug 2013</td>
<td>N/A</td>
<td>Late: 47 days</td>
<td>Late: 47 days</td>
<td>Late: 57 days</td>
<td>Late</td>
</tr>
<tr>
<td>Sep – Oct 2013</td>
<td>N/A</td>
<td>On Time</td>
<td>On Time</td>
<td>Late: 70 days</td>
<td>Late</td>
</tr>
<tr>
<td>Nov – Dec 2013</td>
<td>N/A</td>
<td>On Time</td>
<td>On Time</td>
<td>Late: 70 days</td>
<td>Late</td>
</tr>
<tr>
<td>Jan – Feb 2014</td>
<td>Late: 37 days</td>
<td>Late: 76 days</td>
<td>Late: 197 days</td>
<td>Late: 67 days</td>
<td>Late</td>
</tr>
<tr>
<td>Mar – Apr 2014</td>
<td>Late: 19 days</td>
<td>Late: 125 days</td>
<td>Late: 79 days</td>
<td>Late: 9 days</td>
<td>Late</td>
</tr>
<tr>
<td>May – Jun 2014</td>
<td>Late: 1 day</td>
<td>Late: 15-79 days</td>
<td>Late: 34 days</td>
<td>On Time</td>
<td>Late</td>
</tr>
<tr>
<td>Jul – Aug 2014</td>
<td>Late: 1 day</td>
<td>Late: 98 days</td>
<td>Late: 163 days</td>
<td>Late: 92 days</td>
<td>Late</td>
</tr>
<tr>
<td>Sep – Oct 2014</td>
<td>On Time</td>
<td>Late: 63 days</td>
<td>Late: 102 days</td>
<td>Late: 113 days</td>
<td>Late</td>
</tr>
<tr>
<td>Nov – Dec 2014</td>
<td>On Time</td>
<td>Late: 2 days</td>
<td>Late: 41 days</td>
<td>Late: 51 days</td>
<td>Late</td>
</tr>
<tr>
<td>Jan – Feb 2015</td>
<td>Late: 4 days</td>
<td>Late: 50 days</td>
<td>Late: 42 days</td>
<td>Late: 65 days</td>
<td>Late</td>
</tr>
<tr>
<td>Mar – Apr 2015</td>
<td>On Time</td>
<td>On Time</td>
<td>On Time</td>
<td>On Time</td>
<td>On Time</td>
</tr>
<tr>
<td>Jul – Aug 2015**</td>
<td>On Time</td>
<td>Late</td>
<td>Late</td>
<td>Late</td>
<td>Late</td>
</tr>
<tr>
<td>Sep – Oct 2015</td>
<td>On Time</td>
<td>Late</td>
<td>Late</td>
<td>Late</td>
<td>Late</td>
</tr>
<tr>
<td>Nov – Dec 2015</td>
<td>On Time</td>
<td>Late</td>
<td>On Time</td>
<td>Late</td>
<td>Late</td>
</tr>
</tbody>
</table>

*Payment for new beneficiaries 79 days late. For initial beneficiaries the payment was 15 days late.
** Data on the number of days on which payments were made late were not available in time for the report.

The timeliness of HSNP payments has increased significantly since its launch, but this remains a challenge for the other programs (Table B-2). A new payment mechanism has been introduced that is expected to improve the situation through timely reconciliation at the end of each payment cycle.  

The migration to the new payment system however caused a 4-month delay for beneficiaries from September 2018.

26 Inua Jamii Progress Report; Towards a more effective National safety nets for Kenya, pg 19
### Table B-3: Recent Timeliness of Payments

<table>
<thead>
<tr>
<th>Payment Cycle</th>
<th>HSNP</th>
<th>OPCT</th>
<th>PWSD</th>
<th>CT-OVC</th>
<th>NSNP - All</th>
</tr>
</thead>
<tbody>
<tr>
<td>July - Aug 2017</td>
<td>Late: 1 day</td>
<td>On time</td>
<td>Late: 5 days</td>
<td>On time</td>
<td>N/A</td>
</tr>
<tr>
<td>Sept - Oct 2017</td>
<td>Late: 4 days</td>
<td>On time</td>
<td>On time</td>
<td>On time</td>
<td>N/A</td>
</tr>
<tr>
<td>Nov - Oct 2017</td>
<td>Late: 7 days</td>
<td>Late: 1 day</td>
<td>Late: 10 days</td>
<td>Late: 1 day</td>
<td>N/A</td>
</tr>
<tr>
<td>Nov - Dec 2017</td>
<td>On time</td>
<td>On time</td>
<td>On Time</td>
<td>On Time</td>
<td>On time</td>
</tr>
<tr>
<td>May/June 2018</td>
<td>On time</td>
<td>On time</td>
<td>On time</td>
<td>On time</td>
<td>On time</td>
</tr>
<tr>
<td>July/Aug 2018</td>
<td>Late: 7 days</td>
<td>Late: 1 day</td>
<td>Late: 10 days</td>
<td>Late: 1 day</td>
<td>On time</td>
</tr>
<tr>
<td>Sept - Oct 2018</td>
<td>On time</td>
<td>Late: 60 days</td>
<td>Late: 60 days</td>
<td>Late: 60 days</td>
<td>N/A</td>
</tr>
<tr>
<td>Nov - Dec 2018</td>
<td>On time</td>
<td>Late: 120 days</td>
<td>Late: 120 days</td>
<td>Late: 120 days</td>
<td>N/A</td>
</tr>
<tr>
<td>Jan - Feb 2019</td>
<td>On time</td>
<td>On time</td>
<td>On time</td>
<td>On time</td>
<td>On time</td>
</tr>
</tbody>
</table>

*NB: Beneficiaries experienced 120 days delay because of migration to the new payment system*

However, the new payment mechanism alone cannot sustainably resolve the challenge. There remain some critical operational issues, related to funds flow from Treasury to the State department of Social Protection, that still require resolution:

a) Challenge paying the first payment of the financial year on time as there is often a delay in the release of Treasury allocations to the programs.\(^{27}\)

b) Cash transfer budgets appear in both development and recurrent expenditure. Since development budgets are susceptible to budget cuts, it means that cash transfers cannot be disbursed for all beneficiaries at once. Reinstating budget cuts is a long bureaucratic process that inextricably causes delayed payments.

Recommendations:

a) There is scope for cash transfers to happen on time as they do for civil service pensions and public salaries.

b) The National Treasury could consider having cash transfer budgets entirely in recurrent spending to reduce bureaucratic processes and give it priority.

It should be noted however that an impediment to moving NSNP spending into the recurrent budget is that the development budget is legally required to be equal to or above a proportion of the overall budget: ‘over the medium term a minimum of thirty per cent of the national and county governments budget shall be allocated to the development expenditure.’\(^{28}\)

However, there is scope for the National Treasury to increase the percentage allocation of cash transfers to recurrent expenditure based on what is required in law (Figure B-15).

---

27 Sector Review of Social protection in Kenya 2017
28 Kenya Public Financial Management Act 2012, 15.2 a) pg 27
A more compelling reason to include the cash transfer in the recurrent budget is that the Inua Jamii Senior Citizens’ scheme for those aged 70 years and over is an entitlement. The CT-OVC and CT-PWSD is also a constant benefit linked to a constant criterion for a significant number of years. This then provides an opportunity to make the case for grounding financing from general government revenues more firmly in the recurrent budget.

3. Targeting accuracy and Adequacy of transfers

27. While overall targeting accuracy for several cash transfer programs in Kenya is good, it can be improved. Targeting performance of overall social assistance can be increased by redesigning (or eliminating) current programs, such as bursary funds, that transfer benefits overwhelmingly to the richer segments of the population (Figure B-16). The targeting performance of the NSNP programs are good, though they can be improved further. This can be achieved by recertifying recipient households, some of whom have been selected 10 years ago with no re-evaluation of welfare since then. The Government has just adopted a recertification strategy for the National Safety Net Programs (NSNP) and recertification will commence soon. The harmonized targeting tool (HTT) that is used to target beneficiary families can be improved by updating it using the KIHBS 2015/16 survey (the current HTT was developed based on KIHBS 2005/06). The government is in the process of updating the HTT using the new KIHBS data. Targeting can be further improved by doing away with quotas for beneficiaries by county. Finally, the establishment of a social registry can help improve targeting by improving the quality of information on both beneficiaries and potential beneficiaries to policy makers.
28. Adequacy of transfers is quite low, and the real value of the transfers have been decreasing over time. The nominal value of cash transfers in 3 of the 4 NSNP programs has not been increased since 2012, resulting in the decline in the real value of these transfers (Figure B-18). Though the nominal transfer amounts for the HSNP program has been increased over time, even these increases have not kept up with inflation in recent years. It would be important to provide inflationary cover to beneficiaries through indexation of benefit amounts with annual inflation. Adequacy would also increase if the amount of the benefit expands with family size – currently each family receives a
constant transfer regardless of the size of the family. This makes the adequacy of the program even lower for larger families which tend to be poorer.

*Figure B-18: Evolution of nominal and real value of transfers.*

4. **Policy reform simulations and their fiscal and poverty impact**

29. **Increasing coverage through the introduction of a new child benefit**. Children in Kenya are among the poorest across the age spectrum. Currently, there is no benefit targeted at children; only a benefit targeted at orphans. In this section, one of the options we simulate includes the introduction of a child benefit, with various design considerations. Our first simulation introduces a universal child benefit available to every family in Kenya with a child under the age of 5. We look at the poverty and fiscal impacts of such a scheme under the assumption of full take-up as well as if take-up reached only 70 percent (randomly assigned). We next simulate the impact if such a child benefit were to be restricted to counties with the highest child poverty rates (that is geographically targeted, similar to the HSNP program). We simulated a benefit targeted to all families with children in the counties of Turkana, Mandera, Samburu, Busia, Marsabit, and Garissa -- all of these counties have child poverty rates above 60 percent. Once again, we look at impacts if take-up was 100 percent and if it only reached 70 percent. We next simulate a targeted child benefit where families with children in the poorest 50 percent of the population across Kenya are eligible for the benefit. We simulated inaccuracies in targeting for this scenario, since even the best targeted benefits have leakages to ineligible beneficiaries. Because the adequacy of the current benefit amount is low, for each scenario described we simulate the impacts of a benefit amount of KSh 2,000 per family per month (scheme 1), as well as if the benefit amount were increased to KSh 3,000 per family per month (scheme 2). Table B-4 summarizes the simulated policies.

29 The reform simulations in this section do not recommend increasing coverage and incurring the associated fiscal costs immediately. These are options presented for responsible expansion of social protection coverage to the poorest and most vulnerable citizens when more fiscal room is available.
30. **Increasing coverage through the introduction of a poverty targeted benefit for all families.** We separately simulated a poverty-targeted benefit, targeted to all families, with two different eligibility thresholds. The first targets the poorest decile of the population in terms of consumption, and the second the poorest 50 percent. Both targeting mechanisms include some assumption of leakage of benefits in the simulation.

31. **Increased adequacy through increasing the transfer amount to existing beneficiaries.** The existing four main SSN policies (CT-OVC, OPCT, HSNP, and PWSD) are reasonably well targeted. However, as shown previously, the amount transferred to the families is quite small, with low adequacy, and insufficient to cover the poverty gap. In order to address that, we simulate two scenarios – the first where we increase the amount given to current beneficiary families to KSh 4,000 per month. In the second scenario, the amount of the benefit expands based on the size of the family – with KSh 2,000 for the first adult (or person if no adult is present), KSh 1,000 per remaining adult, and KSh 600 per child.  

<table>
<thead>
<tr>
<th>Policy</th>
<th>Beneficiary</th>
<th>Targeting</th>
<th>Scheme</th>
<th>Benefit Rule</th>
<th>Take Up</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>New Child Grant</strong></td>
<td>Every family with at least one child under 5</td>
<td>Universal</td>
<td>1</td>
<td>KSh 2,000 for each family</td>
<td>100% and 70%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td>KSh 3,000 for each family</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Poorest counties</strong></td>
<td></td>
<td>1</td>
<td>KSh 2,000 for each family</td>
<td>100% and 70%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td>KSh 3,000 for each family</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Poorest 50% of the population</strong></td>
<td></td>
<td>1</td>
<td>KSh 2,000 for each family</td>
<td>80% of the poorest 50% and 20% of the 6th, 7th and 8th deciles</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td>KSh 3,000 for each family</td>
<td></td>
</tr>
<tr>
<td><strong>Poverty Targeted Grant</strong></td>
<td>Every family who is the poorest decile</td>
<td>Poorest 10% of the population</td>
<td>1</td>
<td>KSh 2,000 for each family</td>
<td>65% of the poorest 10% and 35% of the 2nd, 3rd and 4th deciles</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td>KSh 3,000 for each family</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Every family in the poorest 50% if the population</td>
<td>Poorest 50% of the population</td>
<td>1</td>
<td>KSh 2,000 for each family</td>
<td>80% of the poorest 50% and 20% of the 6th, 7th and 8th deciles</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td>KSh 3,000 for each family</td>
<td></td>
</tr>
<tr>
<td><strong>Expansion of Current Benefits</strong></td>
<td>Current beneficiaries of CT-OVC, OPCT, HSNP and PWSD</td>
<td>Current beneficiaries</td>
<td>1</td>
<td>KSh 4,000 per family</td>
<td>Current beneficiaries</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td>KSh 2,000 for the first adult (or person if no adult is present) + KSh 1,000 per remaining adult + KSh 600 per child</td>
<td></td>
</tr>
</tbody>
</table>

32. **Overall coverage goes up dramatically with the introduction of a child benefit (Figure B-19), reaching nearly 60 percent of the total population.** Children under the age of 5 represent 16 percent of the population and over 20 percent of the poorest decile. In addition, nearly 60 percent of the overall population lives in a household with a child under 5, and 80 percent of people in the poorest decile lives in a household with a child under 5. Although there are more children amongst the poorest deciles, a universal child benefit would also cover a significant amount of people throughout the distribution. A targeted child benefit, which is targeted to the poorest 50 percent of the population, results in overall

---

30 This is in line with the modified OECD adult equivalent scale which results in an increase in the size of the transfer for larger households. The reason why transfers are not increased 1 for 1 to all members of the family is due to possible economies of scale within a household.
coverage to the poorest five deciles being nearly 80 percent, while leakage to the non-poor is contained to 21 percent.

*Figure B-19: Potential Coverage of a Universal Child Grant by welfare group: (a) direct beneficiaries only; (b) direct and indirect beneficiaries.*

33. A geographically targeted child benefit given to all families with children in the counties with the highest poverty rate (amongst children in particular) would increase the coverage of the poor significantly. While such a benefit would only reach 5 percent of the population, a program targeted at Turkana, Mandera, Samburu, Busia, Marsabit, and Garissa would result in covering 12 percent of the poor across the entire country, and over 22 percent of the poorest decile (Figure B-20). A few people from the second, third and fourth deciles would still benefit from the program, but the coverage of individuals above the fifth decile would be less than 4 percent and almost no one from the richest decile would receive the transfer.

*Figure B-20 Potential coverage of a Child Grant targeting the poorest counties by welfare group: (a) direct beneficiaries only; (b) direct and indirect beneficiaries*

*Source: Authors’ calculations based on KIHB 2015/16.*
34. One of the reasons why current social safety net programs have a low impact on poverty reduction is due to low adequacy of transfers which is not enough to cover the poverty gap. For this reason, we simulate the new policies with two different benefit levels, the current value of KSh 2,000 per family (scheme 1) and an alternative higher value of KSh 3,000 per family (scheme 2). Assuming the entire value of the transfer is consumed, KSh 2,000 represents 20 percent of the average consumption of beneficiaries in the poorest decile, and 13 percent of those below the poverty line (Figure B-21). The higher benefit level of KSh 3,000 represents 28 percent of the final consumption of beneficiaries in the poorest decile and nearly 20 percent for the poor beneficiaries.

*Figure B-21. Adequacy of simulated Child Benefits: (a) KSh 2,000 per family; (b) KSh 3,000 per family*

Source: Authors’ calculations based on KHIBS 2015/16.

