Social Security: a pillar of inclusive growth for Kenya?

How can a progressive social security system transform Kenya’s economy?
March 2023

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<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<tr>
<td>BIG</td>
<td>Basic Income Grant</td>
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<td>CGE</td>
<td>Computable General Equilibrium</td>
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<td>COVID-19</td>
<td>Coronavirus 2019</td>
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<td>CSG</td>
<td>Child Support Grant</td>
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<td>CSPS</td>
<td>Civil Service Pension Scheme</td>
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<td>CT-OVC</td>
<td>Cash Transfer for Orphans and Vulnerable Children</td>
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<td>ECD</td>
<td>Early Child Development</td>
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<td>ESCAP</td>
<td>United Nations Economic and Social Commission for Asia and the Pacific</td>
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<td>FAO</td>
<td>Food and Agriculture Organisation of the United Nations</td>
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<td>FSD</td>
<td>Financial Sector Deepening</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HSNP</td>
<td>Hunger Safety Net Programme</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>ITUC</td>
<td>International Trade Union Confederation</td>
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<td>KES</td>
<td>Kenyan Shillings</td>
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<td>KIHBS</td>
<td>Kenya Integrated Household Budget Survey</td>
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<td>MMT</td>
<td>Modern Monetary Theory</td>
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<td>NRPS</td>
<td>New Rural Pension Scheme (China)</td>
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<td>NSSF</td>
<td>National Social Security Fund</td>
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<td>OAG</td>
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<tr>
<td>OECD</td>
<td>Organisation of Economic Development and Cooperation</td>
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<td>OPCT</td>
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<td>PKH</td>
<td>Program Keluarga Harapan</td>
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<td>PSNP</td>
<td>Productive Safety Net Programme (Ethiopia)</td>
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<td>PWSD-CT</td>
<td>Persons with Severe Disabilities Cash Transfer</td>
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<td>SACCO</td>
<td>Savings and Credit Cooperation Organization</td>
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<td>SAM</td>
<td>Social Accounting Matrices</td>
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<td>SCG</td>
<td>Senior Citizen’s Grant (Uganda)</td>
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<td>SDGs</td>
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<td>SNAP</td>
<td>Supplemental Nutrition Assistance Programme</td>
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<td>SP</td>
<td>Social Protection</td>
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<td>UBI</td>
<td>Universal Basic Income</td>
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<th>Acronym</th>
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<tr>
<td>USA</td>
<td>United States of America</td>
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<tr>
<td>US$</td>
<td>United States Dollars</td>
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<tr>
<td>VSLA</td>
<td>Village Savings and Loans Association</td>
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<td>WHO</td>
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Generating inclusive and sustainable economic growth in Kenya: the role of social security

A comprehensive social security system is a core component of any sustainable economic growth strategy. However, the paradigm in which social security is designed matters. The aim of this paper is to provide the evidence and a theory of change that explain how investments in universal social security designed under a ‘citizenship paradigm’ can generate inclusive and sustainable economic growth. It identifies pathways through which universal social security could strengthen economic growth in Kenya in the short-, medium- and long-term. These multiple pathways would compound each other, having large spill over effects over time and space that would drive economic growth and greater prosperity for all. It also presents a series of recommendations of how Kenya can build on its current social security framework to harness economic growth through the introduction of a universal child benefit that leaves no child behind.

Well-designed social security programmes can stimulate stronger and more inclusive economic growth through a number of pathways

Short-term pathways to growth

Generating higher demand in the economy,

Markets can only function if there is, in fact, a market – comprising cash – to sell into. If markets are restricted in size, the opportunities for entrepreneurs are limited. Therefore, it is important for business that there are consumers with sufficient cash to buy their products and services. One means of achieving this is through the provision of social security, which can place cash into the hands of consumers, thereby generating greater demand across the economy.

At local level, the additional cash from social security transfers can create economic multipliers. Research in Kenya has found multipliers of between 1.3, 1.8 and 2.6 within communities, meaning that each Shilling spent by recipients generates an additional 0.3, 0.8 and 1.6 Shillings. When national social security programmes are introduced, the boost to local economies is consolidated into a national stimulus, facilitating higher economic growth country-wide. One study of eight low- and middle-income countries found that an investment in social security equivalent to one per cent of GDP would generate multipliers of between 0.7 and 1.9.

A fiscal stimulus to support economic recovery from the COVID-19 crisis

Injecting cash into economies is particularly important during a recession and Kenya’s economy has suffered badly from COVID-19. If Kenya were to put in place a large-scale social security stimulus package, the economy would receive a significant boost and economic recovery would be facilitated. If the investment in social security continues in the long-term, Kenya’s economic growth would be further strengthened, potentially enabling the economy to recover the losses that it experienced from the COVID-19 shock.
Medium-term pathways to growth

Increased investments by recipients of social security in income-generating activities

The guarantee of a regular and predictable income encourages recipients of social security to invest in more productive activities. It can change people’s worldview: recipients may no longer worry about feeding their families since they know that, even if the business fails, they will be able to put food on the table. They can make longer-term plans and investments in their own income generating activities. Indeed, they may be more willing to take risks and engage in potentially higher return activities. Globally, and in Kenya, there are many examples of social security enabling families to increase their investments in micro-enterprises and agriculture. A recent study in two counties in Kenya found a 40% increase in revenue for MSEs and a 14% increase in enterprises in just two years, from a universal cash transfer in selected villages. Even old age pensions have helped recipients engage more actively in economic activities. The opportunities for investment in productive activities by recipients of social security transfers are enhanced by the fact that, by having a regular and predictable income, they are regarded as more creditworthy and, as a result, better able to access loans for investment.

Social security helps generate higher levels of employment

It is often believed that, if people receive cash from social security, they will become lazy and stop working. Yet, there is no evidence that well-designed, universal schemes cause people to become more dependent. In fact, global evidence across low- and middle-income countries indicates that, when people access social security schemes, their chances of accessing the labour market are enhanced. Within Kenya, the CT-OVC scheme has strengthened labour force participation by 13 percentage points for those living further from markets while, within HSNP, there has been an 11-percentage point increase in households reporting a positive change to their work patterns. In particular, the introduction of social security benefits can have significant gender impacts by facilitating women’s access to employment.

A healthier and more productive labour force

A healthy workforce is a more productive workforce. Yet, low incomes are a huge barrier to accessing healthcare and can instigate a ‘medical poverty trap’ in which poverty and ill-health reinforce each other in a vicious cycle. When families receive social security transfers and enjoy higher incomes, this feeds through into improved health and nutrition. Recipients can eat more as well as enjoying better quality diets. There is evidence from across the world of social security improving health and access to healthcare. For example, a study across five countries has shown how social security transfers have reduced the likelihood of illness by 37 per cent. There is evidence from Kenya of social security enabling more nutritious diets and positive impacts on health.

Empowering persons with disabilities and strengthening their ability to engage in the labour force

Social security can play an important role in helping persons with disabilities engage in the labour force while also enhancing their productivity. It has been estimated that not offering adequate support to persons with disabilities can reduce national GDP in low- and middle-income countries by between 1 and 6 per cent. A lifecycle system of disability benefits can enable persons with disabilities to engage more actively in economic activities. Persons with disabilities are more likely to find employment – for example, by being able to cover the costs of travelling to work – as well as having the regular and predictable income that enables them to invest in income generating activities. At the same time, it is also critical to provide financial support to children with disabilities to help them build the skills that will facilitate more productive employment in the future.
Mitigating the impacts of shocks and enabling households to recover their productivity

As COVID-19 has shown, covariate shocks and crises – such as natural disasters and external economic crises – can cause significant damage to national economies, especially if the families affected have to sell their productive assets as a coping strategy, meaning that they will struggle to return to the same level of productivity as before the crisis. Household-level shocks – such as ill-health, disability or unemployment – can have similar impacts, inhibiting national economic growth. A high proportion of households in Kenya are affected by shocks each year. As a result, incomes can be very changeable and many families experience some time living under the poverty line: for example, across rural Kenya, through the ten-year period between 1997 and 2007, 84 per cent of rural households spent all, or some time, living in poverty.

