

Inequality, Poverty, Growth and Institutions: Understanding the linkages in Kenya*

Jane Kabubo-Mariara, Domisiano Mwabu and Godfrey Ngeg'e

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Introduction

This Brief analyzes the linkage between inequality, poverty and economic growth in addition to assessing the extent to which growth in Kenya has been pro-poor. It also explores the link between institutions, poverty and inequality. The macroeconomic indicators show that economic growth in Kenya recorded an upward trend between 1994 and 1996 but dropped significantly in 1997. This was followed by a period of impressive recovery up to 2007. During the same period, poverty increased by 13% between 1994 and 1997, but declined by about 5% in 2005/6. Inequality however increased over the period, frustrating the impact of growth on poverty reduction.

The Government of Kenya has for many decades adopted a strategy of promoting growth based on an implicit assumption that a “trickle down” process would take place to spread the benefits of growth from some of the more dynamic sectors to the rest of the economy in order to reduce poverty. This strategy however did not work and unemployment and income disparities have continued to become more apparent than they were in 1963.

Even though there has been considerable economic growth in the last decade compared to the 1990s, many socioeconomic indicators (such as child mortality and nutritional status) have not shown corresponding improvements over the period. Thus, Kenya is faced with the twin challenge of reversing the trend of increasing poverty while at the same time adopting a pro-poor growth framework that allows the poor to gain disproportionately from economic growth, thereby reducing inequality.

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Key results

Results indicate that changes in poverty between 1994 and 2006 were driven largely by changes in mean income rather than changes in inequality. The ultra poor benefitted less proportionately from the benefits of growth in incomes and poverty reduction as well as from changes in inequality in 1997- 2006 and in some cases, growth may have been pro-rich rather than pro-poor.

Several factors were found to be significant and important drivers of poverty: the distance to facilities, institutional factors; education, access to fuel, markets and water. Key sources of inequality were found to be education, availability of water and fuel. Fuel, access to water and education were found to be the most important correlates of growth. Results also indicate that rural areas experienced lower growth in incomes than urban areas.

Policy implications

Policies to address poverty and inequality in Kenya have centered on promotion of rapid economic growth, equality in the sharing of economic growth benefits and the reduction of extreme imbalances and inequalities in the economy. However, these policy interventions have not always translated into sustained growth rates. The results of this study point at several factors in promoting pro-poor growth and addressing inequality in Kenya.

The consumption of fuel reflects the asset composition of households. Poor households are unlikely to access cleaner fuels and in many cases cannot afford adequate supplies of the most common types of fuels. However, the Kenya government has been pursuing a policy of elimination of value added tax on kerosene and cooking gas. On water access, matching supply with demand is complicated by natural variability in weather conditions, including the periodic occurrence of extreme events such as droughts and floods. In the last five years, many reforms on water have been introduced in the country but more needs to be done especially at the implementation level.

The role of education in pro-poor growth cannot be over-emphasized. Education is pivotal in breaking the vicious cycle of poverty and social exclusion. Special attention must be paid to breaking the poverty cycle of children which limits their participation in schools. For instance, more emphasis must be put on the early childhood education which is currently underfunded by the government. In addition, more needs to be done to provide education outside the formal system to cater for poor households and children's diverse needs and even to provide additional support outside academic classes. In Kenya,

only Non-Governmental Organizations and Faith-Based Organizations have successfully done non-formal education. The results show that market access has important implications for pro-poor growth and reduced inequalities. Thus market enhancing policies must take into account resource endowment, capital, knowledge and services as well as intra-household patterns of resource allocation. With the devolved system of government which is provided for in the New Constitution, more market centres are expected to be built to cater for diverse interests of the 47 county governments and their people, thus bringing the centres close to people.

Recommendations

The government should consider subsidizing and reducing taxation on fuels used by the poor, especially kerosene in the wake of escalating energy prices. The zero-rating of kerosene and cooking gas may help reduce the environmental impact of using wood and charcoal. Even though zero-rating of Liquefied Petroleum Gas (LPG) may not reduce the consumption of fuel wood in the rural areas, increased urban LPG use will relieve deforestation pressures and fuel wood scarcity in rural areas.

While many water reforms have been introduced in the last five years, there is need for market-based approaches to water utilization including pollution control and taxation. Water tariffs should be designed in a progressive manner to ensure that they are pro-poor. On education, the government should fund early childhood development education (ECDE) programmes that are currently underfunded. The government should also support attempts to provide education outside the formal system. Regarding market access, there is need for the government to come up with market enhancing policies that take into account resource endowment, capital, knowledge and services as well as intra-household patterns of resource allocation.