35. Finally, as an alternative to expanding coverage, we estimate the poverty and fiscal impacts of increasing the adequacy of transfers to current beneficiaries. While the increased overall transfer amount of KSh 4,000 per household is more beneficial to the first and second deciles, the use of an adult equivalence formula increases the adequacy of the benefit among poor beneficiaries.
The various policy options have very different fiscal impacts. Given the large share of children in the population, the cost of a universal program would be significant. As shown in Figure B-23, if each family with a child under the age of 5 received KSh 2,000 per month (scheme 1), the total program would cost over 1.3 percent of GDP per year (and almost 2 percent for a transfer of KSh 3,000 per month per family). Even if the take-up of the program was only 70 percent, the total cost would still be nearly 1 percent of GDP (1.4 percent for the larger transfer amount). This constitutes a significant expansion when compared to Kenya’s current expenditure on social safety nets (0.4 percent of GDP). A child benefit targeted at families with children under 5 in the poorest 50 percent of the distribution costs about half as much, at 0.7 percent of GDP, with the lower transfer amount of KSh 2,000 (and about 1 percent of GDP with the higher transfer amount of KSh 3,000). The fiscal cost of a poverty targeted program to the poorest 50 percent of the population costs a little more (since it also covers families that don’t have a child under 5) – it costs about 0.97 percent of GDP with the lower transfer amount and 1.46 percent with the higher transfer amount. A poverty targeted program to the poorest 10 percent of the population would be much more cost effective – at 0.2 percent of GDP for the transfer amount of KSh 2,000, and 0.3 percent of GDP for the transfer amount of KSh 3,000.

In terms of poverty reduction, the universal child benefit and the poverty benefit targeted at the poorest 50 percent are the policies with the most significant impact. A universal KSh 3,000 transfer
to families with children under the age of five (this is the most expensive of the various options simulated) has the potential to reduce national poverty by eight percentage points. However, the same benefit targeted at all families in the poorest 50 percent of the population, which costs less than the universal child benefit, would have the same impact at a lower cost. Although OPCT 70+ has some impact on the poverty rate of the elderly, it has very little impact on the country's overall poverty rate – only decreasing it by some 0.01 percentage points. This is because the OPCT 70+ transfer is received by a very small proportion of the population of Kenya. Increasing the adequacy of current benefits or introducing a child grant program only in the poorest counties would also have very small impacts in terms of reducing overall poverty in the country.

*Figure B-24. Percentage point reduction of each simulated policy*

![Chart showing percentage point reduction in poverty](chart)

*Source: Authors' calculations based on KHIBS 2015/16.*

38. Among all the policy options simulated, the poverty benefit targeted at the poorest 10 percent of the population has the highest cost-benefit ratio. The cost to benefit ratio is computed by looking at the what percentage of the total value of transfers goes towards reducing the poverty gap. We find that the benefit targeted to all families in the poorest 10 percent of the population has the highest cost-benefit ratio – with close to 80 percent of the total budget going towards reduction of the poverty gap. However, a good targeting mechanism is crucial to achieve this impact. On one hand the poorest population can be difficult to identify with some degree of precision. On the other hand, because people cycle in and out of poverty, it would also be important to recertify households on a regular basis to ensure that the program continues to be well targeted. Kenya has demonstrated that it is able to target the poor and vulnerable quite well. Given the current fiscal constraints, a poverty targeted benefit may be the most efficient in terms of achieving food security, and reducing poverty, within a modest budget.

39. The cost-benefit ratio of the universal programs, whether targeted to children or to the elderly is low. The child benefit targeted at the poorest counties has the second highest cost-benefit ratio, with 65 percent of the total budget translating into a reduction in the poverty gap. The reason for the high efficiency of this policy option is that the poverty rate and poverty gap amongst the targeted families is very high (these are some of the poorest families in the country). The cost-benefit ratio of the universal benefits, whether it is the universal child grant or OPCT 70+ is much lower, with only some 27 percent of the total budget going towards reducing the poverty gap. This is because the policies are designed to also benefit families who are non-poor and in the upper deciles. While the call for universal benefits may be attractive, it is very important to emphasize the need to remain pragmatic, particularly given the tax-to-GDP ratio in Kenya. With overall taxes being below 16 percent of GDP in 2017/18, it would be unrealistic to expect that overall expenditures on social safety nets expand by 1 percent of GDP.
40. Table B-5 summarizes the total fiscal and poverty impacts of the implementation of the various policy options simulated in this section, as well as their cost-benefit ratio. Although the universal child benefits and the poverty benefit targeted at the poorest 50 percent of the population present the highest percentage point reduction in poverty, it comes at a cost. The total annual budget for each of the simulations varies from 0.92 to 1.98 percent of GDP, which represents from US$ 130 million to over US$ 290 million at the course of five years. The success of SSN policies also relies on their sustainability at the macro level, and their stability for the beneficiaries. In the long run, a more realistic approach such as the child benefit targeted at the poorest 50 percent of the population or the geographically targeted benefit could have better outcomes.

Table B-5. Total cost, poverty impact and benefit-cost ratio of the simulated policies.

<table>
<thead>
<tr>
<th>Monthly payment per household</th>
<th>Universal Child Benefit (full take-up)</th>
<th>Universal Child Benefit (70% take-up)</th>
<th>Child Benefit to poorest countries (100% take-up)</th>
<th>Child Benefit to Poorest Counties (70% take-up)</th>
<th>Targeted child benefit (poorest 50% take-up)</th>
<th>Targeted benefit -- poorest 10%</th>
<th>Targeted benefit -- poorest 50%</th>
<th>OPCT 70+</th>
<th>Expansion of current benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cost (% of GDP)</td>
<td>KSh 2,000</td>
<td>1.24</td>
<td>0.88</td>
<td>0.08</td>
<td>0.68</td>
<td>0.69</td>
<td>0.20</td>
<td>0.97</td>
<td></td>
</tr>
<tr>
<td>KSh 3,000</td>
<td>1.98</td>
<td>1.38</td>
<td>0.86</td>
<td>0.11</td>
<td>1.04</td>
<td>1.46</td>
<td>0.30</td>
<td>1.46</td>
<td></td>
</tr>
<tr>
<td>Estimated cost of 4 years of the program (million US$)</td>
<td>KSh 2,000</td>
<td>196.81</td>
<td>137.34</td>
<td>16.18</td>
<td>11.30</td>
<td>102.92</td>
<td>29.94</td>
<td>144.81</td>
<td></td>
</tr>
<tr>
<td>KSh 3,000</td>
<td>295.21</td>
<td>206.01</td>
<td>24.27</td>
<td>16.95</td>
<td>154.38</td>
<td>44.90</td>
<td>217.21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage point reduction in poverty</td>
<td>KSh 2,000</td>
<td>-0.06</td>
<td>-0.04</td>
<td>0.00</td>
<td>-0.05</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.07</td>
<td></td>
</tr>
<tr>
<td>KSh 3,000</td>
<td>-0.09</td>
<td>-0.06</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.06</td>
<td>-0.02</td>
<td>-0.09</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit-Cost Ratio</td>
<td>KSh 2,000</td>
<td>0.28</td>
<td>0.29</td>
<td>0.67</td>
<td>0.68</td>
<td>0.50</td>
<td>0.85</td>
<td>0.42</td>
<td></td>
</tr>
<tr>
<td>KSh 3,000</td>
<td>0.26</td>
<td>0.27</td>
<td>0.64</td>
<td>0.65</td>
<td>0.46</td>
<td>0.81</td>
<td>0.38</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors' calculations based on KHIBS 2015/16.
A last point worth mentioning is that while a benefit targeted at the elderly has a limited impact on the remaining population, a child targeted benefit potentially impacts people throughout the life cycle. Elderly live in households that are on average small, and the poverty impact of OPCT 70+ is very limited for other age ranges (Figure B-26). On the other hand, children live in larger households with family members of different ages, and while they are the ones that experience the largest reduction in poverty, other age groups also benefit from large poverty reduction. This is especially true for older children and teenagers between the ages of 6 and 17, who have a largest baseline poverty rate. Finally, the poverty targeted benefit impacts the entire population more evenly.

**Figure B-26. Poverty reduction after each proposed policy option - National child Benefit**

**Figure B-27 Poverty reduction after each proposed policy option - Child Benefit Targeted at the poorest counties**

*Source: Authors’ calculations based on KHIBS 2015/16.*
Figure B-28. Percentage point poverty reduction of poverty targeted policy options by age group

Source: Authors’ calculations based on KHIBS 2015/16.
C. SOCIAL INSURANCE

1. Kenya’s Social Insurance Landscape

42. The right to social security is enshrined in Kenya’s constitution and a key aim of Kenya’s vision 2030 is to ‘provide a high quality of life for all its citizens’ by the year 2030. About 85 percent of Kenya’s population is under age 40 and hence more exposed to early stages of lifecycle risks e.g. malnutrition in children, and unemployment in adults. However, the continued declines in fertility and improvements in mortality will cause the share of elderly to rise (Figure A-1). While the growth in share of elderly appears modest, the number of individuals 60+ increases from 2.2 million in 2017 to 9.6 million by 2050 and 24 million by 2080.31 The young in Kenya have a few decades to plan and save for retirement but the high and persistent informality in the country implies that traditional social insurance through employer-employee arrangements is not a reality for most Kenyans. As of 2016, only 20 percent of the labor force was covered by some form of social insurance (Figure C-2). This leaves the majority, a mix of informal sector workers and adults outside the labor force, uncovered. Unless coverage is increased, most Kenyans will not have adequate income security in old age and Kenya might suffer from an increasingly common phenomenon of countries growing old before they grow rich.

Figure C-1: Population share over time.

Source: UN population prospects, 2017 Version.

43. The schemes which cover the small group of formal sector workers also face challenges with regard to affordability, sustainability, equity, and adequacy. The scope of this chapter is to analyze the existing social insurance programs and to discuss options to expand coverage of social insurance for informal sector workers. We also project the cost of social pension currently offered to all elderly

---

31 As total population continues to grow over the next few decades the rate of growth in elderly is being masked if one only looks at share of elderly in the population. The number of people above 60+ grow 11 times from 2017 to 2080 whereas number of children (0-14) less than double from 19 million in 2017 to 25 million by 2080 and working age people (15-60) grow only three times, from 25.1 million in 2017 to 69 million by 2080.
(70+) in Kenya and discuss the incentive effects of having a social pension alongside voluntary contributory schemes.

Figure C-2: Mapping Social Insurance

Mapping Kenya’s social insurance as of 2016

2. Social Insurance for The Formal Sector

44. The formal sector of the economy, which employs 19 percent of the employed, has separate pension schemes for workers in the public and private sector. The public service (civil servants and uniformed service) workers are covered under a non-contributory defined benefit scheme called Public Service Superannuation Scheme (PSSS). All private sector workers are mandated to enroll in a provident fund scheme with the National Social Security Fund (NSSF) and can choose, in addition, to be part of occupational schemes approved by Retirement Benefits Authority (RBA). While Kenya has been successful in ensuring full coverage of the formal sector workers as of 2016, concerns around adequacy and sustainability of these schemes remain.

a. Civil Service Pension - An Unaffordable and Rising Fiscal Burden

45. Civil servants who comprise 4 percent of the labor force receive relatively generous benefits under the defined benefit scheme called Public Service Superannuation Scheme (PSSS). As of 2016, 800,000 civil servants (including military and police) were covered under PSSS. Their pension benefits are calculated based on the years they spent in service, their final basic salary and the accrual rate as per the law. The retirement age for men and women is 60 years. Under current rules of 2.5 percent accrual rate for each year of service, a civil servant with 30 years of service would receive 75 percent

---

32 Formal sector refers to individuals working in civil service (CS) or in the private sector. The remaining from among the total employed workers work in self-employed and informal sectors (Figure C-2)
(2.5 percent * 30) of his final basic salary at the time of retirement. The accrual rate of 2.5 percent is among the most generous in the region (Figure C-3). It is also higher than the OECD average of 1.2 percent and ILO recommended 1.33 percent for each year of service. PSSS is non-contributory, so benefits are paid from general revenues. Our calculations have shown that the actuarially fair rate of contribution required to pay for the benefit would be 33 percent of civil servants' basic salary, which if imposed would be the highest for the region (Figure C-7). Individuals can also choose to commute up to 25 percent of their pension benefit as lump-sum and are entitled to receive KSh 20 for every KSh 1 in pension that they forego. This commutation factor used to calculate the lump sum benefits is extremely generous as beneficiaries who take lump sum get more in present value terms than they would get from the present value of the annuitized retirement benefit (Box C-1 for details). The actuarially fair rate is the one which ensures present value of contributions equal the present value of benefits, given the system rules. This translates to a commutation factor of 20. An actuarially fair commutation factor ensures that the calculated lump sum is equal to the present value of expected payments of the commuted portion of individual’s benefit over the commutation term. Since the 25 percent benefit reduction is never restored in the PSSS, actuarially fair commutation factors coincide with lifetime annuity factors.

Figure C-3: Accrual rates in Sub-Saharan Africa

Source: World Bank Africa Pension Database

33 The actuarially fair rate is the one which ensures present value of contributions equal the present value of benefits, given the system rules.
34 This translates to a commutation factor of 20.
35 An actuarially fair commutation factor ensures that the calculated lump sum is equal to the present value of expected payments of the commuted portion of individual’s benefit over the commutation term. Since the 25 percent benefit reduction is never restored in the PSSS, actuarially fair commutation factors coincide with lifetime annuity factors.
Pension schemes allow for commutation (lump-sum) at time of retirement to help individuals meet expenses at the time of retirement. An illustration below shows pension cashflows for individuals A & B, where A chooses not to commute and B chooses to take the commutation.

<table>
<thead>
<tr>
<th>Person</th>
<th>Annual Wage at Retirement</th>
<th>Lump Sum</th>
<th>Pension</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>KSh 500,000</td>
<td>75%*500,000 = KSh 375,000</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>KSh 500,000</td>
<td>25%<em>500,000</em>20 = KSh 2,500,000 (where 20 is the commutation factor in Kenya for all ages) (75% - 25%) * 500,000 = KSh 250,000</td>
<td></td>
</tr>
</tbody>
</table>

For the commutation rules to be actuarially fair: Lump sum + PV of commuted pension payments for Individual B = PV of uncommuted pension payments for Individual A.

Our calculations which take mortality rates from UN and assume real discount rates of 3 percent show that the actuarially fair commutation factor is closer to 13, significantly lower than the 20 being used currently. If a higher discount rate is assumed, which may be reasonable for a country like Kenya, the gap will increase even further. So, the existing system is likely to create incentives for commutation by providing a greater benefit up front than would be received during retirement in the form of regular payments. According to available data, most retirees commute the maximum 25 percent of their pension calculated at retirement. This results in a substantial additional benefit to workers up-front yet makes the same workers vulnerable in old-age because of a lower annuitized benefit.

46. Spending on Civil Service Pension (CSP) amounted to 0.6 percent of GDP in 2016, disproportionately higher than spending on safety nets, education or health if one considers the number of people receiving benefits from each sector. In 2016, 124,713 pensioners (excl. military and police) collected civil service pensions which cost 0.6 percent of GDP or 3.8 percent of fiscal revenues. In comparison, safety net expenditures were 0.4 percent of GDP and covered approximately a million households. Spending on health and education in the same period were 1.9 percent and 4.7 percent of GDP respectively. Since civil service pensions are paid from general revenues ballooning pension expenditure also raises concerns of equity, given that taxes collected from a broad set of people are used to pay benefits to a small proportion of the population. As CSP expenditure continues to rise due to system maturity and rising life expectancy it will start crowding out expenditures for other social sectors like education and health.

47. In the absence of any reform, the spending on civil service pensions is expected to rise from 0.6 percent of GDP currently to 1.2 percent of GDP by 2080. Wage and pension expenditures on Civil servants have been increasing rapidly with pension expenditure doubling from KSh 27 billion in 2013 to KSh 61 billion by 2016. The wage bill during the same period has grown at a faster rate from KSh 117 billion to KSh 339 billion. This rapid increase in wage bill is caused in part due to rapid hiring and will eventually spillover as higher pension expenditures as the scheme matures. Over time the growth in number of employees slows down and growth rate of retirees increases (Figure C-4). This causes

---

36 Fiscal revenues in 2016 were about 15.7 percent of GDP (IMF Article IV)
the system dependency ratios i.e. ratio of beneficiaries to actives to increase starting from 2050.37 Furthermore, as life expectancy increases over time while retirement age remains unchanged, pension liabilities will rise because pensioners will collect benefits for longer.38 While the system is currently unaffordable it will become unsustainable if the generous replacement rates are continued (Figure C-5).