Ensuring that producers can address risk and shocks is an essential component of a successful economic growth strategy. There is good global evidence that, if families and producers can access social security, they are less likely to sell their productive assets. As a result, they can bounce back to higher productivity more quickly once the crisis dissipates, offering a boost to the economy. In fact, if the owners of micro-enterprises access social security during a shock, they may be able to weather the loss of income and even maintain productivity. Research in Marsabit during 2020 finds that, despite COVID-19, the income from small businesses increased among HSNP recipients by 20 per cent whereas it fell across Kenya where most owners of small firms were unable to receive protection from social security.

If Kenya were to invest in a comprehensive lifecycle social security system, it could reach the vast majority of households in Kenya with regular income support, providing them with the resilience that would enable them to protect their productive assets and maintain their businesses. If a shock were to hit an area of the country, not only would households already be more resilient due to the regular transfer, the Government could trigger an additional payment for the period of the shock. If such a system had been in place prior to COVID-19, the Government would have found it easy to support families and deliver a fiscal stimulus.

Extending financial services to rural and more remote communities

The potential for economic growth in many low- and middle-income countries is constrained by the absence of adequate financial services in rural and more remote communities. The introduction of social security can be used by governments to extend financial services into these areas. Governments can use the private sector – for example, banks or mobile phone companies – to make the social security payments to recipients. Forward-thinking payment service providers can establish pay-points and use them, not only to pay the recipients, but also to offer financial services – such as loans, savings accounts and insurance products – to all members of the community. In effect, governments can effectively subsidise the expansion of financial services throughout the nation, by giving payment service providers a small fee to deliver transfers.

Long-term pathways to growth

Strengthening the nation’s human capital

A successful national economy depends on the quality of its workforce. Therefore, Kenya must invest in the skills of its children and young people, to enhance their productivity and prepare them for their future entry into the labour market. A skilled labour force means that national economies are more competitive and more likely to attract private sector investment. Due to widespread low incomes, Kenya’s children face many challenges which, if not addressed, will severely impact on their productivity in later life. These encompass poor nutrition as well as difficulties in gaining a good quality education. Addressing income-related constraints by investing in inclusive social security would help maximise the returns of existing investments in health and education. For children’s potential to be realised, it is essential that they receive adequate nutrition during their first 1,000 days. Nutritional health has a significant impact on cognitive development during a child’s formative years which can affect their ability to perform at school. Stunting and a lack of iron in the diet impact on a child’s brain development, with long-term consequences: for example, if children experience stunting during their first few years of life, their lifetime earnings can fall by as much as 26 per cent. Stunting can have a significant detrimental impact on economic growth: across low- and middle-income countries, it has caused a total economic cost of US$177 billion per cohort.
Social security transfers can have significant positive impacts on the nutritional health of children. A study has shown that a ten per cent increase in income can improve household food security by five per cent, due to the increase in calories available for consumption. There is a range of examples from low- and middle-income countries of social security reducing stunting and, indeed, of higher incomes improving educational outcomes.

Governments that wish to invest in a high-quality workforce should also ensure that children can access school through to the end of secondary education and be given the opportunities to perform well. International research has indicated that 86 per cent of the variation on educational performance among children is the result of out of school factors, including the home learning environment. Higher incomes – including from social security – have been shown to not only increase the likelihood of children attending school, but to create a better environment at home, to facilitate learning by children.

Therefore, if Kenya were to increase its investment in social security – including through child benefits – the knock-on effects in terms of a more highly skilled and competitive labour force are likely to be significant. An assessment of the costs and benefits of investing in a child benefit for all children across Kenya has estimated that the cumulative increase in earnings among recipients resulting from the benefit up to 2040 would be KES2.900 billion (US$26.35 billion) in 2022 values. This would be the equivalent of 22.5 per cent of 2022’s predicted GDP.

Strengthening national social cohesion and building a better investment climate for businesses

Historically, investments in universal social security have been an important mechanism used by governments to strengthen national social cohesion and build more peaceful societies. One of the reasons for Western Europe’s economic success has been its investment in universal social security – and other universal public services – following the Second World War. There are also indications that universal, lifecycle social security has helped build more cohesive societies across a range of low- and middle-income countries, reducing the risk of social unrest. In contrast, poverty-targeted social security can undermine trust in government and threaten social cohesion.

If Kenya chooses to build on its investment in the universal Older Persons Cash Transfer (OPCT) to expand its universal social security system, this is likely to engender a more equal and cohesive society, reducing the threat of social unrest. It would enable Kenya to avoid the type of political turmoil and unrest that hit many countries in the North Africa and Middle East region following the 2008/09 global recession, which devastated their economies. Greater social cohesion would enhance the investment climate for entrepreneurs, potentially attracting into the country more foreign investors.

Strengthening the national social contract and expanding government revenues

A major constraint holding back Kenya’s economy is limited government finances. The IMF estimates that government revenues in 2021 are likely to be only 16.3 per cent of GDP. This is very low and well behind the revenues found across high-income countries, where rates of between 35 and 50 per cent of GDP are the norm. Due to low revenues, the Government of Kenya is constrained in its ability to invest in good quality, universal public services as well as in other areas, such as infrastructure and agriculture. Consequently, economic growth is also constrained.

By investing in universal social security, the Government of Kenya could, as indicated above, engender greater trust between citizens and the state and create a stronger social contract. The cash that people receive in their hands each month would be visible proof that the Government is committed to improving public services and would encourage citizens to accept higher levels of taxation, thereby building a virtuous circle that generates higher levels of government revenue and more government investment, not only in social security but in public services more generally. As a result, a more propitious environment for stronger economic growth would be created.
The economic potential of social security is influenced by the overall design approach

There are different approaches to building national social security systems, which reflect distinct ideologies, as outlined by Figure 0.1. In its limited ambition and emphasis on low taxes and public spending, programmes designed under the charity paradigm – namely, poverty-targeted schemes – overlook the transformative economic potential of larger and more inclusive investments in social security. In doing so, the pathways to economic growth mapped out in this paper are not accessed when countries pursue the charity paradigm. In contrast, when programmes are designed from a citizenship approach using the principle of universality, this can have a transformative impact on societies and economies through the pathways identified in this paper, viewing social security as a core and necessary component of a healthy and inclusive economy. Therefore, the choice of paradigm direction that countries make when designing social security programmes and systems – as well as their effective implementation – are critical when determining their potential impact on economic growth.

**Figure 0.1: The main characteristics of the Citizenship Paradigm versus the Charity paradigm for social security**
Kenya has already made significant strides in its national social security frameworks and investments

Over recent years, the Government of Kenya has taken impressive first steps to improve and expand its social security system. In particular, in 2018, Kenya took a major step towards a modern lifecycle system by expanding the OPCT to everyone aged over 70 years of age not in receipt of a public service pension. As such, it can be seen as a positive example to countries elsewhere in the region and, indeed, low- and middle-income countries globally, of what can be achieved with strong political will and a commitment to inclusive rights-based systems. Kenya has demonstrated how Governments can shift from a charity to a citizenship paradigm and progressively roll out universal lifecycle social security programmes over time in a way that is appropriate to their fiscal context.

However, despite positive steps taken recently to build a more inclusive system, the coverage of the population by Kenya’s current social security system is low, since it reaches only 11 per cent of households nationally. As a result, the impacts are also limited: for example, the current system reduces the national poverty rate by only 4 per cent. While the system will have some impact on economic growth, the low level of investment and coverage means that the potential economic multiplier effects of Kenya’s social security system is limited. Ultimately, these problems of low coverage and low levels of investment are facilitated by an over-emphasis on narrow poverty-targeted programmes designed under a charity paradigm, which hold back Kenya’s true growth potential. If Kenya is to harness the true potential of its social security to promote inclusive and robust economic growth – as well protecting the wellbeing of its citizens by realising their right to social security – it must fast-track the journey it has already begun to transition from a charity paradigm to a citizenship paradigm.

Recommendations for investing in Kenya’s economic growth through expanded social security

If Kenya were to expand its current social security programme, this would yield significant dividends to help realise the nation’s economic potential. The paper demonstrates how Kenya can harness economic growth by expanding social security through the introduction of a child benefit that leaves no child benefit.

Strengthening the national social contract and expanding government revenues

Kenya could choose to invest in the nation’s children and promote bottom-up resilient growth by gradually introducing a child benefit for all children as part of the recurrent national budget. Kenya has already begun to successfully pilot the introduction of a child benefit to roughly 8,000 children in the most populous sub-counties of Embu, Kajiado and Kisumu and discussions are on going in government for a mainstreamed long-term UCB to be implemented incrementally.

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1 This estimate only considers the tax-financed schemes OPCT, CT-OVC, HSNP and PwSD-CT, and is based on the total number of households from the 2019 Census—12.1 million households—and, in line with the 2015/16 KIHBS, assumes that on average there are 112 older persons aged 70 years and over in households with members 70 years and over in receipt of the OPCT.

2 Based on analysis by the authors of the 2015/16 KIHBS datasets but simulating coverage of the universal OPCT.
Computable General Equilibrium (CGE) analysis shows that the two scenarios for introducing a child benefit would boost Kenya’s GDP, as presented in Figure 0.2 which shows the percentage change in GDP as a result of each policy scenario if it was financed through two different options for financing methods: externally financed via development partners or internally financed via a combination of corporate and income tax. The positive effects of the child benefit on GDP, tax revenue and employment are highest if transfers are funded through external funding via development partners but still significant if financed via domestic taxation.

The quicker roll-out option in Scenario 2 unsurprisingly results in a faster and larger annual increase in GDP (between 0.48 - 0.71 per cent in year 10 depending on financing methods) than in Scenario 1 (between 0.27 – 0.41 per cent in year 10). The cumulative effect on real GDP would be substantial, boosting GDP by between 1.7 - 2.5 percentage points by 2033 depending on the financing method under Scenario 1 and boosting GDP by between 3.6 – 5.3 percentage points under Scenario 2.
Investing in universal benefits – such as the proposed child benefit – is also likely to play a key role in beginning to address weak demand and high public debt in Kenya and promote healthier levels of government revenue over time by stimulating the economy. In fact, CGE analysis conducted for this study suggests that there will likely be a significant increase in tax revenues because of the proposed child benefit options. As Figure 0.3 shows, by 2033, as a result of the increased economic activity stimulated by the child benefit, the two child benefit options are projected to increase tax revenue in Kenya by 4.5 percentage points under Scenario 1 and 6.7 percentage points under Scenario 2. In doing so, the simulated child benefit scenarios can trigger a virtuous cycle in which poverty reduction can also be positively associated with fiscal sustainability.
Generating inclusive and sustainable economic growth in Kenya: the role of social security

Although social security does not guarantee higher economic growth, since it depends on other factors being in place, it is an essential component of an effective and sustainable economic growth strategy. While Kenya has made good first strides, its current level of investment in social security is too limited to bring about the scale of impact on economic growth found in high-income countries and, increasingly, other low- and middle-income countries. Greater investment in social security – as well as in other public services – will result in a stronger economy and a workforce and businesses that are able to compete in global markets. The Government should not shy away from the fiscal consequences of further investment, since, over time, social security will begin to pay for itself while government revenues will expand, as the national social contract is strengthened. The real concern should come from not investing in social security.

Figure 0.3: Annual percentage change in tax revenue in Kenya as a result of the two child benefit proposals if financed through an equal combination of income and corporate tax

Conclusion

Although social security does not guarantee higher economic growth, since it depends on other factors being in place, it is an essential component of an effective and sustainable economic growth strategy. While Kenya has made good first strides, its current level of investment in social security is too limited to bring about the scale of impact on economic growth found in high-income countries and, increasingly, other low- and middle-income countries. Greater investment in social security – as well as in other public services – will result in a stronger economy and a workforce and businesses that are able to compete in global markets. The Government should not shy away from the fiscal consequences of further investment, since, over time, social security will begin to pay for itself while government revenues will expand, as the national social contract is strengthened. The real concern should come from not investing in social security.

Assumed to be financed through a combination of corporate and income tax (50/50) with progressive income taxation and unchanged consumption in real terms for the highest income quintile.
Generating inclusive and sustainable economic growth in Kenya: the role of social security

01

Introduction
Social security refers to the system of regular and predictable income transfers offered by countries to their citizens. A comprehensive social security system is a core component of any sustainable economic growth strategy. Many of the world’s most successful economies invest a significant proportion of their GDP in social security: for example, across high-income countries, the average level of investment is 12 per cent of GDP. High-income countries began investing in social protection when they were much poorer, often during the early stages of industrialisation: for example, England was spending over 2.5 per cent of GDP in 1820, at a time when its national wealth was the equivalent of Kenya’s in 2019. A number of studies have provided evidence on the broad impact of social security on economic growth. Bellettini and Ceroni (2000) examined 61 countries and found a statistically significant and positive relationship between social security investment and economic growth. Two studies in Asia arrived at the same conclusion while also finding that the correlation was stronger for countries that were early investors in social security.4

Critically, harnessing the economic potential of social security requires a fundamental shift in the way that social security is conceptualised and designed, moving away from conceiving schemes under a charity paradigm, which results in narrow poverty-targeted schemes, and instead embracing a citizenship paradigm, which recommends gradually introducing larger universal lifecycle programmes under a rights-based framework. In embracing this citizenship approach and introducing universal programmes, Kenya can move away from viewing social security as a palliative development intervention to compensate ‘the poor’ for the inevitable negative impacts of unequal economic growth. Instead, it views social security as one core driver of the dynamic process of economic growth, understanding social security in relation to other sectors as a fundamental part of a country’s industrial policy.

Kenya has already made impressive first steps to improve and expand its social security system by introducing a universal social pension – the Older Persons Cash Transfer (OPCT) – for all older persons aged 70+ years, with a view to gradually expanding the programme to over 65s. However, Kenya still invests only 0.4 per cent of GDP in its tax-financed social security schemes (or 1 per cent of GDP if civil service pensions are included). Further, the universal 70+ OPCT is held back by its incomplete implementation. This limited level of investment means that Kenya does not maximise the boost to economic growth that could be derived from higher investment in social security.

The aim of this paper is to provide the evidence and theory of change behind how investments in social security generate economic growth. It will demonstrate the role that an expanded social security system could potentially play in the recovery of the Kenyan economy from the COVID-19 pandemic as well as how social security can play a core role in strengthening Kenya’s long-term economic development.

The paper begins by examining Kenya’s current social security system. Section 3 introduces two different approaches to building national social security systems, the charity and the citizenship paradigms and explains how countries’ decision to pursue different approaches to designing their social security systems can have significant impacts on its growth potential. Section 4 presents 11 pathways through which increased investment in universal social security can promote stronger and more inclusive economic growth in the short-, medium- and longer-term, examining evidence both globally and from Kenya. Finally, Section 5 presents some recommendations for how Kenya can realise its economic potential by expanding its current social security framework in the short-, medium- and longer-term, and presents some of the simulated impacts of these proposals on wellbeing and macro-economic indicators.

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Generating inclusive and sustainable economic growth in Kenya: the role of social security

Kenya’s current social security system
Kenya has a positive legislative and policy environment to support the country’s ongoing expansion of a progressive and inclusive social security system. Article 43(1)(e) of the Constitution states that “Every person has a right to social security” while Article 43(3) stipulates that, “The State shall provide appropriate social security to persons who are unable to support themselves and their dependants.” These rights reflect Kenya’s commitments to its citizens, arising most fundamentally from its adherence as a member of the United Nations to the Universal Declaration of Human Rights and as a Party to the International Covenant on Economic, social and Cultural Rights.\(^5\) In addition, Kenya has ratified Convention on the Rights of the Child (CRC) which stipulates the right of all children to social security. Kenya has also signed up to Recommendation 202 (2012) of the ILO, in which the nation has committed to establishing a Social Protection Floor. A commitment to establishing Social Protection Floors is also a key component of the Sustainable Development Goals, to which Kenya is fully committed.

Indeed, over recent years, the Government of Kenya has taken impressive first steps to improve and expand its social security system. As such, it can be seen as a positive example to countries elsewhere in the region and, indeed, low- and middle-income countries globally, of what can be achieved with strong political will and a commitment to inclusive rights-based systems. In particular, Kenya has demonstrated how Governments can shift from a charity to a citizenship paradigm (see Section 3) and progressively roll out universal lifecycle social security programmes over time in a way that is appropriate to their fiscal context. Up to 2017, tax-financed programmes were targeted at those living in extreme poverty including; the Cash Transfer for Orphans and Vulnerable Children (CT-OVC) which supported households with orphans; the Hunger Safety Net Programme (HSNP), which provided a cash benefit to households in the four northern counties of Mandera, Marsabit, Turkana and Wajir; the Persons with Severe Disabilities Cash Transfer (PWS-CT), which gave transfers to a small number of persons with profound disabilities; and, the Older Persons Cash Transfer (OPCT) which provided a pension to older people.