Figure C-4: Projection of counts of employees and pensioners

Figure C-5: Pension Expenditure as Percent of GDP.

Source: World Bank PROST calculations.

48. Despite the generous accrual rate, the ad-hoc indexation of pensions and use of final basic salary to calculate benefits makes the system inequitable, as pensions become inadequate for some. There is no formula for automatic benefit adjustments during retirement, so the purchasing power of benefits can be eroded because of ad-hoc adjustments. The erosion of real value of pensions over time results in lower pensions to the most elderly. The need for adequate pensions is highest for the most elderly given they likely face higher medical expenses and have limited ability to work as they age. Some reports suggest that pensions have increased on average at only 3 percent every two years which is extremely low given an average inflation rate of 6 percent over the last five years. The adequacy and equity of pensions is also a concern as pension benefits are calculated as a percentage of basic pay. Since allowances vary by grade and have grown as a share of total salary from 29 percent in 2013 to 36 percent in 2016, the pension benefits though 75 percent of final base pay would translate to only 48 percent of gross pay on average for those who receive a higher proportion of their salary as allowances.

37 System dependency ratios of CS are different from dependency rates of the population in general because of the hiring pattern and demographics of civil servants. So, dependency ratios for the population might not be worsening as rapidly but system dependency for a closed system like Civil service could be.

38 Average LE at time of retirement is 18 years currently and it goes up to 24 years by 2080. The model uses life expectancy (LE) rates of the entire population from UN data. Studies have shown that LE of civil servants is expected to be higher as they have better education, health care and higher incomes on average (Schwarz et.al, 2016)
49. Audit of the Pension Management information system (PMIS) has exposed flaws in record keeping that led to pension payments being made to the dead and to ineligible dependents, thereby increasing the cost to treasury.  The auditor-general noted in a 2015 report that more ‘than Sh100 million a month was lost in payments to ghost pensioners’ i.e. individuals who were dead, but payments continued to be collected from their bank accounts. The report argues that the use of mobile banking and ATM to withdraw pensions instead of the earlier method which required retirees to collect them in person at state-owned post banks, has contributed to this rise in ghost pensioners. A total of 4,477 dependents failed to provide validation, required every six months, to keep receiving survivor benefits. The systems audit of PMIS also found 69,715 dummy identification numbers and 601 pension files without pensioner’s name. In February 2019, the treasury decided to carry out a census of retired civil servants to weed out thousands of ghost pensioners and help contain some of the rising costs of CSP. As per a recent news report, they have identified 40,000 ghost pensioners already as part of this identification drive

50. A draft law which calls for a move from unfunded DB scheme to a fully funded DC scheme would correct for the technical weaknesses and be sustainable by design, but it has not been implemented in its entirety. Following the passing of the Public Service Superannuation Act (No. 8) in 2012, the government is committed to transforming the current non-contributory DB scheme to a DC scheme with 22.5 percent as the contribution rate (15 percent from government; 7.5 percent from employee) plus an additional 6 percent employee contribution to Tier I of NSSF. The rules under the proposed DC scheme are summarized in Table C-2. As it stands currently, the proposed rules are to be applied to new entrants and employees below age 45. We understand that the government has started including the 15 percent contributions as line items in the budget and also deducts 7.5 percent from existing civil servants. However, there is lack of clarity on the implementation of this law and on administration of the funds.

<table>
<thead>
<tr>
<th>Table C-1: Current DC Scheme Rules</th>
<th>Table C-2: Proposed DC Scheme Rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parameters</td>
<td>Parameters</td>
</tr>
<tr>
<td>Retirement age</td>
<td>Retirement age</td>
</tr>
<tr>
<td>Contribution rate</td>
<td>60, early retirement at 50</td>
</tr>
<tr>
<td>Accrual rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Benefit formula</td>
<td>2.5 percent</td>
</tr>
<tr>
<td>Lump sum allowed</td>
<td>Accrual rate * LOS * final basic salary</td>
</tr>
<tr>
<td>RR for 30 years of service</td>
<td>25 percent of pension benefit allowed to be commuted, commutation factor = 20</td>
</tr>
<tr>
<td></td>
<td>75 percent of last wage</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement age</td>
<td>60, early retirement at 50</td>
</tr>
<tr>
<td>Contribution rate</td>
<td>22.5 percent (15 percent govt + 7.5 percent employee) + 7.5 percent employee into Tier I of NSSF</td>
</tr>
<tr>
<td>Benefit given as annuities</td>
<td>Contributions + earned interest – admin costs</td>
</tr>
<tr>
<td>Lump sum allowed</td>
<td>33 percent of accumulated balance</td>
</tr>
<tr>
<td>Estimated RR for 30 years of service*</td>
<td>54 percent from CS scheme + 14 percent from NSSF</td>
</tr>
<tr>
<td>Switchers</td>
<td>New entrants + employees below age 45</td>
</tr>
</tbody>
</table>

*Calculation assumes a spread of 1.5 percent between real wage growth and real investment return.

---

42 Since the NSSF law is being challenged in courts the 6 percent CS employee contribution has not materialized yet.
51. **Government expenditure under the proposed law would increase in the medium run due to transition costs but would go down eventually.** Costs to the government will rise in the short to medium term as it would incur contributions for entrants to the new scheme in addition to paying pensions for existing and upcoming retirees. However, when the transition of PSSS from a DB to fully funded DC scheme will be complete, government expenditure would be limited to paying contributions viz 15 percent of the basic wage bill. If new and existing CS below age 45 were to all switch to the DC scheme, the expenditure will go up to 1.2 percent of GDP in the medium term but by the year 2080 would only cost 0.4 percent of GDP (Figure C-6). If only new hires are switched to the DC scheme the medium-term cost will be lower but the pace of decline in expenditures will slow down too.

*Figure C-6: Pension expenditure as % of GDP in baseline and proposed DC scenario*

![Graph showing pension expenditure as % of GDP in baseline and proposed DC scenario.]

*Source: World Bank PROST calculations*

*Note: In the proposed DC scenario we have assumed that the rights of CS (below age 45) who switch, are not preserved i.e. they don’t get DB benefit for the years worked so far*

52. **An abrupt introduction of high contribution rates and switching of existing employees into the DC scheme could give rise to intra-generational inequities.** The contribution rate of 28.5 percent for entrants in DC scheme (22.5 percent in CS scheme + 6 percent employee contribution in NSSF) will be among the highest in the region (Figure C-7). The government was planning to stagger the introduction of the 7.5 percent contribution rate from employees but news reports suggest that civil servants received a pay cut of 7.5 percent which coincided with a salary increase. Therefore, while a pension fund was created from the contributions, the accompanying rise in salary meant that overall government fiscal picture did not improve. The decision to move existing CS below age 45 to the new

---

scheme is also unfair as they will not accumulate enough years of contributions and thus receive significantly lower benefits than some of their peers.\footnote{The government has not clarified how they would preserve and protect the rights of the existing CS (those below age 45). Preserving rights of existing CS under the old DB scheme for the years of service so far would mean a continued fiscal burden. If they choose not to preserve the rights, it is likely going to cause some dissatisfaction among successive cohorts and the government might have to intervene and announce additional benefits to compensate. For our modelling we assume no preservation of rights.}

Figure C-7: Contribution Rates in Sub-Saharan Africa

Source: World Bank Africa database. We exclude 6 percent contribution for NSSF in the case of Kenya since the law is being contested currently.

53. Civil service pension reform in Kenya is necessary to contain fiscal costs and make the system more equitable but efforts should be made to ensure a smooth transition to the proposed DC scheme. The large subsidies embodied in the financing of civil service pensions are highly inequitable as civil servants tend to be better off than the rest of the population.\footnote{Average annual wage of public servants is 679,489, higher than that of the private sector and four times higher than the income per capita (Economic Survey, 2018)} The proposed law moves in the right direction and would correct for the technical weaknesses in the current DB scheme. However, care should be taken to make the transition as smooth as possible for the workers and retirees. The introduction of high contribution rates for existing workers would be deemed unfair unless they were given a one-time salary increase to compensate. A move of existing civil servants who are younger than 45 would also face resistance as these workers would get lower replacement rates from the DC scheme than some of their peers. Since the move to a DC scheme will give rise to large accumulation in fund reserves, up to 20 percent of GDP by 2080 (Figure C-8), the government should focus on implementing guidelines regarding investment and regulation of funds and support the development of annuity markets. In the short run, the government will have to think of how it would pay for the bulk of contributions given the fiscal constraints it currently faces.
54. A thorough and regular actuarial valuation of the civil service pension schemes is warranted, to assess and project the financial condition of the plans. Under the current laws there is no clear mandate for a regular assessment of the CS pension scheme by an actuary. An actuarial valuation is particularly important for a defined benefit scheme like that of current CS since the sustainability of the scheme is dependent on the profile of civil servants, benefit rules, and macro-economic outlook (wage growth, inflation, revenue growth etc.). A regular assessment by a trained actuary will help flag any changes in the financial sustainability of the plan, promote accountability, highlight inconsistencies in data, and most importantly help policymakers assess the financial and distributional impact of reforms (for e.g. the proposed reform to DC scheme for CS below age 45). The government should also push for evaluation of the social pension scheme (OPCT 70+) by trained actuaries, who are well suited to comment on the impact of reforms at the micro as well as macro level.

Figure C-8: Fund Reserve in DC scheme as percent of GDP

![Graph showing fund reserve in DC scheme as percent of GDP.](image)

Source: World Bank PROST calculations

Note: The reserves grow rapidly over the next few decades because the new scheme accumulates contributions. It will take until the 2070s for the scheme to mature at which point the growth in reserves will begin to decline

b. **Private Sector Pensions - Grossly Inadequate for Most**

55. The National Social Security Fund (NSSF) covers salaried employees in the private sector including employees of non-exempt parastatals and non-pensionable junior officers in civil service. Self-employed and informal sector workers are not mandated to join NSSF but can contribute voluntarily. As of 2018, NSSF had 2.4 million active members and covered the entire salaried workforce in Kenya viz 12 percent of the labor force.\(^{47}\) It currently operates as a provident fund scheme where individuals contribute during their working life and receive lump-sum at the time of retirement. Members are

---

\(^{47}\)NSSF Annual report, 2018. NSSF defines active members as anyone who contributed in the last six months. It is quite possible that even though almost all salaried workers are covered, not all have continuous contributions.
eligible for a retirement benefit when they reach the age of 55 years but as of 2012, they are allowed early retirement at age 50 without any penalty. In addition to old age, survivor benefit, invalidity benefit, and funeral grants are provided.

56. The average annual contribution to NSSF is extremely low, less than one percent of the average private sector wage. Until 2014 individuals were required to make flat contributions to NSSF which were less than one percent of the prevailing average wage.\(^48\) Although the new law requires 12 percent of wage to be paid as contributions, the implementation of the law has been halted through courts and the dispute remains unresolved. Given the extremely low contribution rate currently, one cannot expect any decent return out of the scheme at the time of retirement. The average lump-sum benefit in 2018 was KSh 56,056 which is less than the income per capita.\(^49\)

57. The high administrative costs and ad-hoc returns on contributions further contribute to the inadequacy of benefit at the time of retirement. Expenditure benchmark analysis placed NSSF in Category C, which included programs where performance coefficients were more than double the predicted levels.\(^50\) Overstaffing and operational inefficiencies were identified as potential reasons for the high expenditure-to-benchmark ratio in NSSF. Data from RBA has shown that NSSF’s administrative cost continues to be high, about 51 percent of contribution revenue in 2018.\(^51\) Since contributions to NSSF are low to begin with, we also look at admin costs as percentage of assets, which continues to be high with costs equal to 3.6 percent of assets.\(^52\) Another reason for the erosion of benefits is the ad-hoc nature of returns announced. The returns credited to member accounts at NSSF varies from the net rate of return on the Fund’s Assets and tend to fall short of returns provided by occupational schemes (Table 1).\(^53\) This creates a disincentive to participate in NSSF, encourages non-compliance and undermines the ability of NSSF to provide old age income security.

58. The voluntary retirement benefit schemes for salaried workers provide higher benefits than NSSF but they cover only a quarter of the salaried workforce. As of 2018, there were close to 1,263 voluntary retirement schemes –1176 occupational, 48 individual and 24 umbrella schemes.\(^54\) It is not mandatory for an employer to provide a retirement scheme to its employees. However, if an employer does establish a retirement scheme, they are obligated to comply with the retirement benefits legislation and the established rules of the retirement scheme. The average contribution in voluntary schemes is seventeen times that in NSSF, admin costs less than half and returns marginally higher, thereby providing higher benefits on average for its members (Table C-3). However, only a quarter of all salaried workers are covered under a voluntary scheme while the rest are dependent on NSSF for income at retirement.

---

\(^{48}\) Data from NSSF shows that monthly contributions were KSh 80 in 1966, KSh 160 in 1977, KSh 400 in 2001 and KSh 2160 in 2014

\(^{49}\) The GDP per capita (current LCU) in Kenya in 2017 was KSh 164,923 (Source: World Bank)

\(^{50}\) Sluchinsky (2015)

\(^{51}\) Admin costs in OECD countries and mature schemes are close to 1-3 percent of contribution revenues. For newer schemes that have significant up-front costs, experts have argued that admin costs should still be within 2-10 percent of contribution revenue (Schwarz, Guidelines for Reforming African Pension Systems 2018)

\(^{52}\) The benchmark for admin costs as percent of assets is around 1%.

\(^{53}\) Raichuria, 2008

\(^{54}\) The difference between the categories is the initiator of the scheme. An Individual pension plan is usually set up by an individual to make contributions on his/her own behalf towards saving for retirement, while an occupational scheme is set up by an employer who makes contributions on behalf of their employees for the provision of retirement benefits. Umbrella occupational schemes allow multiple, unrelated employers to participate in a single pension scheme. They are popular among all types of organizations, including medium to large organizations due to their cost-effective and “hands free” nature
Table C-3: Statistics on NSSF and other private sector schemes

<table>
<thead>
<tr>
<th>Statistics as of 2018</th>
<th>NSSF</th>
<th>Private sector retirement schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals covered</td>
<td>2.6 million</td>
<td>822,100</td>
</tr>
<tr>
<td>Fund corpus</td>
<td>KSh 221 billion (2.4 percent of GDP)</td>
<td>KSh 1.2 trillion (7 percent of GDP)</td>
</tr>
<tr>
<td>Contributions collected in 2018</td>
<td>KSh 14 billion</td>
<td>KSh 84 billion</td>
</tr>
<tr>
<td>Avg annual contribution</td>
<td>KSh 5,844 (0.9 percent of avg wage)</td>
<td>KSh 102,177 (15 percent of avg wage)</td>
</tr>
<tr>
<td>Return on assets in 2017</td>
<td>7 percent (nominal) or 2 percent real</td>
<td>10 percent (nominal) or 5 percent real</td>
</tr>
<tr>
<td>Admin costs (as % of contributions)</td>
<td>51 percent</td>
<td>20 percent</td>
</tr>
<tr>
<td>Admin costs (as % of assets)</td>
<td>3.5 percent</td>
<td>1.7 percent</td>
</tr>
</tbody>
</table>

Source: (RBA, 2017), NSSF annual report

59. The National Social Security Act (No. 45 of 2013) aims to correct for the shortcomings in the design of the scheme in NSSF but its implementation is being delayed due to legal disputes. The objectives of the 2013 Act are to replace the provident fund with flat contributions with a pension scheme and mandate a 12 percent contribution rate (6 percent employee + 6 percent employer) for all salaried workers. The contributions would be split into two Tiers with Tier I contributions to go towards providing minimum pension while Tier II contributions would be used to provide income replacement. 59 Members would be allowed to contract their Tier II contributions to occupational schemes approved by RBA. An increase in contribution rate from the current 0.8 percent on average to 12 percent under the new Act will significantly improve the benefit at the time of retirement. It would also increase the fund corpus of NSSF overnight so NSSF should take concrete steps to reduce its administrative costs and provide stable and competitive returns to win the trust of its members.

60. The RBA should enforce stricter regulation on administrative costs incurred by NSSF and occupational schemes. RBA was established in 1997 as the regulator of the retirement benefits sector in Kenya. Since its establishment it has played a vital role in issuing investment guidelines and compiling data on coverage, benefit payment, admin costs, investment returns etc. of retirement benefit schemes around the country. The administrative costs for occupational and NSSF schemes continue to be high, 20 percent and 51 percent of contributions respectively. 56 As a regulator, RBA could put in guidelines around admin costs and classification of these costs under appropriate heads. This will become increasingly important going forward as RBA will also regulate informal sector schemes where contributions will be low and high admin costs would leave members with very poor returns.

61. Strategies like auto-enrolment could be used to support occupational pension coverage, pending decision on NSSF reform. If the current low contribution rates to NSSF continue, private sector workers will receive very low lump-sums on retirement. The proposed law would correct for this. However, if the law is declared null and void by the court, efforts should be made to improve adequacy of the private sector workers. This could be done by using nudges like auto-enrollment of private sector workers in occupational, or umbrella schemes approved by RBA. The existing occupational schemes have grown in number and assets over time. They have also shown to have higher average contributions by employees and old age benefits for retirees. Therefore, coverage increase under occupational schemes could be considered an alternate way of improving adequacy for private sector workers if NSSF reforms fall through.

59 Tier I contributions will include pensionable earnings up to the average statutory minimum monthly wage, defined as Lower Earnings Limit (LEL) in the NSSF Act. Tier II contributions will include pensionable earnings between the Lower Earnings Limit (LEL) and upper Earnings Limit (UEL).

56 RBA, 2017
62. **The impasse over the reform of Civil Service pension and NSSF should be resolved.** The transition of CS pension scheme from an unfunded DB to a DC scheme, and reform of NSSF from a provident fund to pension scheme, are in gridlock. There are reports of contributions being collected from existing CS for the DC scheme but there is little clarity on how these funds are being administered, what revenue sources are used for the 15 percent contributions by government, and what rules will be in place to preserve rights of existing CS. Furthermore, it is unclear whether existing CS will be mandated to contribute an additional 6 percent into Tier I of NSSF. The NSSF reform which would require a switch from provident fund to pension scheme and mandate a 12 percent contribution rate, is being challenged in courts. The reform processes, if carried out in haste and without consideration of fallout from imposing high contribution rates would give rise to intra-generational inequities and distortions. However, if these reforms proceed in a well-thought fashion the pension liability for CS will reduce in the future and private sector workers would receive higher benefits than they do currently from NSSF.

3. **Old age security for the Informal Sector**

63. **The informal sector in Kenya is large and informality has been growing.** About 83 percent of employed workers work in the informal sector and the share of employment in the informal sector has risen steadily in the last decade. The informal sector is characterized by small scale activities, easy entry and exit due to fewer regulations, less capital investment, limited job security, and self-employment. This means that the traditional social insurance offered through formal employment is not a reality for most Kenyans.

64. **Workers in the informal sector exhibit different characteristics than that of the formal sector and hence need schemes that are designed to fit their needs.** The characteristics of the informal sector and their ability to save are not homogeneous. While some have regular and sizable incomes and might be able to defer consumption to some extent, others do not. Their needs for financial services also vary and depending on socio demographic conditions they are more susceptible to short term shocks which are covered in various ways, including community solidarity. They are also geographically dispersed which makes providing access to services a challenge in some cases.

65. **A handful of schemes designed to provide old-age income security to informal sector workers currently exist in Kenya, but they are struggling with low uptake, high administrative costs and high rate of withdrawals.** The two prominent schemes for informal sector workers are NSSF, and the MBAO pension plan (Table C-4). NSSF started accepting voluntary contributions from self-employed and informal sector, from 2013. Individuals were required to register in an NSSF office under this plan. Starting in 2019 NSSF will allow contributions through mobile money, platform M-Pesa, with the aim to reach a larger section of the uncovered informal sector workers. MBAO was launched in 2009 in collaboration with M-Pesa and the Jua Kali Association. Both schemes are regulated by RBA. While they have had varied successes the two schemes face common challenges.

---

57 Kenya Economic Survey, 2018
58 Guven, Extending Pension Coverage to Informal Sector 2019
59 M-shawri is a rapidly expanding, combined savings and loan product offered to Kenyans. It requires money to be deposited and withdrawn using M-Pesa wallet thereby making it easy for informal sectors to participate as well. It had close to 4.7 million accounts as of 2014 (CGAP, 2014) but since it is designed for short term savings most of its users won’t have enough savings left for old age. M-shawri might however be crowding out savings for old age into Mbao and NSSF. Research would be required to understand the synergies across these schemes and tradeoffs in short-term and long-term savings for informal sector workers.
60 Jua Kali is a term used for ‘informal sector’ in Kenya. Jua Kali Association is the largest association of informal sector workers in Kenya with close to 12 million members.
### Table C-4: Statistics on informal sector schemes

<table>
<thead>
<tr>
<th></th>
<th>NSSF</th>
<th>MBAO Pension Plan[^61]</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Started in</strong></td>
<td>2013</td>
<td>2009</td>
</tr>
<tr>
<td><strong>Purpose</strong></td>
<td>Social security for self-employed &amp; informal</td>
<td>Savings for the informal sector</td>
</tr>
<tr>
<td><strong>Coverage till date</strong></td>
<td>300,000 accounts</td>
<td>150,000 accounts</td>
</tr>
<tr>
<td><strong>Fund value/deposits</strong></td>
<td>USD 4,546,478</td>
<td>USD 1,342,000</td>
</tr>
<tr>
<td><strong>Contribution/savings needed</strong></td>
<td>Minimum 4800 in a year</td>
<td>Minimum savings is KShs 20 per day, KShs 500 per month and KShs 6,000 per year, no penalty.</td>
</tr>
<tr>
<td><strong>Payment mode</strong></td>
<td>Contributions were to be paid in local NSSF office until now, Contributions via M-Pesa going forward.</td>
<td>Mobile money system M-Pesa (Safaricom) or Airtel Money (Airtel)</td>
</tr>
<tr>
<td><strong>Rules on access to funds</strong></td>
<td>Up to 50 percent withdrawal allowed after 3 years</td>
<td>Withdrawal allowed after 3yrs, 5yrs, 10yrs, 20yrs depending on member’s age at entry</td>
</tr>
<tr>
<td><strong>Transaction costs to user</strong></td>
<td>Nil under the old scheme, Costs undisclosed for the mobile money platform</td>
<td>Varies between KSh 3 – 15</td>
</tr>
<tr>
<td><strong>Admin (recordkeeping and registration)</strong></td>
<td>USSD platform</td>
<td>Eagle Africa Insurance Brokers</td>
</tr>
<tr>
<td><strong>Custodian of funds</strong></td>
<td>NSSF</td>
<td>Kenya Commercial Bank limited</td>
</tr>
<tr>
<td><strong>Fund Manager</strong></td>
<td>NSSF</td>
<td>Co-op Trust Investment Services</td>
</tr>
<tr>
<td><strong>Other benefits</strong></td>
<td>Savings can be used to access loans of partial amounts (50 percent of the saved amount) or 25 percent of the total investment</td>
<td>Can guarantee mortgage up to 60 percent</td>
</tr>
</tbody>
</table>

Source: Author’s compilation

#### 66. Low uptake

According to the Kenya Economic Survey 2018, there are approximately 14 million workers in the informal sector in Kenya. However, schemes like NSSF and MBAO which focus on savings for old age have had modest success. Despite MBAO’s partnership with Jua Kali which boasts of 12 million members from the informal sector, MBAO only has slightly over 100,000 members. Part of the reason for the low coverage is likely the higher poverty rates among informal sector workers which means that saving for retirement is not a priority for several of these workers. Saving for old age in Kenya has also been decreasing among the overall population in Kenya. According to the FINDEX data, only 15 percent of the population at age 15 and above saved for old age in 2017, three percentage points lower than in 2014 (World Bank, 2017). This means only about 1 out of 10 individuals at age 15 and above saved for old age. Percentage of the male population that saved for old age was slightly more than that of women in both 2014 and 2017. While a higher proportion of the richest 60 percent of the population save for old age relative to the poorest 40 percent of the population in both 2014 and 2017, the fall in the percentage who save has been higher for the richest 60 percent (Table C-5).

Table C-5: Saving rates for Old Age in Kenya

<table>
<thead>
<tr>
<th>Percent Who Save for Old Age</th>
<th>2014</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>All 15+</td>
<td>17.9</td>
<td>14.7</td>
</tr>
<tr>
<td>Male 15+</td>
<td>18.9</td>
<td>18.6</td>
</tr>
<tr>
<td>Female 15+</td>
<td>17.1</td>
<td>11.2</td>
</tr>
<tr>
<td>Poorest 40 percent 15+</td>
<td>9.2</td>
<td>8.12</td>
</tr>
<tr>
<td>Richest 60 percent 15+</td>
<td>23.7</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: World Bank Findex Database

67. Despite the low and falling savings rate, there could be a small proportion of informal sector workers who have the ability to save. If they are offered products that fit their needs it could be possible to increase coverage of voluntary savings among this group. Analysis using a cross-sectional household survey in Kenya has shown that 24 percent of Kenyans households are in the informal sector, but above the poverty line and do not report facing severe economic shocks. In “Analysis of ability of informal sector to save for old age” (later in this report) we provide details on the characteristics of these workers which make them more likely to be able to save. We also provide insights into the geographical areas and professions where these workers are more likely to be found.

68. **High administrative costs and scalability Issues** - Each of the schemes incur separate administrative costs for recordkeeping and registration (Table C-4). The scheme members have to pay high transaction costs for accessing account details and for transferring money through the mobile platform. The current administrative platform for the MBAO scheme has not provided the services to MBAO members needed to build a reputable pension scheme that could scale in a cost-effective way. Another challenge has been around the varying quality of communication to members. Some members have demonstrated a lack of confidence in the scheme due to confusion caused by registration clerks. Members often end up duplicating efforts when they are required to sign up on their mobile phones and fill in a hard copy registration form that is forwarded to the administrative body, Eagle Africa. In order to make it easy for the informal sector workers to participate in the scheme, bottlenecks in registration would need to be addressed and continuous as well as consistent messaging across all counties would need to be ensured.

69. **It could be possible to scale up these schemes cost-effectively if a new specialized administrative platform could be put in place that can better manage the small and varying contributions of informal sector workers and provide services and make information more readily to its members.** This new type of an administrator would provide a high degree of technology-oriented services to encourage people’s enrollment to the scheme, manage contributions, efficiently transfer contributions to fund managers, provide ongoing communication channels to pension scheme members and establish the infrastructure to which products and services can build onto. Pension schemes (like NSSF/MBAO/others.) would then be allowed to use the administration platform and offer their own scheme tailored to their target population. This approach would take advantage of economies of scale and therefore provide low cost services to informal sector groups. Schemes could then focus their efforts on building and marketing products that meet the varying needs of the informal sector. The government and other stakeholders should also provide support by outreach.

---

62 World Bank, 2017
programs including market communication material and financial literacy programs on a more permanent basis.

70. **High rate of withdrawals** - The existing schemes allow a high percentage of withdrawals after an individual has only contributed for three years (Table C-4). This flexibility was provided to attract informal sector members who tend to have variable incomes and need to access savings for short term shocks. The fallout though has been that fund reserves for these schemes have been growing at a slow rate due to the high and frequent withdrawals.\(^63\)

71. **The flexibility provided in the design of these schemes is a crucial incentive to encourage take-up.** However, if individuals are allowed to withdraw without any penalty then the schemes would serve more like a short-term savings vehicle than a pension scheme. There is a need to introduce design elements which make the scheme attractive without compromising on the goal of providing income security in old age. New products and services (e.g. insurance products) could be bundled to the schemes to increase the appetite of individuals to save for long term. A system with multiple accounts with varying degrees of liquidity could be offered. Although not the optimal design for adequate pension savings, such products can prove attractive to individuals with varying income needs and thus encourage participation in voluntary schemes.\(^64\)

72. **The creation of a centralized administrative platform for informal sector pensions that can better manage small and frequent contributions, provide services and make information more readily available to members.** High transaction and administrative costs are barriers to scalability for the informal sector schemes, as is the case for MBAO.\(^65\) Despite the use of mobile phone technology which makes it easier to deposit and withdraw funds, the costs of making those transactions, and more importantly the registration and record-keeping costs incurred by schemes, remain high. Services like checking account balances, transferring balances, updating information etc. are often expensive or not available online. A centralized platform which all regulated informal sector schemes would have access to would retain competition among schemes while encouraging enrollment and providing quick and affordable communication to members.

73. **There needs to be an emphasis on design to increase coverage and reduce withdrawals after a few years of contributions.** Experience has also shown that despite collaboration of informal sector schemes with the Jua Kali Association, coverage has stayed low. In addition to low coverage, high rates of withdrawals after only a few years of contributions have led to falling fund reserves of these schemes and depletion of savings for members. While it is true that allowing for some degree of flexibility is necessary to meet the needs of the informal sector workers, some tweaks in design need to be considered if the goal of adequate income in old age is to be achieved. New products and services (e.g. insurance products) could be bundled to the schemes to increase the appetite of individuals to save for long term. A system with multiple accounts with varying degrees of liquidity could be offered and some rules around withdrawals should be considered.

---

\(^63\) Kabare, 2018

\(^64\) Contributions in such a scheme are split into a short-term saving account and a long-term retirement pot. The saving account has a cap on it and when contributions reach the cap, excess contributions are rolled over to the retirement pot. Individuals can only access savings in the short-term account. [http://documents.worldbank.org/curated/en/757001551715193169/pdf/135031-WP-REVISED-PUBLIC-Early-Access-to-Pension.pdf](http://documents.worldbank.org/curated/en/757001551715193169/pdf/135031-WP-REVISED-PUBLIC-Early-Access-to-Pension.pdf)

\(^65\) World Bank, 2017
The informal sector in Kenya, popularly known as the “Jua kali sector”, generates 74 percent of all new jobs annually and contributes 18 percent to Kenya’s GDP. The sector plays an important role in improving livelihoods in low income communities. Digital financial products have been increasingly targeted at the informal sector by mobile banking providers. The informal sector is amongst some of the highest users of financial services by mobile money providers.

The partnership between Safaricom’s, M-PESA (mobile money) and financial institutions has created a number of innovative products that seek to deepen financial inclusion, provide micro loans and afford savings to the informal sector and the poor. These include M-Shwari, Equity M-Kesho, Kenya Commercial Bank (KCB) MPESA and Co-op Bank MPESA. These products are seen as key catalysts to encourage a savings culture within the informal sector, who have little uptake on pension and savings products. In addition, these products afford access to credit and flexible terms of engagement. M-Shwari has been successful in providing the informal sector with micro loans and developing a savings culture.

What is M-Shwari? M-Shwari (meaning ‘calm’ in Kiswahili), launched on 27 September 2012, is a combined savings and loans product through a collaboration between the Commercial Bank of Africa (CBA) and Safaricom. It allows individuals to securely store money for a specific purpose or for shocks and have access to micro loans. The M-Shwari account is issued by CBA but must be linked to an M-Pesa mobile money account provided by Safaricom. The only way to deposit or withdraw from M-Shwari is via the M-Pesa wallet. M-Shwari offers a savings account (interest rates range between 2 and 5 percent depending of the balance), a “lock box” savings account, and the opportunity to get short term uncollateralized loans. M-Shwari assigns customers a credit limit upon signing up that can be increased by taking and repaying loans on time. The credit limit, which can vary between KSh 100 and KSh 10,000, is based on an underlying credit score (unknown to the user) that is calculated using each individual’s previous M-PESA transaction and phone bill payments. Each loan must be repaid within 30 days and carries a 7.5 percent monthly interest rate.