Yet, in 2018, Kenya took a major step towards a modern lifecycle system by expanding the OPCT to everyone aged over 70 years of age not in receipt of a public service pension. While the OPTC has suffered from budgetary constraints which has limited the registration of new older persons onto the scheme in recent years, it is a highly progressive programme that has received popular support and is already having a significant impact on the autonomy and wellbeing of Kenya’s older persons.\(^6\) Most recently, in 2021, the Government of Kenya – with the support of UNICEF and Save the Children – rolled out a programme to pilot the introduction of a child benefit for every child in three sub-counties across Kisumu, Kajiado and Embu. This pilot initiative is part of broader proposals for a national-level tax-financed UCB currently being developed by the Ministry of Public Service, Gender, Senior Citizens Affairs & Special Programmes. A summary of Kenya’s current tax-financed schemes can be found in Table 2.\(^7\)

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\(^5\) Articles 22 and 25 of the Universal Declaration of Human Rights state respectively that ‘everyone, as a member of society, has the right to social security and is entitled to realisation, through national effort and international co-operation and in accordance with the organisation and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality’ and ‘Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control’. Article 9 of the Covenant recognises ‘the right of everyone to social security, including social insurance.’

\(^6\) Tran and Kidd (2019).

\(^7\) Although Kenya appears to have a contributory scheme – the National Social Security Fund (NSSF) – in reality, the NSSF is a provident fund and acts more like a savings scheme than a social security scheme, as it has only provided lump sums to members.
Generating inclusive and sustainable economic growth in Kenya: the role of social security

However, despite positive steps taken recently to build a more inclusive system, the coverage of the population by Kenya’s current social security system is low, since it reaches only 11 per cent of households nationally. As a result, the impacts are also limited: for example, the current system reduces the national poverty rate by only 4 per cent. While the system will have some impact on economic growth, the low level of investment and coverage means that the potential economic multiplier effects of Kenya’s social security system is limited. Ultimately, these problems of low coverage and low levels of investment are facilitated by an over-emphasis on narrow poverty-targeted programmes designed under a charity paradigm, which hold back Kenya’s true growth potential. If Kenya is to harness the true potential of its social security to promote inclusive and robust economic growth – as well protecting the wellbeing of its citizens by realising their right to social security – it must fast-track the journey it has already begun to transition from a charity paradigm to a citizenship paradigm, as Section 3 will further explain.

### Table 2.1: Overview of Kenya’s tax-financed social security system

<table>
<thead>
<tr>
<th>Name of scheme</th>
<th>Number of recipients</th>
<th>Recipients as proportion of category</th>
<th>Benefit level per month (local currency)</th>
<th>Expenditure (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Children</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Transfer for Orphaned and Vulnerable Children (CTOVC)</td>
<td>365,200 households</td>
<td>42% of households with an orphan⁸</td>
<td>KES2,000 (US$18) per household</td>
<td>0.13⁹</td>
</tr>
<tr>
<td><strong>Working age</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Transfer for Persons with Severe Disabilities (PwSD-CT)</td>
<td>41,400 households</td>
<td>0.3% of all households in Kenya</td>
<td>KES2,000 (US$18) per household</td>
<td>0.02⁰</td>
</tr>
<tr>
<td><strong>Older persons</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Older Persons Cash Transfer (OPCT)</td>
<td>763,000 individuals⁸</td>
<td>76% of older persons aged 70 years and above¹²</td>
<td>KES2,000 (US$18) per person</td>
<td>0.15¹¹</td>
</tr>
<tr>
<td>Civil Service Pension Scheme (CSPS)</td>
<td>162,200 individuals¹⁴</td>
<td>7.3% of older persons aged 60 years or above¹⁵</td>
<td>Variable</td>
<td>0.60¹⁶</td>
</tr>
<tr>
<td><strong>Household benefits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hunger Safety Net Programme (HSNP)</td>
<td>101,600 households</td>
<td>0.7% of all households in Kenya</td>
<td>KES2,700 (US$24.50) per household per month</td>
<td>0.08%</td>
</tr>
</tbody>
</table>

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⁸ The proportion of households with an orphan is estimated based on the KIHBS 2015/16.
¹¹ Coverage relates to the latest payment round prior to December 2021.
¹² Exact coverage of the OPCT is not reported. This figure is estimated based on UNDESA population estimates.
¹³ Expenditure calculated by multiplying transfer values by number of recipients.
¹⁵ The retirement age for the CSPS is roughly the age of 60 years. However, there are some variations in the age at which civil servants in Kenya retire.
¹⁷ This estimate only considers the tax-financed schemes OPCT, CT-OVC, HSNP and PwSD-CT, and is based on the total number of households from the 2019 Census—12.1 million households—and, in line with the 2015/16 KIHBS, assumes that on average there are 112 older persons aged 70 years and over in households with members 70 years and over in receipt of the OPCT.
¹⁸ Based on analysis by the authors of the 2015/16 KIHBS datasets but simulating coverage of the universal OPCT.
Generating inclusive and sustainable economic growth in Kenya: the role of social security

Shifting the paradigm: charity vs universal approaches to building social security systems
Shifting the paradigm to transform economic growth: Charity vs Universal approaches to building social security systems

There are different approaches to building national social security systems, which reflect distinct ideologies. Countries’ decision to pursue different approaches to designing their social security systems have significant impacts on its growth potential. Figure 3.1 outlines the two main paradigms for building social security systems, although they should be considered more as two ends of a continuum. Each country is at a different point on the continuum. The paradigms could be summarised as follows.19

A Charity Paradigm is associated with an ideology that promotes a small state, alongside low taxes and limited social spending. Social security schemes developed under this ideology tend to be means-tested, have lower transfer values and are more likely to make the receipt of transfers conditional on beneficiaries complying with certain actions. It is an approach that prioritises social assistance for ‘the poor’, with transfers often viewed as ‘handouts.’ The Charity Paradigm is similar to the poor relief approach used by European countries in the 19th century, when unconditional transfers were given to those regarded as ‘deserving’ – mainly older people and persons with disabilities living in extreme poverty – while the working age poor were regarded as ‘undeserving’ and put to work, as in the workhouses described in the novel Oliver Twist, by Charles Dickens.20

A Citizenship Paradigm is based on the right to social security for everyone, as set out in the Universal Declaration of Human Rights of 1948, and a range of other human rights conventions (see Box 3.1). This approach accepts that higher taxation and spending is necessary to build an effective social security system. The type of system developed under this paradigm is based on addressing risks that could be experienced by everyone across the lifecycle, such as childhood, disability, unemployment and old age. The main lifecycle schemes offer universal coverage, although they are complemented by small means-tested schemes. This approach was adopted by many high-income countries following the Second World War and, increasingly, by some middle-income countries. The Citizenship Paradigm is at the heart of the concept of the Social Protection Floor, which was adopted by the United Nations in 2012 and is integrated within the Sustainable Development Goals.

Box 3.1: The right to social security in the universal declaration of human rights

- Article 22: “Everyone, as a member of society, has the right to social security”
- Article 25: “(1) Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control. (2) Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection.”

The right to social security is repeated in a range of other international conventions.
Generating inclusive and sustainable economic growth in Kenya: the role of social security

Figure 3.1: The main characteristics of the Citizenship Paradigm versus the Charity paradigm for social security

As indicated by Figure 3.2, countries that follow the Charity Paradigm have bifurcated systems that offer public service pensions and contributory schemes to those working in the formal economy and poor relief – or social assistance – to those living in extreme poverty. This leaves a large group of the population, often those working in precarious conditions in the informal economy, without access to social security. They are often known as the ‘missing middle.’ In contrast, modern lifecycle citizenship systems are similarly multi-tiered but, as Figure 3.2 shows, offer universal coverage, so that those on middle – but still low – incomes are fully incorporated within the social security system.

Figure 3.2: Comparison between the design of a bifurcated charity-based system and a multi-tiered citizenship system
Crucially, programmes designed from a citizenship approach can have a transformative impact on societies and economies, viewing social security as a core component of a healthy and inclusive economy. This transformative understanding of social security extends its definition beyond a self-contained and palliative development intervention to compensate ‘the poor’ for the inevitable negative impacts of unequal economic growth. Instead, it views social security as one core driver of the dynamic process of economic growth, understanding social security in relation to other sectors as a fundamental part of a country’s industrial policy. For example, Mkandawire (2007) summarises that:

“...social policy can be innovation-enhancing, through its effects on human capital and skill formation; its capacity to alleviate risk and uncertainty by underpinning the social pacts necessary for managing the contractual nature of labor markets, its incorporation of labor into the saving-investment regime and induction of long-term perspectives in the financial sector; and its contribution to political stability.”