M-Shwari reached scale very quickly - As of December 2017, M-Shwari had registered 25 million people (this includes many inactive accounts) in Kenya and since inception, more than KSh 230 billion has been disbursed in loans, at an average of KSh 3,300 per customer. Savings by customers currently stand at more than KSh 12.6 billion. M-Shwari has provided a banking service that is convenient, accessible and secure, and is a very relevant substitute to the informal savings and credit alternatives that were used across the country. To put this in perspective, 700,000 people had a personal bank loan and 310,000 had a microfinance loan in Kenya before the launch of the product.

M-Shwari has now been rolled out to 4 other African markets, embraced by over 39 million customers, 66 percent of these in Kenya (Tanzania - 8M M-Pawa customers, Uganda - 4M MoKash customers, Rwanda - 1M MoKash customers and Cote d’Ivoire - 1M MoMoKash customers).

M-Shwari represents the next frontier of digital financial services as it demonstrates that mobile money infrastructure can be leveraged to offer higher value financial products at scale. Although many other products have leveraged the Bill Pay functionality (ability to pay bills through the platform) such as M-Kesho, a savings bank account jointly launched by Safaricom and Equity Bank, none have yet achieved the same scale as M-Shwari. The KCB-M-PESA account launched in March 2015 as a joint initiative of KCB and Safaricom is the newest entrant offering similar services. KCB-M-PESA has had a similar trajectory to M-Shwari with 12 million registered customers (6 million active), KSh 120 billion loans...
cumulatively since 2015 and savings by customers of KSh 2.2 billion. The loan default rate of 1.5 percent over 90 days is low for people who are considered poor and have a volatile income.

M-Shwari is tailored to the financial needs of informal households - Within the first year of its launch, M-Shwari had registered 5 million users and the product recouped back its investment in a record 17 months for both the initial investment and recurrent costs. A reason for this success is that CBA partnered with FSD Kenya to establish a viable business case and develop a product with features that responded to poor consumers’ needs.

The understanding of the financial lives of poor informal households has improved over recent decades thanks to the collection of financial diaries. Contrary to prior beliefs, most poor households do not live hand-to-mouth, but instead engage in many saving and borrowing transactions from multiple informal providers. Saving and borrowing allow them to aggregate multiple, small and irregular sources of income into big lumpsums of money they need sporadically (e.g. wedding, health shock).

Against this backdrop, M-Shwari provides valuable services to informal sector workers, in particular:

- The ability to open and operate a bank account through mobile phone via M-PESA, without having to visit banks or fill out any forms.
- The ability to deposit and withdraw money at no charge, while giving one the opportunity to save as little as KSh 1 and earn an interest of up to 6.65 percent on a saving balance.
- The ability to lock savings for up to 12 months, with an addition 1 percent interest.
- And crucially, access to micro credit loans of a minimum of 1 USD at any time instantly in the M-PESA facility.

As soon as they have opened an M-Shwari account, customers with a sufficient initial credit score can apply for a loan – even with no previous banking history. Customers can instantly check their loan limit and, if approved, receive a loan in a matter of seconds. M-Shwari has also now introduced segmented pricing for customers who have exhibited good savings and loan repayment behavior. They will enjoy improved pricing and a rebate introduced for customers who are able to repay within 10 days.

Conditional on eligibility, M-Shwari increased the fraction of individuals with a loan by 24 percent, without displacing other forms of credit. 54 percent of M-Shwari accounts were held by customers without any other bank account, an important development for financial inclusion in Kenya.

M-Shwari loans are typically spent on emergencies, especially health events. Household are thus significantly less likely to forego expenditures, in particular on education, when faced with negative economic shocks.

The poverty profile of users of M-Shwari appears to be following a similar trajectory to that of M-PESA: early adopters are significantly more likely to be urban, above the poverty line and already banked. According to one key informant “M-Shwari is not exclusive of the poor. Rather, it has been taken up more quickly by the less poor”. In 2013, only 19 percent of M-Shwari users were below the national poverty line; increasing to 30 percent by the end of 2014. It can be expected that the proportion of poorer users will grow over time, as usage amongst higher income groups approaches saturation.

Conclusion - The innovation and success of digital financial services access to the poor and the informal workers has had a relatively positive impact on the lives of Kenyans. M-Shwari has had positive effects, particularly on the resilience of household against economic shocks, however, it does not radically transform the economic lives of customers. There are insignificant impacts on a host of other outcomes such as savings and asset ownership, suggesting that at least for the affected population around the
credit cut-off, access to digital credit is not necessarily transformative. However, given the size of these loans, this is to be expected.”

Nevertheless, policy makers have an opportunity to provide an enabling environment for the private and public sectors to enhance the existing financial products or innovate new products. This can enhance a savings culture and produce a viable social insurance product that could transform millions of Kenyans’ lives and significantly reduce old age poverty in Kenya.

4. Analysis of ability of informal sector to save for old age

74. The informal sector in Kenya is largely heterogenous with some who have regular and sizable incomes and hence the capacity to smooth consumption while others do not. We use cross-sectional survey data to identify informal sector households for whom the short-term costs of deferring consumption to save for old age would be relatively small. The characteristics and location of these households are then studied and compared vis-a-vis formal sector households. These informal, non-poor, non-vulnerable households would be more likely to participate in a voluntary scheme due to their ability to smooth consumption and enabling conditions (level of financial and digital inclusion, education etc.) similar to the formal sector.

75. The analysis classifies households into four groups (Figure C-9). At one end of the spectrum are households that are in the formal sector (15 percent of all households) and covered by mandatory formal sector pension schemes like PSSS, NSSF or occupational schemes. At the other end are the ‘poor’ households (26 percent) who are below the poverty line. For these households setting money aside for old age would imply deprivations in the short term and outweigh the benefits of receiving income in old age. The remaining informal and non-poor households are classified as vulnerable or non-vulnerable based on their exposure to fluctuations in income or expenses. Households with fluctuations in income or expenditure often need easy access to savings and maybe reluctant to set aside money in a long-term saving instrument. We identify vulnerable households as those who were exposed to economic shocks in the last five years that led to a detrimental effect on their welfare e.g. change in diet, migration, sale of assets (Annex X-1 for methodology). This classification yields that of the total households in Kenya, 24 percent of the households fall in the non-poor, non-vulnerable informal category (Figure C-9).

---

66 Analysis was carried out using the 2015/16 KIHBS household survey
67 A household is classified as formal if either the head or their spouse is employed with a written contract in a job that provides pension benefits, medical benefits, or paid leave.
68 Economic shocks also impact formal sector households but the probability of being vulnerable is significantly lower (46 percent) for formal households. Poor households have the highest probability (80 percent) of being vulnerable to economic shocks (Annex, Figure X-1).
69 Guven & Brodersohn, 2018
76. **Characteristics of non-poor informal non-vulnerable sector households (INV households)** The characteristics of INV households are examined and compared to those of formal households. The biggest difference is that non-vulnerable, informal households have heads with low schooling attainment compared to formal households. While 63 percent of formal household heads have at least some secondary education, it is only 42 percent in INV households. The latter are more likely to be rural (58 percent vs 33 percent). The consumption level of INV households largely overlaps that of formal households. When comparing INV households with formal ones, across metrics of digital financial inclusion, the results yield a mixed bag. INV households are comparable to formal households in terms of ownership of mobile phone and mobile money usage but lag in terms of internet use and mobile banking subscription.

77. **Geographic location with high proportion of INV households** - we investigate whether some geographic areas in Kenya are more likely to have larger proportions of INV households. The findings from this analysis could help target efforts when piloting new pension schemes or implementing them sequentially across counties. Over half of households in Kiambu are INV households compared to 3
percent in Nyamira (Figure C-11). Urban areas have a higher proportion (27 percent of all households) of INV households relative to rural areas (22 percent).

*Figure C-11: Proportion of INV households by counties*

78. **Industries with high proportion of INV households** - we look at the proportion of INV households across specific industries (Figure C-12). The highest proportion of INV households (27 percent) can be found in the service industry, for example health and social services, followed closely by the construction industry (26 percent). It should be noted that while agriculture is a close third (21 percent) among the industries with high proportion of INV households, the size of the sector implies that households in absolute number in agriculture are very high. This is reflected in Annex X, Figure X-6, which ranks industries based on the absolute number of INV households surveyed.

*Figure C-12: Comparison of household type across sectors of employment*

79. In summary, we identify, using the KIHBS 201/16S survey, that 24 percent of Kenyans households are in the informal sector, but above poverty line and do not report facing severe economic shocks. They are comparable to households in the formal sector with regard to consumption levels, ownership
of mobile phones and mobile money usage. These households are much more prevalent in some regions (e.g. Kiambu, Kirinyaga, Nyandarua, Meru) than others (e.g. Marsabit, Nyamira), and tend to work in service and construction industries. Urban services employ larger proportions of these households and may be a natural place to focus enrollment efforts in old age savings scheme. However, subsistence agriculture and connected occupations still contain the largest pool of potential participants in absolute numbers.

5. Social Pension and Its Interaction with Existing Schemes

80. Poverty among the elderly (those 65 and over) is 39 percent in Kenya. Unless savings rates improve, it could be the case that there is always some proportion of the elderly who would have little to no income in old age. Social pensions are offered by many countries in sub-Saharan Africa (e.g. Kenya, Mauritius, Seychelles, Lesotho, Botswana, Cabo Verde (means-tested), Swaziland, South Africa (means tested but coverage is more than 80 percent)) to provide income support to the elderly. They could however generate disincentive effects to save for retirement if the pensions are less targeted, more generous, and existing voluntary schemes have poor coverage.70

81. The OPCT program launched in the 2000s was originally a targeted benefit aimed at individuals above age 65 but this has been discontinued recently. The benefit amount of KSh 2,000 each month was paid to elderly above age 65, who are poor and vulnerable, not in gainful employment, not receiving any pension or regular income and not enrolled in any other cash transfer program. Around 68,000 people aged 65-69 years will continue to receive benefits through the original targeted OPCT program, but this number will fall year on year.71 The program was discontinued after the Government decided to make the cash transfer a universal benefit for everyone aged 70 years and above.

82. In March 2017 the Ministry of Finance introduced the Senior Citizens’ Inua Jamii scheme for everyone aged 70 years and above. It is not a means-tested scheme and provides benefits of KSh 2,000 per month to all individuals above age 70. As of 2018 approximately 824,000 persons were eligible to receive benefits under this scheme.72 If all eligible individuals receive the benefit the total cost to the government would amount to 0.23 percent of GDP. However, the benefit of KSh 2,000 per month would only provide subsistence income to the elderly.73 The distributional impacts of introducing the Senior Citizens Inua Jamii scheme is discussed in the social assistance chapter of this report.

83. The financing of the social pension is proving to be difficult for the government and the cost will rise rapidly starting from 2040 as the share of elderly increases. The social pension benefits if paid to all eligible elderly would cost 0.23 percent of GDP in 2018. If the benefit amount were to increase in line with inflation the cost would go up to 0.32 percent of GDP by 2060, rising rapidly as share of elderly increases in the population (Figure C-13). The benefit amount is currently provided at the poverty level and is inflation indexed which is why current and projected costs are low. However, experience in the region shows that social pensions, while effective at increasing coverage, can be very costly over time as substantial increases in benefit level tend to be announced before elections.74

70 Gonzales et. al, Dorantes et.al
71 UNICEF 2017 report
72 UN population projections (2017 Revision). Note that only some 566,000 persons we receiving transfers in 2018.
73 The international poverty line in Kenya is at KSh 67.3 per day or KSh 2,019 per month.
74 Guven, 2019, Extending Pension Coverage to Informal Sector. In Mauritius basic retirement pension was increased by almost 40 percent in advance of elections. The government of Seychelles increased the universal pension benefit to the level of the minimum wage in 2017 a month before elections.
84. An increase in the generosity of social pensions could affect participation in voluntary contributory schemes by informal sector workers. Currently, the social pension is just enough to prevent the elderly from falling into poverty. If the generosity of social pension is increased, it could affect participation in voluntary contributory schemes. Individuals could be inclined to rely on the social pension by the government to take care of them in old age and hence save less during their working life. The need for social pension and amount of benefit should therefore be assessed based on initial conditions, labor mobility between formal and informal jobs and financial capacity of the government of Kenya.

85. Analytical tools can be used to identify characteristics and geographic location of those in the informal sector who have the capacity to save for old age. The heterogeneity of the informal sector means that while some workers face significant barriers to save for old age, others have a higher propensity to overcome them. A cross-sectional analysis using KIHBS 2015/16 survey reveals that 24 percent of Kenyans households are in the informal sector, but above poverty line and do not report facing severe economic shocks. They are found to be comparable to formal households with regards to parameters of consumption, ownership of mobile phones and mobile money usage. These households are much more prevalent in some regions (e.g. Kiambu, Kirinyaga, Nyandarua, Meru) than others (e.g. Marsabit, Nyamira), and tend to work in service and construction industries. Additional analyses using panel data and focus group discussions could provide a better understanding of saving patterns, risk coping strategies, intrinsic value these households place on old age savings. This in turn would help schemes design custom old-age savings products for the informal sector work force of Kenya.
D. JOB PROGRAMS

1. Labor Market Context

86. The overall employment rate increased in Kenya between 2005 and 2015 (Figure D-1). About 60 percent of the working age population in Kenya was employed in 2005, and this has increased significantly, to 76 percent, in 2015. The increase has been shared by all groups, with the employment rate increasing for all workers, young and old, male and female. The largest increases in employment has been for young adults and for women. Despite these gains, 14 percent of women remain inactive (Figure D-1), and inactivity is also higher among those who live in urban areas compared to rural and among those with no education.

87. Despite the impressive increase in the employment rate, Kenya is not producing sufficient jobs to keep pace with demographic change. Kenya's population is young and rural and rapidly growing. About 50 percent of Kenya's population is under 18 years of age and more than three-quarters are under 35 years old (Figure D-3). More than 70 percent of the population lives in rural areas. Between 2015 and 2025, 9 million individuals are expected to enter the labor force. To absorb this so-called "youth bulge", Kenya needs to create on average 900,000 jobs every year. However, job creation has failed to keep pace with new entrants and has in recent years not added sufficient employment opportunities for the new workforce (Figure D-4). This will contribute to a growing job deficit in the labor market in the future. Moreover, urban jobs are needed due to added pressure on urban labor markets from increasing urbanization.

---

75 World Bank, "Kenya. Jobs for Youth."
88. In addition to creating more jobs, Kenya will also need to improve the quality of jobs created. Good quality jobs that generate a high rate of return to labor are needed to improve living standards for the vast majority of citizens. In Kenya, only 6 percent of total employment is in the formal non-agricultural sector. Almost half of total employment, 49 percent, is informal non-agricultural employment, with the remaining 45 percent employed in agriculture. Agriculture is a low-productivity sector with high rates of underemployment (Figure D-5). For example, over 12 percent of men and 17 percent of women who work in agriculture are underemployed.

89. Finally, it will be important for Kenya to target groups at-risk of unemployment, underemployment or working in low-productivity jobs to support their move to more productive employment. Young adults face difficulties while entering the labor market leading to inactivity, unemployment and hidden unemployment (Table D-1). Furthermore, they are often affected by underemployment. Women are similarly affected and work more often in low-productivity jobs such as agriculture. Rural individuals experience long-term unemployment and through their work in agriculture, underemployment. Urban dwellers however, have more difficulties accessing jobs and are more often unemployed and hidden unemployed. Uneducated individuals face the same difficulties in the labor market as women, with the addition of long-term unemployment.
Table D-1: At-risk Groups in the Labor Market

<table>
<thead>
<tr>
<th>Group</th>
<th>Inactivity in Labor Market</th>
<th>Unemployment</th>
<th>Long-term Unemployment</th>
<th>Hidden Unemployment</th>
<th>Under-employment</th>
<th>Reliance on Agriculture Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Young adults</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Women</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Rural</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Urban</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Uneducated</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>

Source: Authors’ illustration

Box D-1: Labor Force Situation for Youth

Individuals in the 18-25 age group are more often unemployed, hidden unemployed and underemployed compared to younger and older cohorts. After finishing education, young individuals face difficulties entering the labor market. The 18-25 age group displays an unemployment rate of seven percent – more than triple of what individuals aged between 26-35 experience (Figure D-6). Furthermore, the two younger age groups display high rates of hidden unemployment and underemployment. Additionally, unemployed individuals in the 18-25 age group have often obtained a KCSE certificate and are better educated than their employed counterparts (Figure D-7). All these facts suggest that young adults aged 18-25 face significant difficulties entering the labor market after completing education.

Figure D-6: Hidden Unemployment and Underemployment in Youth

Figure D-7: Educational Differences in Employed and Unemployed Youth

Source: Authors’ calculations based on KIHBS 2015/16

Fewer women transition from school to work than men. The school-to-work transition takes place after finishing education. In Kenya, this transition is predominately completed by the age of 28, when only four percent of individuals are still in education (Figure D-8). However, at this age, over 10 percent of individuals are not in employment, education or training.
90. **Compared to its regional counterparts, Kenya’s youth unemployment rate is high.** Kenya’s youth unemployment rate for the 15-24 age group is 7.71 percent (Figure D-9).\(^7^6\) Compared to other countries in East Africa this rate of youth unemployment is high, however, Kenya’s youth unemployment is low compared to other African lower-middle income countries.

91. **Jobs Programs as possible solutions**

    91. The Government of Kenya currently implements job programs to tackle the challenges on the supply and demand side of the labor market. Kenya’s vision 2030 and the Big Four agenda include goals to create 6.5 million new jobs and increase the ratio of formal employment from 13 percent in 2017 to 40 percent in 2022.\(^7^7\) The Government of Kenya has introduced many job programs which address the challenges on the supply side and the demand side of the labor market.

    92. **Supply side programs contribute to skills through training while demand side programs aim to create more jobs and intermediation programs help matching labor supply and demand.** Job programs can be separated into four categories. Supply side programs address the improvement of skills, while demand side programs aim to promote job creation. Intermediation programs alleviate

---

\(^7^6\) Again, this unemployment rate is calculated with hidden unemployed individuals as part of the labor force, which likely underestimates the unemployment rate.

labor market frictions by connecting employers with job seekers. Finally, comprehensive programs combine two or more of these aspects in one program. In Kenya, all four program types are used to improve labor market outcomes (Figure D-10). Demand side programs focus on the industry and self-employment, while supply side interventions cover technical and entrepreneurship skills as well as digital competencies. Kenya has three programs for intermediation: A labor market information, a job matching as well as a digital internship program and has recently created its first comprehensive program.

**Figure D-10: Overview of Government Programs**

<table>
<thead>
<tr>
<th>Demand side</th>
<th>Supply Side</th>
<th>Intermediation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Sector Program Support</td>
<td>Ajira</td>
<td>National Employment Authority</td>
</tr>
<tr>
<td>County Industrial Support</td>
<td>Kenya Industry and Entrepreneurship Project</td>
<td>Kenya Labour Market Information System</td>
</tr>
<tr>
<td>Export Processing Zone Authority &amp; Special Economic Zones</td>
<td>Kenya Industrial Training Institute</td>
<td>Presidential Digital Talent Programme</td>
</tr>
<tr>
<td>Kenya Industrial Estates</td>
<td>Kenya Institute of Business Training</td>
<td></td>
</tr>
<tr>
<td>Micro and Small Enterprises Authority</td>
<td>National Industrial Training Authority</td>
<td></td>
</tr>
<tr>
<td>Uwezo Fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Women’s Fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Youth Enterprise Fund</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Comprehensive Programs**

Kenya Youth Employment Opportunities Project

**Source:** Authors' classification based on program information

3. **Expenditure on Job Programs**

a. **Total Government Expenditure**

93. **Total government expenditure on job programs has continuously increased since 2015, closing the gap between budget and spending.** The Government of Kenya’s budget on job programs grew from KSh 4.5 billion in 2014 to KSh 4.6 billion in 2017 (Figure D-11). Also, actual spending on job programs increased: Expenditures rose from KSh 2.8 billion in 2014 to KSh 4.1 billion in 2016. This has closed the gap between budget and expenditure.

---

78 The public expenditure review only focuses on out-of-school programs and therefore excludes TVETs which come under education. It also only focuses on national government programs and not county programs. Finally, the National Youth Service is not a strict employment program and therefore has not been included in the public expenditure review.

79 The gap between budget and expenditures in 2014 was triggered by the underspending of KSh 2 billion of the Export Processing Zone Authority.
However, expenditure on job programs remains a small and stagnating share of GDP while donor spending exceeded government expenditure in 2017. Even though expenditure on job programs has increased in recent years, it is still a very small share of GDP and overall government expenditure. Only 0.1 percent of GDP, overall KSh 4.2 billion, was dedicated to job programs in 2016 (Figure D-12). Despite increased contributions to job programs, spending as a share of total government expenditure has stagnated since 2015, whilst donor spending exceeded government contributions to job programs in 2017 (Figure D-13).

Kenya is spending a comparable amount on job programs compared to other countries with similar income. Spending on active labor market programs in countries with similar income as Kenya range from 0.01 percent to 1.2 percent of GDP (Figure D-14). Brazil is spending most on active labor market programs but also displays the highest GDP per capita. In 2014, Ghana spent the same proportion of GDP on labor market programs as Kenya in 2016.

---

80 GDP is measured in calendar years, whereas expenditure is reported in fiscal years. The GDP is converted to reflect fiscal years.
81 In 2009 prices.
82 The Kenya Youth Employment Opportunities Project is classified as a government program.
83 The total budget for donor programs is a minimum as programs that were no longer operating in 2018 but were ongoing in 2017 are not included.
84 Comparisons are restricted to countries with data on active labor market programs.
Table: International Comparison of Active Labor Market Programs

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Programs</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>2015</td>
<td>Labor Market Programs</td>
<td>1.2</td>
</tr>
<tr>
<td>Ghana</td>
<td>2014</td>
<td>Active Labor Market Programs</td>
<td>0.1</td>
</tr>
<tr>
<td>Kenya</td>
<td>2016</td>
<td>Labor Market Programs</td>
<td>0.1</td>
</tr>
<tr>
<td>Kyrgyz Rep.</td>
<td>2017</td>
<td>Active Labor Market Programs</td>
<td>0.01</td>
</tr>
<tr>
<td>Mauritius</td>
<td>2017</td>
<td>Programs promoting youth employment</td>
<td>0.2*</td>
</tr>
<tr>
<td>Moldova</td>
<td>2017</td>
<td>Labor market policy services</td>
<td>0.01</td>
</tr>
<tr>
<td>Ukraine</td>
<td>2017</td>
<td>Active Labor Market Programs + Labor Market Policy Services</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on Kenya’s BOOST database and other World Bank Reports

97. The majority of job programs in Kenya target the demand side, followed by the supply side. More than three-quarters of total government contributions to job programs in 2017 were spent on demand side programs. Supply side programs received 13 percent, whilst intermediation programs reached 9 percent of total government spending on job programs. Only one percent of total job program spending is dedicated to the comprehensive program (Figure D-15).85

Source: Authors’ estimates based on Kenya’s BOOST database

98. Government budgets on job programs have stagnated in recent years, limiting the number of beneficiaries. The Government of Kenya’s spending on job programs covers the demand- and supply-side, as well as intermediation. Even though the gap between budget and expenditures for such programs has recently closed, the level of spending remains low and as a share of GDP stagnant. At the same time donors’ expenditures have exceeded government spending in 2017. This low spending has limited the reach of job programs. Increasing the number of beneficiaries needs to be a focus in the future.

85 Programs are classified according to their main activity into demand, supply, intermediation and comprehensive programs.
The gap between the government budget and expenditure for jobs programs has declined between 2015 and 2017. The gap between allocated budgets and expenditure on jobs programs amounted to KSh 1.8 billion in 2015 (Figure D-16). This gap declined in both 2016 and 2017 to a difference of KSh 90 million in 2017. The decline is mainly a result of the increase in job program expenditure, whilst job program budgets have decreased from KSh 4.5 to 4.3 billion.

**Box D-2: The Difference Between Job Program Budget’s and Expenditure**

The difference between total government budget and expenditure in 2015 was largely driven by the EPZA. The majority of jobs programs have small differences between the amount budgeted and expenditure (Figure D-17). However, the EPZA underspent its budgeted amount by KSh 1.3 billion in 2015, which accounts for just under three-quarters of the difference between total government budget and expenditure in 2015.

**Figure D-16: Job Program Budget and Expenditure (2009 Prices)**

![Budget and Expenditure Graph](image)

Source: Authors’ calculations based on Kenya’s BOOST database

**Figure D-17: Budget and Expenditure Per Program (2009 Prices)**

![Budget and Expenditure Per Program Graph](image)

Source: Authors’ calculations based on Kenya’s BOOST database
b. **Expenditure on Specific Programs**

99. Three programs accounted for almost two-thirds of total government expenditure in 2017 on job programs. Total spending was highly concentrated on three job programs in 2017. The Uwezo and the Youth Enterprise Fund received 28 percent, whilst spending for programs of the Export Processing Zone Authority amounted to 19 percent of total government expenditure (Figure D-18). The Women’s Fund, displayed the third largest share of total spending with more than KSh 1 billion (Table D-2).

![Figure D-18: Expenditure 2016/17 by Program](image)

<table>
<thead>
<tr>
<th>Program</th>
<th>2017 Expenditure (KSh Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uwezo &amp; Youth Enterprise Fund (YEF)</td>
<td>1,981</td>
</tr>
<tr>
<td>Export Processing Zone Authority (EPZA)</td>
<td>1,324</td>
</tr>
<tr>
<td>Women’s Fund</td>
<td>1,032</td>
</tr>
<tr>
<td>National Industrial Training Authority (NITA)</td>
<td>564</td>
</tr>
<tr>
<td>Special Economic Zones (SEZ)</td>
<td>495</td>
</tr>
<tr>
<td>Kenya Industrial Estate (KIE)</td>
<td>458</td>
</tr>
<tr>
<td>National Employment Authority (NEA)</td>
<td>388</td>
</tr>
<tr>
<td>Kenya Youth Employment Opportunities (KYEOP)</td>
<td>59</td>
</tr>
<tr>
<td>Other</td>
<td>779</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on Kenya’s BOOST database

100. The Export Processing Zone Authority and the Women's Fund have substantially increased expenditure in real terms since 2014. Between 2014 and 2017 spending for most job programs either stagnated or decreased in real terms. The two exceptions are the Export Processing Zone Authority and the Women's Fund (Figure D-19). Despite a decrease between 2015 and 2016, overall spending for the Export Processing Zone Authority increased by KSh 517 million from 2014 to 2017. Furthermore, expenditure for the Women's Fund increased almost 400 percent between 2014 and 2017. For programs such as the National Industrial Training Authority (NITA) and the Kenya Industrial Estate (KIE) contributions rose, but on a modest scale.

---

86 Since the Uwezo and Youth Enterprise Funds cannot be distinguished in the BOOST database, they are reported together.
Development related spending on job programs has increased whilst recurrent overhead costs have stagnated. Spending on job programs can be separated into development and recurrent expenditures. Development expenditures relate to capital costs and all expenditure funded by loans, whereas recurrent expenditures capture administrative costs. In 2015, recurrent expenditures were higher than development spending (Figure D-20). Development expenditures grew gradually between 2015 and 2017 while recurrent expenditures stagnated around KSh 1.5 billion. As a result, almost two thirds of total spending were dedicated to development spending in 2017.

For most programs, the majority of expenditures are dedicated to development. The increase in development expenditures between 2015 and 2017 is driven by a few programs like the Women’s Fund, whose development spending quintupled in this period (Figure D-21). For other programs, development spending stagnated between 2015-2017 including the Uwezo Fund and Youth Enterprise Fund as well as Kenya Industrial Estates. For the majority of programs, development spending is higher than recurrent spending with the KYEOP and the EPZA exhibiting close to 100 percent of expenditures dedicated to development (Table D-3).
d. **OVERLAP OF PROGRAMS AND FRAGMENTATION ACROSS MINISTRIES**

103. **Job programs are fragmented across ministries.** Job programs in Kenya are administered by several ministries. The Ministry of Public Service, Youth and Gender Affairs is spending 47 percent of overall spending on job programs (Figure D-22). This ministry is responsible for the Uwezo, Youth Enterprise and Women’s Fund. The Ministry of Industry, Trade and Cooperatives is spending 29 percent of overall expenditures and manages several demand side programs, including the Export Processing Zone Authority. The Ministry of Labour and Social Protection oversees 22 percent of overall spending, including capacity building programs like the National Industrial Training Authority. Finally, the State Department for Information Communications and Technology & Innovation manages 2 percent of overall spending for the Ajira and the Presidential Digital Talent Programme.
Programs address similar demand and supply side issues within and across ministries, creating overlaps and opportunities for efficiency gains. In Kenya, several job programs in different ministries work on similar issues. Business development services are for example covered by The County Industrial Support (CIS) and the Micro and Small Enterprise Authority (MSEA) in the Ministry of Industry Trade and Cooperatives and the Kenya Institute of Business Training (KIBT) in the Ministry of Labour and Social Protection (Table D-4). Programs also overlap within ministries: In the Ministry of Labour and Social Protection, several programs cover technical industrial training for school leavers and industrial workers. Efficiency gains can be achieved in terms of impact and cost, if some of the programs are combined and specific objectives, such as job creation, are brought under one ministry.

Table D-4: Overview of Job Programs per Ministry and Possible Overlaps

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of ICT</td>
<td>Ajira</td>
<td>Digital Training</td>
</tr>
<tr>
<td></td>
<td>Presidential Digital Talent Programme</td>
<td>Digital Internships</td>
</tr>
<tr>
<td>Ministry of Industry, Trade and Cooperatives</td>
<td>CIS</td>
<td>Business Development Services</td>
</tr>
<tr>
<td></td>
<td>EPZA</td>
<td>Economic Zones</td>
</tr>
<tr>
<td></td>
<td>MSEA</td>
<td>Business Development Services</td>
</tr>
<tr>
<td></td>
<td>SEZ</td>
<td>Economic Zones</td>
</tr>
<tr>
<td>Ministry of Public Service, Youth and Gender Affairs</td>
<td>KYEOP</td>
<td>Comprehensive</td>
</tr>
<tr>
<td></td>
<td>Uwezo Fund</td>
<td>Credit</td>
</tr>
<tr>
<td></td>
<td>Women’s Fund</td>
<td>Credit</td>
</tr>
<tr>
<td></td>
<td>Youth Enterprise Fund</td>
<td>Credit</td>
</tr>
<tr>
<td>Ministry of Labour and Social Protection</td>
<td>KIBT</td>
<td>Business Training</td>
</tr>
<tr>
<td></td>
<td>KITI</td>
<td>Industrial Training</td>
</tr>
<tr>
<td></td>
<td>NEA</td>
<td>Job Placement</td>
</tr>
<tr>
<td></td>
<td>NITA</td>
<td>Industrial Training</td>
</tr>
<tr>
<td></td>
<td>NLMIS</td>
<td>Labor Market Information</td>
</tr>
</tbody>
</table>

Job programs are fragmented across ministries and overlap in their activities. Job programs are managed by several ministries. Many programs within and across ministries cover similar aspects. Efficiency gains can be attained by redistributing responsibilities for job programs and merging programs into one. Furthermore, strengthening coordination and communication between programs can contribute to achieve common goals more effectively.
4. Coverage of Job Programs

106. Overall coverage of programs cannot be assessed due to gaps in data. The data for job programs differs significantly. For some programs, data on the beneficiary level are available, whilst for others data only exist on a county level. Therefore, an analysis of the overall coverage of programs is not feasible. Instead, details on specific programs and their coverage are discussed and analyzed. On the demand side, the affirmative funds (Uwezo, Youth Enterprise and Women's Fund), the Export Processing Zone Authority and the One Village One Product Initiative are covered as they have sufficient data on beneficiaries. The coverage of the National Industrial Employment Authority is discussed on the supply side and the National Employment Authority is reported as an example of intermediation programs.

a. The Demand Side: Uwezo Fund, Women’s Fund and Youth Enterprise Fund

107. The Uwezo Fund, Women’s Fund and Youth Enterprise Fund provide group loans to promote self-employment and job creation. The three affirmative funds target mostly young adults and women and disburse group loans for starting a business. The programs are accessible to individuals with no or little education and operate also in rural areas. The Ministry for Public Service, Youth and Gender Affairs manages the three funds and is planning to merge them into one fund in the future.