In contrast, when social security is designed under the charity paradigm, which promotes a residual understanding of the role of social security, its impacts on economic growth are far more limited. A residual approach to welfare works under the assumption that markets and families are the natural channels to fulfil citizens’ welfare needs and that social policy interventions should only be introduced as a last resort when these do not function. Under this perspective, responsibility for welfare rests on the individual with support reserved only for the ‘poor and needy’ who are unable to help themselves through the market. This is in contrast to the view of poverty under a transformative approach, which understands inclusive social security as ‘preventive’ rather than ‘curative’, providing support for the population as a whole to give each person equal opportunity for a decent standard of living. A residual approach also tends to view social protection spending as a cost, rather than an investment.

In its limited ambition and emphasis on low taxes and public spending, programmes designed under the charity paradigm overlook the transformative economic potential of larger and more inclusive investments in social security. In doing so, the pathways to economic growth mapped out in this paper are not accessed when countries pursue the charity paradigm. Therefore, the choice of paradigm direction that countries make when designing social security programmes and systems is critical when determining their potential impact on economic growth.

Kenya is at a critical juncture in deciding whether to rely on the traditional poverty-targeted approach or to continue its path towards building a universal social security system and unlock its economic potential, as a trailblazer in the region (see Section 2). This paper aims to inform that decision by laying out the pathways through which social security can impact on a country’s economic growth, if Kenya chooses to continue to pursue an inclusive citizenship approach by investing in universal programmes that put people at the centre of national economic development.
Generating inclusive and sustainable economic growth in Kenya: The role of social security

Eleven pathways: The role of social security in driving economic growth
Pathways through which universal social security promotes economic growth

Choosing to invest in universal social security – in line with a citizenship approach, as outlined in the previous section – can have transformative impacts on economic growth. As Figure 4.1 demonstrates, there are multiple pathways through which universal social security can support stronger and more inclusive growth. Some of the pathways have immediate effects: for example, by injecting cash into markets through social security transfers, demand is increased which benefits businesses, giving a boost to the economy. Other pathways are medium term: for example, when in receipt of regular and predictable social security transfers, small producers can gain the confidence to invest in riskier but higher return income generating activities. And, some pathways are long-term, such as the role that social security plays in strengthening a nation’s human capital and creating a more highly skilled and competitive labour force. In addition, these multiple pathways compound each other, having large spill over effects over time and space that drive economic growth and greater prosperity for all. In total, the paper identifies 11 pathways through which universal social security can strengthen economic growth in Kenya, complementing national investments in other essential public services and economic sectors. This section sets out the rationale and evidence for each of these immediate, medium-term and longer-term pathway.

Figure 4.1: Conceptual model of the pathways through which social security impacts on economic growth

Source: authors’ elaboration.
If Kenya were to expand its investment in social security, there would be an immediate boost to economic growth from the increase in consumption nationwide. This section, therefore, examines how greater spending contributes to economic growth before looking specifically at how a fiscal stimulus from social security could help Kenya recover from the COVID-19 economic crisis.

4.1.1 The immediate benefits of investing in social security

Markets can only function if there is, in fact, a market – comprising cash – to sell into. If markets are restricted in size, the opportunities for entrepreneurs are limited. Therefore, it is important for business that there are consumers with sufficient cash to buy their products and services. By investing, on average, 12 per cent of GDP in social security, high income countries ensure that there is a minimum level of market in place, complemented by the income that individuals receive from work. Given that a high proportion of the 12 per cent is captured from the better-off members of society through taxation, who may otherwise not spend it or may send it overseas, through the redistribution of wealth – via taxation and social security – countries can grow the size of their markets and build opportunities for entrepreneurs.

A key challenge faced by Kenya is that incomes across the population are low, meaning that households have a limited available cash to spend. The average per capita income in 2020 was only KES500 (US$4.75) per day, while 50 per cent of the population were living on less than KES280 (US$2.70) per day. At present, most Kenyan households spend a significant proportion of their consumption on food, meaning that they have less to spend on other goods, which hinders the economy. For example, on average among households with children, 60 per cent of expenditure is on food. This compares with most high-income countries, where households spend, on average, less than 15 per cent of their income on food. If household incomes were to increase due to social security, some families would buy food – but, potentially, more nutritious food which expands certain markets such as for livestock, eggs, fish and vegetables – while others would purchase non-food items. If Kenya were to build a set of universal schemes, the pattern of expenditure would vary according to the level of household income: poorer families would be more likely to purchase food while middle-income families would be more likely to spend their additional income on other goods.

There is good evidence across Africa – including in Kenya – of social security creating more dynamic local economies. Once cash is injected into communities through social security transfers, it is spent by recipients and circulates throughout the local economy, generating multipliers. As Figure 4.2 shows, the FAO (2016) have reported multipliers across communities in Africa of between 1.3 and 2.5. Two communities were in Kenya and had multipliers of 1.3 and 1.8 which means that each Shilling spent by recipients generated an additional 0.3 and 0.8 Shillings. Another study in Kenya of a one-off cash transfer run by GiveDirectly has demonstrated a multiplier of 2.6, alongside increases in the profits of local enterprises and higher wages among employees. Outside Africa, in Mexico, Sadoulet et al (2001) found local multipliers of between 1.5 and 2.6.

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22 This is based on GDP per capita estimates for 2016 from the World Income Inequality Database – WIID, and therefore it is an overestimate of the average per capita income.
23 KIHBS (2016).
24 Source of international figures: https://ourworldindata.org/food-prices
25 Egger et al. (2019).
Figure 4.2: Economic multipliers delivered by cash transfer schemes across Africa

Source: FAO (2016)

Local entrepreneurs and producers benefit from these multipliers. In Uganda, for example, local traders have explained how they benefited from the introduction of a universal old age pension. One trader said: “There is more cash now. Whatever we stock we are sure that, when the elderly receive these transfers, we shall sell, thus more profits.” Similarly, a local owner of a restaurant observed that: “On the day of the pension, I walk with my head held high because I get a large number of customers. Previously I used to sell four crates of soda but now I sell between five and ten. The business is doing better. I also sell about thirty plates of food per day.” The type of goods sold to pensioners included small, essential items such as soap, beans, oil, sugar, salt, meat, fish and clothing as well as larger and more expensive items including housing materials, agricultural inputs, livestock, mobile phones and solar panels. In Namibia, old age pensions have increased economic activity in communities, with traders benefitting from greater sales. Outside Africa, Barrientos and Sabates-Wheeler (2009) found that non-beneficiaries of the Oportunidades scheme in Mexico experienced a significant increase in their assets, probably as a result of selling goods and services to beneficiaries. There have been similar findings in Brazil.

When national social security programmes are introduced, the boost to local economies is consolidated into a national stimulus, facilitating higher economic growth country-wide. As shown by Figure 4.3, a World Bank study using cross-country data from 36 low- and middle-income countries found that social protection spending – mostly social security schemes – had a larger national multiplier effect, at 1.82, than other areas of public spending such as education (1.42) and health (1.2). Another study in New Zealand found that a one per cent increase in social security transfers resulted in national GDP growing by 1.53 per cent after the first quarter following the intervention, and 0.76 per cent during the subsequent year.

28 Devereux (2001).
29 Ministério do Desenvolvimento Social e Combate à Fome (2007); Landim (2009).
30 Asea (2016).
Simulations based on Social Accounting Matrices (SAM) models have also shown that national multipliers from social security could be significant. One study of eight low- and middle-income countries found that an investment in social security equivalent to one per cent of GDP would generate multipliers of between 0.7 and 1.9 (see Figure 4.4). The greatest impacts were in countries with relatively low levels of GDP per capita – similar to Kenya – where much of the cash would be spent by consumers of nationally-produced goods. In richer countries, growth was predicted to be lower because consumers would be more likely to purchase imported goods. Other simulations in Bangladesh and Vietnam have also demonstrated that investments in social security can have as large an impact on the economy as similar spending on infrastructure.\(^{32}\) In Vietnam, it was estimated that a one per cent increase in investment in social protection would result in a 2 per cent growth in GDP.