108. The Uwezo Fund targets women, young adults as well as persons with disabilities and includes a three-month capacity building program. The fund was created after the presidential election in 2013 with the remaining KSh 6 billion of presidential campaign funds. The Uwezo fund provides interest free credit to women, young adults and persons with disabilities to create their own businesses. To be eligible, groups need to have 9-15 members, exist six months prior to the loan application and need to consist of at least 70 percent women or 70 percent youth. Before their loan is disbursed, the groups are required to attend a capacity building program that spans over three-months. The training covers information about business development services, table banking and details on access to government procurement. Groups are treated preferentially for government tender processes.

109. Women have the possibility to access financial and business support from the Women’s Fund. The fund was created in 2007 with the aim to empower women to start or expand their businesses and covers all constituencies in Kenya. It supports women-led businesses in developing market linkages with large enterprises to increase their reach. To be eligible for the fund, registered groups need to consist of at least 70 percent women and must attend a three-day training before loans are disbursed. After repaying the first loan, groups have the possibility to access a second loan.

110. The Youth Enterprise Fund addresses high youth unemployment with group loans, market support, infrastructure and international job placements. The third affirmative fund concentrates on young adults and job creation through self-employment. The fund also engages in market support, youth employment abroad and the development of commercial infrastructure such as market spaces. Furthermore, the program introduces goods and services produced by groups to local and international markets. To be eligible, groups need to consist of at least five members of which 70

---

89 The Access to Government Procurement Opportunities Program (AGPO) ensures the access of women, youth and person with disabilities to 30 percent of Government procurement opportunities. Republic of Kenya, “Access to Government Procurement Opportunities.”
91 Sikenyi, “Does Kenya’s Youth Enterprise Development Fund Serve Young People?”
percent need to be young adults. The groups are required to register at the constituency level. If accepted, groups receive their first loan with a grace period of three months. The program does not provide a training program.

111. The beneficiaries of Uwezo and the Women’s fund are mostly women. By design, at least 70 percent of beneficiaries of the Women’s and the Youth Enterprise Fund are women or young adults respectively. The Uwezo Fund, targets both women and young adults. Of its beneficiaries, over two-thirds are women and four percent are persons with disabilities (Figure D-23).

Figure D-23: Uwezo Beneficiaries since 2014/15

Source: Author’s calculations based on Uwezo Fund data

112. The coverage of the three funds is unequal across counties, with poorer counties displaying lower concentration of groups. Participating groups of the three affirmative funds are not equally distributed or in proportion to population across Kenya. Counties such as Nyandarua, Nyeri and Embu have more than 13 groups per 1,000 individuals, whereas counties like Mandera, Turkana and West Pokot have less than 2.5 groups per 1,000 individuals (Figure D-24). The coverage of the three funds is low in poorer counties (Figure D-25).

Figure D-24: Number of Groups per 1,000 population Across Counties

---

92 Data on beneficiaries for these two funds are not available.
Figure D-25: Number of Uwezo, Youth Enterprise and Women’s Fund Groups per 1,000 in Poverty

Source: Authors’ calculations based on program data

113. **Loan disbursement of the Uwezo Fund is lower in poor counties, indicating differences in credit contexts.** Uwezo Fund county offices receive an allocation of funds for loan disbursement. These funds are used according to a revolving loan approach: Once one loan is repaid, a new loan can be disbursed. Hence, it is possible to disburse an overall higher sum than the allocated amount. For example, Nyandarua county was allocated KSh 95 million between 2014 and 2017. The county office however disbursed more than KSh 123 million, suggesting that loans were repaid and re-disbursed. Contrarily, West Pokot county received overall KSh 90 million but only used KSh 77 million. Underspending is more prevalent in poorer counties compared to richer counties, which often display a ratio of disbursement over allocation above one (Figure D-26). Faster repayment cycles can explain overspending in some counties. Counties that underspend might face longer repayment cycles, fewer groups or an overallocation of funds.

---

93 The allocation varies between field offices and is determined according to a fixed and variable component. The fixed allocation, which is the same for all offices represents 75 percent of the allocation. The remaining 25 percent vary according to poverty levels of the respective counties.

94 An overallocation of funds arises possibly due to the high fixed component of 75 percent of the allocation sum.
114. Loan disbursement per group varies across counties for the Uwezo and Women's Fund. The Uwezo Fund provides different sized loans per group ranging from KSh 50,000 to KSh 500,000. The differences in average funds disbursed per group demonstrates the variable sizes of loans allocated across counties (Figure D-27). Groups from the Women’s Fund are able to receive additional loans once repayment of the initial loan is complete. The average funds disbursed per group for the Women’s Fund varies across counties with arid and semi-arid regions having a lower amount disbursed per group. This suggests that groups in non-arid and semi-arid areas receive more often a second loan. The Youth Enterprise Fund does not exhibit any differences between loan size per group across counties.

Source: Authors’ calculations based on Uwezo Fund data

---

95 These differences in loan size arise as constituency offices determine the loan size independently.
Among eligible individuals, wealthy and uneducated individuals are overrepresented. The eligibility for the three funds can be modelled with their targeted demographics. For the Uwezo, Youth Enterprise and Women’s Fund, potential beneficiaries can be considered as those who are inactive, unemployed or self-employed individuals. These are the ones most likely to take up the group loans for self-employment. Of the three funds, the Uwezo Fund displays the largest proportion of potential beneficiaries in each wealth quintile (Figure D-28). The richest individuals make up the largest proportion of the potential beneficiaries for all three funds, especially the Youth Enterprise Fund for which 30 percent of potential beneficiaries are in the top wealth quintile (Figure D-29). Furthermore, more low educated individuals are potential beneficiaries for the Uwezo and Women’s Fund than for the Youth Enterprise Fund (Figure D-30). With almost three-quarters of potential beneficiaries having completed primary education or less, the Women’s Fund displays the highest share of low-educated potential beneficiaries (Figure D-31).
116. The three funds display coverage gaps, especially in poorer counties, which raises concerns about equity. The three funds show considerable coverage gaps in terms of fund allocation and geographical presence. Differences in the ratio of disbursement and allocation for the Uwezo Fund show that offices in disadvantaged counties disburse a lower proportion of their allocated funds. Furthermore, disbursement per group varies across counties for the Uwezo and Women’s Fund. These issues raise concerns about equity and targeting of the three funds and can be paid closer attention to in the future.

b. The Demand Side: The Export Processing Zone Authority

117. The Export Processing Zone Authority provides favorable business conditions for export-oriented companies in gazetted zones. The Export Processing Zone Authority offers export-oriented businesses attractive fiscal, physical, and procedural business conditions as well as training for employees in gazetted zones. The objective of these zones is to increase growth of participating companies, to create new jobs and to contribute to the local economic development. Enterprises in the Export Processing Zones (EPZ) contribute indirectly to the creation of jobs in the local economy by demanding local products and services. To be eligible, enterprises must operate in the target...
sectors, have a restricted initial capital investment and employment size and have at least three quarters local shareholders.98

118. The number of gazetted zones has increased each year since 2013, thereby creating more employment opportunities in the manufacturing sector. Between 2013 and 2017 the number of gazetted EPZ increased from 50 to 71 zones (Table D-5). Furthermore, the number of employees grew in this period by 37 percent. However, the share of enterprises, which trained local employees decreased slightly. The contributions of the EPZ to Kenya’s total export reached 10 percent in 2017. EPZ also contributed almost one fifth in manufacturing employment in 2017. The contributions of EPZ to the sector value of output, increased only slightly from 2.9 to 3.1 percent during the assessment period, possibly due to the young age of companies (Figure D-32).

| Table D-5: Overview of EPZ Contributions 2013-2017 |
|------------|----------|----------|----------|----------|----------|
| 2013 | 2014 | 2015 | 2016 | 2017 |
| Percent of Enterprise Training Local Employees | 44 | 48 | 54 | 41 | 42 |
| Local Employees | 39,961 | 46,221 | 50,302 | 52,947 | 54,764 |
| Foreign Employees | 472 | 517 | 597 | 618 | 722 |
| Average Local Monthly Wage (KSh) | 12,602 | 13,542 | 13,891 | 14,499 | 15,322 |
| Average Foreign Monthly Wage (KSh) | 82,545 | 86,857 | 95,442 | 103,597 | 103,109 |
| Gazetted Zones | 50 | 52 | 56 | 65 | 71 |
| Projects Approved | 21 | 32 | 28 | 30 | 42 |
| Enterprises Operating | 85 | 86 | 89 | 111 | 131 |

Source: Authors’ calculations based on EPZ data

119. Export Processing Zones have created jobs in Southern counties and have boosted local economic development. The export processing zones are located in Southern industrial counties, such as Narok or Machakos (Table D-6). In these areas, the EPZ have created most new jobs in manufacturing and contributed to local economic development.99 Local resource use and therefore the contribution to job creation in local markets is highest in areas with more EPZ companies, such as Mombasa or Athi River.

96 Target sectors include horticulture / food processing, textile / apparel, leather, commercial crafts, business process outsourcing and ICT.
97 Companies need to have an investment lower than KSh 40 million and less than 100 employees.
98 Republic of Kenya, “EPZ Program.”
99 Local economic development is measured by the usage of local resources.
Table D-6: Job Creation and Local Resource Use by EPZ in 2017

<table>
<thead>
<tr>
<th>Region</th>
<th>Firms</th>
<th>Jobs</th>
<th>Local Resource (KSh Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Athi River/Mlolongo</td>
<td>69</td>
<td>18,914</td>
<td>8,316</td>
</tr>
<tr>
<td>Nairobi</td>
<td>13</td>
<td>10,678</td>
<td>4,831</td>
</tr>
<tr>
<td>Mombasa</td>
<td>33</td>
<td>20,573</td>
<td>10,647</td>
</tr>
<tr>
<td>Kerio Valley/Eldoret</td>
<td>2</td>
<td>60</td>
<td>39</td>
</tr>
<tr>
<td>Thika/Kimabu/Murang’a/Embu</td>
<td>6</td>
<td>2,515</td>
<td>1,607</td>
</tr>
<tr>
<td>Laikipia/Naivasha/Nakuru</td>
<td>3</td>
<td>1,535</td>
<td>1,058</td>
</tr>
<tr>
<td>Nandi/Bomet/Narok</td>
<td>5</td>
<td>489</td>
<td>1,306</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on EPZ data

120. The majority of the potential beneficiaries for training in the Export Processing Zones are young adults. Potential beneficiaries for the EPZ programs are individuals who are located in counties with EPZ firms and who are working in one of the target sectors. Close to three-quarters of potential beneficiaries for EPZ trainings belong to the two richest quintiles (Figure D-33). The training targets young adults better than adults: Almost 60 percent of potential beneficiaries for training are young adults (Figure D-34).

121. Overall, the Export Processing Zone Authority has created employment, but reach is limited. The EPZ firms have contributed to industry output, employment and local economic development. However, the lack of a counterfactuals means it is not possible to determine what would have taken place without the EPZ firms. Additionally, by training local employees, the EPZ improve workers' skills and the competitiveness of the participating firms. Additional EPZ firms in more disadvantaged areas, as well as more attention to training of local employees can increase the inclusivity of the program.

Figure D-33: EPZA Potential Beneficiary Eligibility Incidence Across Education

Source: Authors’ calculations based on KIHBS 2015/16

The Demand Side: County Industrial Support’s One Village One Product Initiative

122. The County Industrial Support's initiative "One Village One Product" provides training to increase value addition of products. The County Industrial Support (CIS) manages "One Village One Product" (OVOP) and provides business development services to young individuals to start businesses

---

100 Target sectors include include horticulture / food processing, textile / apparel, leather, commercial crafts, business process outsourcing and ICT.
through training in value addition. The OVOP initiative is the only job program which explicitly targets rural areas. The OVOP focuses on adding value to one local product to enhance regional development.

123. **Beneficiaries are located in rural counties but the number of beneficiaries has stagnated in recent years.** Most beneficiaries of OVOP trainings live in rural Kenya (Figure D-35). The number of training beneficiaries of the OVOP program is highest in 2017 in the counties Kisii/Nyamira, followed by Nakuru/Beringo (Figure D-36). However, the number of trained OVOP beneficiaries has mostly stagnated or decreased across counties between 2015 and 2018.

124. **The One Village One Product training is well targeted towards lower income potential beneficiaries.** Potential beneficiaries for OVOP training are defined as individuals in rural areas, who reside in a county in which trainings have previously taken place, who are self-employed and work in industry. Only a very small amount of each wealth quintile are potential beneficiaries for OVOP training, ranging from 1.4 percent for the poorest quintile to 0.3 percent for the richest quintile. The majority of potential beneficiaries for the OVOP Training belong to the lowest two wealth quintiles (Figure D-37).

125. **More poor individuals living in rural areas can benefit from the One Village One Program initiative if it expands in the future.** The OVOP initiative is apart from the affirmative funds the only program, which works in rural areas and is accessible to poor individuals. However, beneficiary numbers are low and have stagnated in recent years. If OVOP increases its activities in the future,
more individuals at risk of being unemployed or dropping out of the labor force in rural areas can benefit.

*Figure D-37: OVOP Potential Beneficiary Eligibility Incidence Across Education*

Source: Authors’ calculations based on KIHBS 2015/16

**d. The Supply Side: National Industrial Training Authority**

126. The National Industrial Training Authority offers opportunities to improve skills for workers in the industrial sector. The National Industrial Training Authority (NITA) targets the supply side of the labor market with skills programs. NITA provides technical training and industrial attachments to industrial workers. It furthermore offers industrial degree sponsorships for women and industrial attachments for university students. To attend the training, workers need to have finished either primary or secondary education and need to be chosen by employers. The number of beneficiaries for industrial training has increased from 2013 to 2018 by 17 percent and reached 33,870 beneficiaries in 2018 (Figure D-38).
127. **Training centers are located in areas with high industry employment.** The National Industrial Training Authority is represented in five training centers across Kenya. Two are located in Nairobi, one in Kisumu, Mombasa and Machakos. As NITA targets industry workers, the centers are located in areas with high employment rates in industry (Figure D-39). NITA is not present in all areas with industrial employment: Coverage gaps in North Eastern and Rift Valley provinces leave workers in these counties without access to training centers.

128. **Technical training and industrial attachments are more affordable than sponsorships.** The expenditure of programs offered by NITA vary considerably. Technical training expenditures on reimbursement reached KSh 2,825 in 2018 per beneficiary and industrial attachments are even more affordable with KSh 1,510 per beneficiary (Figure D-40). The most expensive program per beneficiary is the sponsorship program, for which over KSh 448,000 was spent in 2018 (Figure D-41). In 2017, sponsorship was offered to 26 women, who mostly originated from semi-arid counties. Since 2016 expenditure per beneficiary have increased for both the industrial attachment and sponsorship program, whilst expenditure on reimbursement per training beneficiary has decreased by more than 30 percent.
129. **The wealthy and men are more often potential beneficiaries for the programs of the National Industrial Training Authority.** Potential beneficiaries for the NITA programs must have at least completed primary education and work in the industrial sector. To be a potential beneficiary for an industrial attachment, individuals must have completed at least secondary education and still be in school. Individuals belonging to the richest wealth quintile are more often potential beneficiaries for trainings by NITA and an industrial attachment than individuals from poorer quintiles (Figure D-42). Over 50 percent of potential beneficiaries for industrial trainings and more than three quarters of potential beneficiaries for the industrial attachment belong to the richest 40 percent (Figure D-43). NITA programs display also a gender gap in potential beneficiaries: Almost 12 percent of men compared to two percent of women are potential beneficiaries for industrial training (Figure D-44). Furthermore, of these potential training beneficiaries, 8 out of 10 are men (Figure D-45). Gender differences are much lower in attachments.\(^{101}\) Overall, the gender difference is likely to be driven by less women being employed in the industrial sector.