\(^{32}\) Khondker (2014, 2015) and Kidd et al (2016). These simulations were undertaken using a Social Accounting Matrix (SAM) model.
The impacts on economic growth continue over time. For example, Figure 4.5 shows the results of simulations using a dynamic computable general equilibrium (CGE) model in Rwanda, Bangladesh and India, which have a similar GDP per capita to Kenya. It indicates how an investment in social security of one per cent of GDP would result in an increasing rate of annual economic growth each year. These results demonstrate how Kenya could gain in terms of continuous higher economic growth by investing in a permanent expansion of its social security system. High-income countries have enjoyed this continuous boost to their economic growth for many decades. Indeed, if they were to cut their investment in social security, they would likely experience a fall in economic growth due to the reduction in demand across the population.

Figure 4.5: Annual increase in GDP in Bangladesh, India and Rwanda and resulting from an investment of 1 per cent of GDP in social security

Source: Development Pathways and ITUC (2021).

In 2020, Kenya had a GDP per capita in PPP terms of US$5,055, which roughly twice that of Rwanda (US$2,264 PPP), and only slightly less than that of Bangladesh (US$5,287 PPP) and India (US$6,510 PPP). Values for 2020 from IMF World Economic Outlook Database.
4.1.2 A fiscal stimulus to support economic recovery from the COVID-19 crisis

Injecting cash into economies is particularly important during a recession, such as that caused by COVID-19. As indicated above, Kenya’s economy has suffered badly from COVID-19, as household incomes have fallen. In part, this is the result of the increase in unemployment and underemployment. According to data collected for the World Bank’s Rapid Response Phone Survey (2021), the unemployment rate more than tripled during the first months of the COVID-19 crisis, from 5 percent in the last quarter of 2019 to 16.5 percent in May/June 2020.34 Further, wage workers still in employment – especially women – experienced drastic reductions in working hours. According to the same survey, between February and June 2020, wage workers’ average hours decreased by 23 per cent, from 50 to 38 hours per week.35 The fall in incomes meant that a much lower level of cash was circulating within markets.

During an economic crisis, social security is a critical tool to facilitate recovery. As shown by Figure 4.6, in the absence of a stimulus package economic growth, as shown by the orange line, would decline and take a longer time to recover. However, as indicated by the blue line, a social security stimulus package would reduce the fall in the rate of economic growth, while enabling the economy to recover more quickly. Further, if countries increase their investment in social security in the long-term, economic growth would be further strengthened, potentially enabling the economy to recover the losses that it experienced to the shock. Critically, the level of investment required to provide an effective stimulus is generally provided by universal programmes designed under the Citizenship Paradigm, rather than the residual programmes promoted under the Charity Paradigm which tend to be much smaller (see Section 3).

![Figure 4.6: Potential impacts on economic growth of an economic shock – such as that caused by COVID-19 – with and without social security responses](source)

*Source: Kidd et al (2020a).*

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34 World Bank (2021).
During the 2008 global recession, a number of countries increased their investment in social security. Blinder and Zandi (2015) suggests that, in the USA, increased investments in social security – unemployment insurance and food stamps – generated more growth than investments in infrastructure (see Figure 4.7). In fact, Zandi (2009) estimated that an increase of US$1 invested in the Supplemental Nutrition Assistance Programme (SNAP) gave a return of US$1.74 while an additional US$1 in unemployment insurance benefits generated US$1.61. Other countries similarly expanded their social security schemes to stimulate their economies: for example, China and Thailand expanded their tax-financed old age pension schemes.

A similar approach has been followed by many countries in response to the crisis generated by COVID-19. The United Nations, World Bank and IMF all recommended that governments should inject cash into their economies through social security to keep their markets functioning. Many high-income countries decided to do ‘whatever it takes’ to rescue their economies – and protect their citizens – by implementing high cost fiscal stimulus packages. For example, in the early months of the crisis, the Group of Seven major economies spent an average of 5.6 per cent of GDP, mainly on existing or innovative social security schemes. The Brookings Institute predicts that, if the USA’s recent US$1.9 trillion stimulus package had been introduced at the beginning of 2021, it would have resulted in a 4 per cent increase in GDP in 2021 and a 2 per cent increase in 2022, enabling the USA’s economy to recover to the level that it had been predicted to reach if COVID-19 had not occurred.

Many low- and middle-income countries also put in place stimulus packages using social security transfers. However, the immaturity of social security schemes in many countries, and their focus on targeting the poorest members of society, has meant that they were not good vehicles for providing income support to families. Overall, by September 2020 only 16 per cent of low- and middle-income countries that introduced social security-based stimulus packages had spent more than one per cent of GDP, while only 2 countries invested more than 2 per cent. Some of the more effective responses were by countries with more established social security systems, which meant that a response was relatively simple. For example, both Mongolia and South Africa were able to increase the transfers values of existing, large-scale social security schemes: in the case of Mongolia, the value of its almost universal child benefit was increased five times, meaning that almost all families

![Figure 4.7: Fiscal stimulus multipliers resulting from government spending in the USA in 2009](source: Blinder and Zandi (2015).)

37 Lu (2012); HelpAge International (2013)
38 IMF (2020a); Ozler (2020).
40 Edelberg and Sheiner (2021).
41 Oxfam and Development Pathways (2020).
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with children received support immediately. Indeed, universal social security programmes designed under the citizenship paradigm are, by nature, particularly adaptive and well-suited to respond to shocks since they reach a larger section of the population and provide an easy means for governments to increase benefits in times of covariate crises. See Oxfam (2020) for more on how universal programmes provided the most effective basis for a shock response in the context of COVID-19 crisis.

A fiscal stimulus to boost economic recovery would also have broader impacts, including on employment. For example, Köhler and Bohrat (2021) suggested that the monthly COVID-19 payment that South Africa introduced as part of its emergency response to the crisis increased the probability of job search among recipients by more than 25 percentage points, promoting employment and ultimately aiding labour market recovery. Section 4.2.2 considers the evidence on how social security schemes can promote, rather than hinder, employment, as long as they are well-designed under a citizenship approach.

Kenya has not yet put in place an effective fiscal stimulus programme through the expansion of its social security system. The response has been limited to the payment of arrears to existing social security recipients, a lump-sum payment to roughly 33,000 households with persons with disabilities who are not recipients of the PwSD-CT, and the disbursement of KES16,000 over a 4-month period to roughly 342,000 households (around 2 per cent of households nationally), which is below the level required. While there may be concerns that the fiscal space is not available for Kenya to be able to invest in a fiscal stimulus, by not doing so, economic recovery is being hindered. An investment of at least 2 per cent of GDP in social security transfers – as suggested earlier – would bring significant economic, social, human and political benefits to Kenya, in particular if this level of investment were continued over time. To respond to an economic crisis such as that generated by COVID-19, governments should do all they can to find the fiscal space. By doing so, additional taxation would become available from the higher economic growth which, over time, would enable Kenya to finance the social security transfers and reduce its level of debt.

42 Doyle and Ikutwa (2021).
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4.2 Medium-term impacts

While an expansion of Kenya’s social security system would give an immediate boost to the economy through increased demand from consumers, it would also promote a range of impacts in the medium-term. These include: increased investments by recipients in productive activities, higher levels of employment, a healthier and, therefore, more productive labour force; the empowerment of persons with disabilities to engage in the labour force, mitigating the impact of shocks to help producers recover more quickly following crises, and, the extension of financial services. These areas are discussed in the following sections.

4.2.1 Increased investment by recipients in productive activities

The guarantee of a regular and predictable income encourages recipients of social security to invest in more productive activities. It can change their worldview: recipients no longer have to worry about feeding their families since they know that they will be able to put food on the table and have the opportunity to move away from living a day-to-day existence. They can make longer-term plans and investments in their own income generating activities. Indeed, they may be more willing to take risks and engage in potentially higher return activities. When social security is universal and based on entitlements received as people advance through the lifecycle – under a citizenship approach (see Section 3) – these benefits are guaranteed and can be relied upon, without any disincentive to remain poor enough to keep receiving the benefit, as can be the case with means-tested benefits.