\(^{101}\) This might underestimate the difference as attachments only consider individuals with post-secondary education and not in the specific course.
The programs by the National Industrial Training Authority are cost efficient and could be expanded to further areas. The training program reimbursement as well as attachment program display low costs per beneficiary. The programs are an efficient way to train industry workers in the classroom or in firms. NITA centers are not yet located in all areas with industrial employment and accessibility can be improved by opening a NITA center for example in Turkana, Isiolo or Mandera. Accessibility can be further improved by offering training also to individuals who are not chosen by their employers: As employers might have preferences for more productive workers or specific groups, access decreases. NITA can either specifically target less productive workers in a separate program or in regular trainings through a quota based on characteristics.

e. INTERMEDIATION: THE NATIONAL EMPLOYMENT AUTHORITY

The National Employment Authority supports job seekers to find gainful employment opportunities in Kenya and abroad. The National Employment Authority (NEA) was created out of the National Employment Bureau through an Act of parliament in April 2016. The mandate of NEA covers public and foreign employment services as well as internship services. The objectives of NEA are to provide counselling for job seekers and to help individuals find a suitable employment. Further,
NEA vets and registers private employment agencies and develops bilateral labor agreements with other countries. In 2017/18 NEA had more than 9,000 beneficiaries, one third of which are women (Table D-7). The majority of beneficiaries of both job placement and counselling services had a primary or a secondary degree. In 2017/18, the authority succeeded in placing over 6,000 individuals in employment. The decline in job placements are mainly the result of low economic activity as most companies either cut down on number of workers or closed early for the festive season.

Table D-7: Beneficiaries NEA 2016-2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Beneficiaries</th>
<th>Women Beneficiaries</th>
<th>Placed in Employment</th>
<th>Placed in Employment (Standard 8 – Form 4)</th>
<th>Placed in Employment (Tertiary)</th>
<th>Career Counselling</th>
<th>Career Counselling (Standard 8 – Form 4)</th>
<th>Career Counselling (Tertiary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016/17</td>
<td>18,626</td>
<td>5,968</td>
<td>10,781</td>
<td>10,690</td>
<td>91</td>
<td>18,248</td>
<td>17,884</td>
<td>364</td>
</tr>
<tr>
<td>2017/18</td>
<td>9,087</td>
<td>3,037</td>
<td>6,192</td>
<td>6,068</td>
<td>124</td>
<td>9,127</td>
<td>9,003</td>
<td>124</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on NEA data

132. The National Employment Authority does not reach counties with the highest unemployment rates. As already mentioned, (hidden) unemployment is highest in North and North Eastern counties (Figure D-46). NEA provides services however only in Central and Southern regions (Figure D-47). To improve accessibility, the authority has yet to reach the vulnerable counties in the north and north east.

133. The budget per beneficiary of the National Employment Authority field offices varies across counties. Most NEA field offices have the same budget, except the offices in Kilifi, Meru, Mombasa, and Nairobi. Given the differences in number of beneficiaries, which range from 23 to 1,902 beneficiary per field office, the budget per beneficiary varies considerably (Figure D-48).

Figure D-46: Number of (Hidden) Unemployed
Figure D-47: NEA Beneficiaries
Figure D-48: NEA Field Office Budget Per Beneficiary

Source: Authors’ calculations based on NEA data

134. More wealthy individuals are potential beneficiaries to the services of the National Employment Authority. Individuals are considered as potential beneficiaries to NEA services if they have completed primary education, are located in a county with a NEA field office, are of working age (18-64) and are
(hidden) unemployed. Only few individuals are considered to be potential beneficiaries in each wealth quintile, with the highest share of eligible in the richest wealth quintile (Figure D-49). Of all potential beneficiaries, almost three-quarters are in the top 40 percent (Figure D-50). The difference in eligibility is mostly driven by the labor status of more educated and often more wealthy individuals, who are often unemployed and actively look for a job.

Figure D-49: NEA Potential Beneficiary Coverage Across Wealth Quintiles

<table>
<thead>
<tr>
<th>Wealth Quintile</th>
<th>NEA Eligibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poorest</td>
<td>1.5%</td>
</tr>
<tr>
<td>2</td>
<td>1.7%</td>
</tr>
<tr>
<td>3</td>
<td>2.9%</td>
</tr>
<tr>
<td>4</td>
<td>4.4%</td>
</tr>
<tr>
<td>Richest</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on KIHBS 2015/16

135. **Overall, the National Employment Authority does not reach the most vulnerable individuals and should review budget allocation decisions.** The coverage gap of NEA services can be alleviated with using mobile phones and mobile applications to reach counties, which are affected by unemployment. This can help to decrease unemployment rates and increase welfare. Furthermore, a review of the allocation of field office budgets may improve cost-effectiveness of NEA programs.

f. **Overall Program Coverage**

136. **Coverage gaps of job programs affect rural and uneducated individuals, leaving them with self-employment programs.** Job programs are concentrated in urban areas and in areas with industrial employment. Rural and poorer areas display lower coverage of job programs. Only the affirmative funds and the OVOP provide services in these counties and promote self-employment, but often in low-productivity jobs. Future job programs need to target low-educated, rural individuals to equip them with the necessary skills to move from low- to higher-productivity employment. This will enhance productivity and contribute to growth in poorer counties.

137. **More attention needs to be paid to at-risk groups such as young adults and women.** Young adults are targeted by several job programs, such as the Uwezo Fund and Youth Enterprise Fund, attachments with NITA as well as training from KYEOP and Ajira. These programs range in size, with Ajira training 7,000 individuals in its pilot and NITA attachments reaching over 20,000 individuals. However, a maintained focus of programs on this age cohort as well as new programs is needed, given the large number of youth and that young adults are still more often unemployed, underemployed and informal sector work. Likewise, facilitating the transition between school and work will improve the integration of the entering youth bulge in the labor market. Women are less often targeted than young adults but are as much at risk as young adults. They often work in low-productivity jobs, drop
out of the labor force and are more often unemployed. So far, only the Women's Fund and the sponsorships from NITA address this group. More programs, which specifically address women can help to reintegrate them into the labor force and increase their productivity in self-employment.

138. **Job Programs focus mostly on the formal sector, neglecting the importance of the informal sector.** Most job programs on the demand and supply side address the formal sector, with KYEOP only specifically targeting the informal sector. The formal sector is only a small part of the labor market and creates merely one in ten new jobs. Given most workers are occupied in the informal sector, job programs which target these workers would increase the reach significantly. Furthermore, programs which clearly address the needs of the informal sector, such as support to micro and small enterprises can help to increase productivity in these jobs and reach more individuals.

139. **Formalization programs can contribute to employment growth but not without a maintained focus on improving the business environment.** Formalization of firms can help to increase employment as formal firms are often larger than informal firms. Formalization brings also other benefits such as a larger tax base as well as regulated workspaces for employees. However, formalization is hard to promote as many informal firms choose to formalize only when threatened with fines. Limited benefits of formalization might hold informal firms back to register as formal firms.\(^{102}\) Furthermore, a danger lies in formal firms which mimic being formal but are still pursuing informal practices such as not paying taxes on revenues.\(^{103}\) More importantly, resource misallocation has hindered formal firms to grow and increase employment. Therefore, formalization programs will need to go hand in hand with programs which improve the business environment.\(^{104}\) A maintained focus on fostering growth, innovation and therefore job creation in the formal sector will be needed.

140. **Intermediation programs can increase effectiveness by considering alternative approaches.** Intermediation programs are found to have modest impacts on employment. An up-to-date knowledge about requirements in the labor market as well as considering new program types can help to increase the impact of such programs. First, information about the required skills in the labor market will be helpful to assess the skills gap. This information can inform the revision of curricula for schools and trainings. Second, evaluating the possibility of sectoral occupational mismatches can be helpful: New evidence points to individuals being "trapped" in wrong occupations and to large possible income gains, if occupations are switched.\(^{105}\) Third, programs, which address spatial misallocation of the labor force have large and positive effects on income: Workers are often not in the areas where jobs are. Creating programs, which help these workers move to areas with employment, increases income and improves welfare of benefitting households.\(^{106}\)

5. **Evaluation of the Impact of Job Programs**

141. **Due to a lack of data, the precise impacts of the job programs are mostly unknown.** The specific impact of Kenya’s job programs cannot be properly evaluated due to a lack of data. It can therefore

---

\(^{102}\) E.g. de Andrade, Bruhn, and McKenzie, "A Helping Hand or the Long Arm of the Law? Experimental Evidence on What Governments Can Do to Formalize Firms."

\(^{103}\) The behavior to "pretend" to be something, which they are not is also called "isomorphic mimicry" and can be applied to firms and other entities in developing countries (Andrews, Pritchett, and Woolcock, *Looking like a State.*)

\(^{104}\) Evidence of a combination of such programs is promising: Campos, Goldstein, and McKenzie, "Short-Term Impacts of Formalization Assistance and a Bank Information Session on Business Registration and Access to Finance in Malawi."

\(^{105}\) E.g. Campos et al., "Breaking the Metal Ceiling: Female Entrepreneurs Who Succeed in Male-Dominated Sectors."

\(^{106}\) E.g. Bryan, Chowdhury, and Mobarak, "Underinvestment in a Profitable Technology: The Case of Seasonal Migration in Bangladesh."
not be assessed if and how at-risk individuals and the poor are benefitting from job programs. However, evaluations of job programs across the world can help inform labor market policies in the future.

142. **Demand side programs have small effects on starting businesses and employment.** Business development and entrepreneurship programs across the world are found to have positive but often small and insignificant effects on starting a business after attending trainings similar to the ones of the affirmative funds in Kenya. Trained owners often implement a minority of taught business practices. Therefore, the effect of business development programs on employment is often small. However, youth entrepreneurship schemes seem to have more positive results in developing countries than in developed countries.

143. **Evidence of supply side programs indicate modest impacts and high costs.** Traditional out-of-school training programs in developing countries have low impacts on employment and earnings on both men and women. Due to the limited effects, the costs of such programs per newly employed individual can be high. Evidence on long-term impacts is limited and inconsistent. Overall, the low effects of trainings programs can be caused by a low quality of implementation of skills programs. Even though the evidence is sparse and impacts are limited, a combination of classroom-based training with skills and on-the-job training are more effective than training in classrooms alone. In the context of Kenya, a training and internship program, which included three months of classroom-based technical training and an internship in firms for young adults, increased employment by 15 percent for male participants as well as hours worked per week.

144. **Intermediation programs are cost-effective but have limited impacts.** Intermediation programs are generally affordable, displaying lower costs per beneficiary than other active labor market policies. Recently evaluated intermediation programs in other countries include the diffusion of job vacancies to job seekers via mobile phones in Peru, connecting women in rural areas to professional recruiters in India or job fairs where job seekers and employers are brought together in Ethiopia. These different intermediation programs have small but positive effects on employment. The number of hired individuals, who stay in their new job is often very small. Although the costs of intermediation programs appear to be low, they might actually be higher per successful placement given the low percentage of employee retention.

145. **Increasing monitoring and evaluation of the job programs will help to assess their effectiveness.** Even though evidence on job programs is mixed, some are found to have more positive effects than others. Since the impacts of job programs depend on the context, target population, intervention and quality of implementation, the existing evidence can merely serve as guidance for Kenya. Therefore,

---

107 McKenzie and Woodruff, “What Are We Learning from Business Training and Entrepreneurship Evaluations around the Developing World?”
112 Honorati, “The Impact of Private Sector Internship and Training on Urban Youth in Kenya.”
113 Due to high attrition of female participants in the endline survey an equivalent increase in employment for women is not found to be significantly different from zero.
115 Honorati, “The Impact of Private Sector Internship and Training on Urban Youth in Kenya.”
116 McKenzie and Woodruff, “What Are We Learning from Business Training and Entrepreneurship Evaluations around the Developing World?”
119 Abebe et al., Job Fairs.
re-designing job programs to increase the capacity for monitoring and evaluation will help to gain a better understanding of their impact.

146. **Evaluation of such programs should follow individuals over time and compare their outcomes with similar individuals, who have not benefited from programs.** To be able to properly evaluate the impact of programs, it will be important to compare outcomes between beneficiaries and non-beneficiaries. Following individuals for several years will help to make statements about the short-, mid- and long-term impact of programs. In intermediation programs it is for example important to follow placed individuals and assess how long they stay in their new occupation, as retention is often low. Special attention should also be paid to whether programs change the labor market and the opportunities of non-beneficiaries. For example, trained individuals might crowd-out non-trained individuals from occupations instead of accessing new jobs. These considerations will help to create more meaningful insights from evaluations.

147. **Strengthening monitoring and evaluation will help to inform future job programs.** The assessment of the effectiveness of job programs is crucial to understand better, which programs work and why. To date the impact of job programs is monitored and evaluated insufficiently in Kenya, which results in a lack of data. To be able to take informed decisions about job programs, more data collection and analysis of the job programs' impact will be necessary.
X. **ANNEX: SOCIAL INSURANCE**

1. **Additional Information on Household Survey Data Analysis**
   
a. **METHODOLOGY FOR CLASSIFICATION OF HOUSEHOLDS**

   1. We operationalize this notion of vulnerability using a set of questions in the KIHBS 2015 survey which elicit whether a household (i) reports one or more shock in the last 5 years that (ii) led to involuntary change or reduction in food consumption or distress decisions with long term repercussions (e.g. migration, asset liquidation, reduction in health or education expenditures) (iii) self-reported food insecurity (“worried about running out of food”). If shock was weathered by dipping into savings, borrowing, receiving help from support network, it does not necessarily indicate vulnerability. The most common types of shocks are related to the food price increase, drought, livestock loss, death (Guven & Brodersohn, 2018).

   ![Figure 1 – Annual incidence of severe economic shocks](image)

   Source: Authors’ calculations based on KIHBS 2015/16

   2. Households also report how they attempted to cope with the shock. Common responses include reducing food expenditures, which is directly harmful, but also taking kids out of school or selling productive assets which may have long-term negative impacts on a household’s welfare. Households resorting to this kind of coping strategies reveal an inability to smooth consumption purely through borrowing and precautionary saving. Putting money aside for retirement would likely exacerbate that problem. On the flipside, around twenty four percent of the households report no serious economic shocks, or only shocks that they were able to weather through borrowing and saving, and we label them “non-vulnerable” in what follows.

   3. We complete our classification of households by combining this measure of vulnerability with a measure of formality and a measure of poverty. Poverty status is assessed by comparing a household’s per capita expenditures with the corresponding national poverty threshold. Formality is defined by looking at the main job reported by the head of the household. If that person is employed in the public
sector or in a private firm that is registered with some public administration (chamber of commerce, social security administration, tax administration or national institute of statistics), then the household is classified as formal. This classification yields 15 percent of formal households, 26 percent of poor households, 35 percent of vulnerable informal households and 24 percent of non-poor, non-vulnerable informal households.

b. **Tables and Figures**

*Figure X-1: Probability of a shock leading to vulnerability across hhlds*

<table>
<thead>
<tr>
<th>Poor</th>
<th>Vulnerable to economic shocks 0</th>
<th>1</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0</td>
<td>43.21</td>
<td>56.79</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>19.30</td>
<td>80.70</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>36.66</td>
<td>63.34</td>
</tr>
</tbody>
</table>

*Figure X-2: A classification of Kenyan hhlds based on formality, poverty and vulnerability*

Source: Authors' calculations based on KIHBS 2015/16

120 For simplicity we focus of the household head. An alternative could be to consider a household as formal if any member of the household holds a formal job.
Figure X-3: Per capita consumption across groups of hhlds

Source: Authors’ calculations based on KIHBS 2015/16

Figure X-4: Schooling attainment across households

Source: Authors’ calculations based on KIHBS 2015/16
Figure X-5: Fraction of hhlds in urban areas

Source: Authors’ calculations based on KIHBS 2015/16

Figure X-6: Distribution of non-poor, non-vulnerable hhlds by industry

Source: Authors’ calculations based on KIHBS 2015/16