There are many examples worldwide of social security programmes enabling recipients to engage in income generating activities. In Mexico’s Oportunidades programme, recipients invested 14 per cent of their transfers in productive assets including animals and land, with the value of draught animals owned by recipients increasing by 21 per cent and the value of production animals by 17 per cent;\(^{43}\) in Brazil, the Bolsa Familia scheme has increased the probability of beneficiaries engaging in small businesses;\(^{44}\) in Nicaragua, recipients of the Red de Protección Social increased their spending on agricultural equipment;\(^{45}\) and, in Zambia, the Social Cash Transfer programme led to an 18 percentage point increase in household spending on productive inputs.

In Kenya, HSNP beneficiaries have been found to be 6 percentage points more likely to own livestock while 5 per cent have reported starting or improving an existing business.\(^{46}\) More broadly in Kenya, 30 per cent of social security recipients have reported an increase in income generating activities and 50 per cent an increase in productive assets.\(^{47}\) The CT-OVC scheme has brought about a 15 percentage point increase for smaller livestock owned by smaller households.\(^{48}\) And, Banerjee et al (2020) have found that a pilot universal basic income grant (BIG) in the counties of Bomet and Siaya resulted in greater risk-taking behaviour among recipients, with an increase of around 23 per cent of families investing in non-agricultural enterprises, which resulted in significant increases in income.\(^{49}\)

Importantly, the UBI experiment has found that those recipients who are promised transfers for a longer period – 12 years, compared to others who will receive transfers for only 2 years – have enjoyed higher increases in incomes from their non-agricultural enterprises. This indicates that the promise of longer-term support from regular and predictable transfers is likely to encourage greater risk taking among recipients alongside higher returns. It indicates the value of governments establishing long-term social security schemes for families, such as child benefits offered to every child.

\(^{44}\) Lichand (2010).
\(^{45}\) Maluccio (2007).
\(^{47}\) Kidd et al (2019a).
\(^{48}\) Kidd et al (2019a).
\(^{49}\) The reported result by Banerjee et al (2020) was a 4.5-4.9 percentage point increase on a control mean of 29 per cent. When the UBI programme began, 21 per cent of recipients had a non-agricultural enterprise.
Even old age pensions have resulted in increased economic activity among recipients. For example, in Bolivia, households invested their pension income in productive activities which increased food consumption by 1.5 times the value of the pension.\textsuperscript{50} In Brazil, recipients of the pension transitioned from subsistence to small-scale surplus agriculture.\textsuperscript{51} In Uganda, after two years of receiving the Senior Citizens’ Grant there was a 45 per cent increase in the number of recipients buying productive assets and a 77 per cent growth in the number purchasing livestock, alongside a 42 per cent increase in the value of their purchases.\textsuperscript{52} And, in South Africa and Zambia, the pension has been used to establish and expand informal micro-enterprises.\textsuperscript{53} Box 4.1 describes in more detail how recipients of Uganda’s Senior Citizens’ Grant have engaged in economic activities.

The opportunities for investment in productive activities by recipients of social security transfers are enhanced by the fact that, having a regular and predictable income, they are regarded as more creditworthy and, as a result, better able to access loans for investment.\textsuperscript{57} Examples of this have been observed in Brazil, Mexico and Uganda.\textsuperscript{56} Recipients of the social pension in Brazil, for example, have accessed bank loans by showing their pension payment card to prove their regular income. In Uganda, SCG recipients have accessed loans from SACCOs but also from more informal Village Savings and Loans Associations (VSLAs).

While access to regular and predictable transfers can encourage recipients to engage in income-generating activities, these positive impacts can be further strengthened if they are also given further business support. A good example of this has been FSD’s assistance to HSNP recipients in Marsabit who had started micro-enterprises. They were given additional capacity development to enhance their business skills. Their incomes increased significantly when compared to other recipients who had also started businesses but did not receive support from FSD. Due to the poor targeting within HSNP, these successful recipients were not removed from the programme, which meant that they continued to be protected against shocks and had the confidence to continue to invest in their micro-enterprises. Indeed, this demonstrates the value of universal social security schemes for business development among recipients: recipients will not fear being removed from the social security benefit if their enterprises are successful and can continue to look to the future, knowing that they are protected against shocks.

\textsuperscript{50} Martinez (2004).
\textsuperscript{51} Delgado and Cardoso (2000).
\textsuperscript{52} Brook et al (2016).
\textsuperscript{53} CARE (2009); Barrientos & Lloyd-Sherlock (2002).
\textsuperscript{54} Llewellin and Kuss (2017).
\textsuperscript{55} Pfutze and Rodriguez-Castelán (2015).
\textsuperscript{56} Llewellin and Kuss (2017).
\textsuperscript{57} Mathers and Slater (2014).
\textsuperscript{58} Svarch (2009); Scott (2009); Gertler et al (2012); Brook et al (2016); Ibrahim and Namuddu (2014); Bukuluki and Watson (2012) and Llewellin and Kuss (2017).
4.2.2 Social security helps generate higher levels of employment

It is often believed that, if people receive cash from social security, they will become lazy and stop working. Yet, there is no evidence that well-designed schemes cause people to become more dependent. Good evidence for this comes from Iran where the government introduced a form of universal basic income in 2011, with each household in the country receiving a regular monthly cash benefit. No negative impacts on labour supply were found.59 Similarly, in the USA, higher unemployment insurance payments have not discouraged employment.60 However, when schemes are means-tested, poverty traps can be created, with recipients worried that, if they work, they may lose access to support61 (see Box 4 2). Indeed, the high rates of poverty among single parents in the United Kingdom compared to married couples is, in part, the result of means-tested social security schemes discouraging recipients from working, in contrast, in the Nordic countries, where benefits are universal and designed in line with the ‘citizenship paradigm’ (see Section 3), poverty rates among single parents are similar to married families.62 Further, when access to disability benefits is contingent on recipients not working, there is evidence from South Africa and Uzbekistan that persons with disabilities disengage from the labour market.63

Box 4.2: Work disincentives associated with means testing

When the eligibility for a scheme requires its recipients to meet poverty criteria, this can discourage them from entering the workforce, in particular when income from work is only marginally higher, or even lower, than the benefit received through the programme. This has been a common problem with poorly designed means-tested benefits in high-income countries – such as in the United Kingdom64 – and there is some evidence from poverty-targeted schemes in middle-income countries. For example, in Georgia, women receiving the Targeted Social Assistance were found to be 9 to 11 percentage points more likely to be economically inactive when compared to women in non-recipient households.65 In Uruguay, among women receiving a targeted child benefit, formal employment fell by 20 per cent, while entry into formal employment was up to 27 percentage points lower for recipients, compared to non-recipients.66 And, in Argentina, a rule that women receiving the child benefit have to be in the informal economy has encouraged many recipients to remain in informal labour.67

The global evidence across low- and middle-income countries indicates that, when people access social security schemes, their chances of accessing the labour market are enhanced. There are many examples (and Box 4.3 explains why, despite using poverty targeting, many of the schemes described here have positive impacts). In Brazil, recipients of the Bolsa Família programme were more likely to be engaged in work than non-recipients, after controlling for the effects of age and family structure.68 In South Africa, households receiving the Child Support Grant (CSG) are 15 per cent more likely to be in employment and 18 per cent more likely to search for

Box 4.3: Reasons for why some poverty-targeted schemes encourage employment

The examples given of poverty-targeted schemes supporting employment among recipients appear to contradict the information provided in Box 4-2 of such schemes creating poverty traps. In reality, this is because of the poor quality of the schemes. In some of the schemes, re-certification is infrequent and recipients can stay on schemes for many years, even if their incomes increase significantly. So, they do not fear being removed if they obtain a job. In South Africa, because the means-test is unverified, again recipients do not fear removal if they do well economically. Paradoxically, poverty traps are more likely to be created when means-testing is of higher quality.

59 Salehi-Isfahani & Mostafavi-Dehzooei (2017)
60 Boone et al. (2021)
64 Lewis (2017).
67 Maurizio and Vásquez (2014).
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In both South Africa and Mexico, recipients of social security transfers were able to look for work because they could afford bus fares and presentable clothes.10 The labour force participation of recipients on Colombia’s Familias en Acción programme increased by 8 per cent while Lesotho’s Child Grants Programme has resulted in an increase in women working of 8 percentage points.70 Kenya’s CT-OVC scheme has strengthened labour force participation by 13 percentage points for those living further from markets while, within HSNP, there has been an 11 percentage point increase in households reporting a positive change to their work patterns.71

The introduction of social security benefits can have significant gender impacts by facilitating women’s access to employment. The introduction of old age pensions encourages greater employment among women in part because pensioners can assume care responsibilities for children, enabling the children’s parents, mainly women, to find work: in South Africa, households receiving the Old Age Grant were found to have 12 per cent higher labour force participation rates than non-recipient households, while employment rates were between 8 to 15 per cent higher.72 The Old Age Grant has also had a significant positive effect on the ability of unemployed household members to search for jobs.73 Further, parents are often able to migrate in search for work, leaving their children with their pensioner grandparents.

Governments should take other measures to support mothers of young children who have withdrawn from the labour market on the birth of a child, so that they can re-enter the labour force while ensuring that their children are cared for. Working mothers should be given time to focus on caring for their new-born children during the first few months of life, without experiencing a significant financial shock. This can be achieved, in part, by providing mothers with a maternity benefit for a number of months, so that they are not obliged to return to work immediately, which could harm their child’s development.74 Maternity benefits could be provided through a combination of a social insurance mechanism – as happens in Rwanda – and tax-financed benefits.75 However, once the period of maternity leave is over, the return of mothers to employment could be facilitated through the provision of free or subsidised childcare. As Box 4.4 explains, this would help countries ensure that a skilled female workforce is not lost to businesses, with positive impacts on economic growth.

**Box 4.4: Formal systems of childcare and economic growth**

There is growing evidence across high-income countries that a key factor in lowering child poverty is free childcare. There are strong arguments for building similar services in low and middle-income countries, at least in areas where wage employment is prevalent. There is a clear relationship between government investment in childcare services and the percentage reduction in child poverty in high-income countries, due to higher employment.76 Free childcare enables caregivers – usually mothers – to return to work after the birth of a child. As a result, they can maintain their family incomes at a time when they are facing additional costs as a result of caring for their child, boosting labour force participation rates. Single mothers can receive significant benefits from free childcare, since they find it most difficult to return to work without support from the state.77 If caregivers have to pay for childcare, they have few incentives to return to work, since a high proportion of their salaries may be absorbed by childcare costs, in particular for those with lower incomes.

Childcare services also offer employment to mothers of young children: state childcare provision requires carers, and these can be mothers themselves. Therefore, childcare can act as a form of public employment programme which, through its design, generates further employment for many others.

Formal and free childcare can be self-financing if an effective income tax system is in place. Studies in the United Kingdom, Denmark and Quebec (Canada) have shown how the increased participation of women in employment generates tax revenues that can fully cover the cost of childcare and even deliver a profit for the State.78 The provision of childcare, therefore, can generate economic growth, in particular when skilled workers can return to the labour market. For instance, almost free childcare in Quebec grew the province’s GDP by 1.5 per cent.79

72 Samson et al. (2004)
73 Posel et al. (2006)
74 Countries should, of course, consider introducing paid paternity leave to enable fathers to spend more time with their children, during the crucial first months of their children’s development.
75 If countries finance maternity benefits through a mix of general taxation and social insurance, the social insurance benefit should also provide a higher value transfer, as a means of encouraging employees to pay into insurance schemes.
76 Kidd (2012).
77 Kidd (2012).
78 Ben-Galim (2011).
79 Ben-Galim (2011).
In part, the multiplier impacts that derive from injecting cash into the economy – which were discussed in Section 4.1 – also result from increases in employment among non-recipients of the social security benefits. Entrepreneurs – both recipients and non-recipients – often take on more workers to cope with the increase in demand for their products and services. Uganda’s universal Senior Citizens’ Grant is a good example of a social security scheme – despite its low value transfer – driving greater employment. Many recipients of the pensions gave jobs to other community members, for example to work in agriculture, build houses or dig pit latrines. Boda-boda riders became more productive as pensioners required transport to go to paypoints and markets.80 Mugumya et al (2017) were told that boda-boda operators were ‘making a kill on every pay day.’ Many of those benefiting from the employment given by recipients of Uganda’s pension were young people, with the scheme helping address the challenge of youth unemployment and underemployment. Jobs were also generated in local enterprises. Another informant told Mugumya et al (2017) that: ‘There is high demand and supply of wage labour because of the flow of the money, unlike before the SCG programme.’

Simulations using CGE modelling also demonstrate how increases in investment in social security create higher employment nationwide. Figure 4.8 shows the impacts on employment resulting from the greater demand in the economy generated by spending one per cent of GDP on social security. On average across countries, employment is predicted to increase by 0.6 per cent. The size of impact depends on which markets within countries experience higher demand. In some countries, such as Bangladesh, India and Colombia, the increase in female labour would be around one per cent. Indeed, the extent to which males and females would benefit varies between countries, reflecting the differences in how women interact with the labour market and the types of jobs that would be created. If the investment of one per cent of GDP social security were to continue over ten years, the cumulative effect on total employment would be almost 3 per cent in Rwanda and around 2 per cent in India, Colombia and Costa Rica.

For Kenya, the simulated impact of increased investment in universal social security on employment and a number of other macro-economic indicators can be found in Section 5.2, where proposals on increasing national investment in universal social security are presented.

Figure 4.8: Increases in employment resulting from a one per cent increase in investment in social security, across eight countries, for both male and females

Source: Development Pathways and ITUC (2021).

80 Ibrahim and Namuddu (2013); Llewellin and Kuss (2017).
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The increase in employment is an important component of the multiplier impacts deriving from social security since those newly employed will also spend their income, further driving demand. As discussed earlier, the markets within which the new employees would spend their money would depend on a range of factors, including their relative wealth.

The provision of old age pensions can enable older persons to withdraw from the labour force, freeing up space for younger people. A social pension in Brazil resulted in a reduction in hours worked among those aged 65 years and above while Mexico’s social pension reduced the proportion of recipients undertaking paid work by 20 per cent, although most switched to working in family businesses, resulting in an increase in overall labour force participation. A similar effect has been observed in Uganda, with the Senior Citizens’ Grant. Many older people withdrew from casual labour, thereby opening spaces within the labour market for younger persons. One person told Llewellyn and Kuss (2017): “We have more labour opportunities because old people have stopped competing with us.”

It is important to note that social security transfers can support greater employment and productivity through multiple pathways. Box 4-5 gives an example from South Africa on how access to the Old Age Grant not only enabled a recipient’s children to remain at school and gain better jobs, but also helped the pensioner herself establish a small business.

Box 4.5: An example of how South Africa’s Old Age Grant promoted greater engagement in the labour market

Mamzoli is a widow from the Eastern Cape region of South Africa. She has a number of children and is directly responsible for supporting a daughter and six grandchildren, while her two male children live in the city where they moved to gain an education. A few years ago, she began to receive the state old age pension which provides a regular monthly income of around US$90. As a result, her son Simpiwe – one of those at school in the city – was able to reduce the amount he sent his mother as a remittance. This meant that he could continue his schooling and, consequently, obtain a better-paid job. Once he had this job, he was able to support his siblings to stay on at school and, in turn, gain more productive employment. Eventually, Mamzoli’s children were able to buy her a gas-powered fridge, which she has used to start a small business, selling meat and alcohol. Her own income has, therefore, increased but so has the income of her entire kinship network, including many children.

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A healthy workforce is a more productive workforce. Yet, low incomes are a huge barrier to accessing healthcare and can instigate a ‘medical poverty trap’ in which poverty and ill health reinforce each other in a vicious cycle. Globally, the WHO estimate that, in 2017, 800 million people spent at least 10 per cent of their household budgets on health expenses which were high enough to push roughly 100 million people into extreme poverty. Low incomes also mean that families are more susceptible to ill-health, often due to not being able to afford sufficient food of adequate nutritional value.

When families are in receipt of social security transfers and enjoy higher incomes, this feeds through into improved health and nutrition. Recipients can eat more as well as enjoy better quality diets. For example, the proportion of recipient households on Uganda’s Senior Citizens’ Grant experiencing little or no hunger increased from 45 per cent to 62 per cent. In a qualitative evaluation, one informant noted: “Before, some beneficiaries looked malnourished. But now they look much younger, simply because they can afford their basic needs.”

If people are healthier and better fed, they will be able to work more productively and be less likely to lose time at work due to sickness.

There is evidence from across the world of how social security has improved health. Evaluations by Pega et al (2017) across five countries have shown how social security transfers have reduced the likelihood of illness by 37 per cent. Cheng et al (2016) found that enrolment in China’s New Rural Pension Scheme (NRPS) positively impacted on physical health, nutritional intake, access to health care, cognitive function and the psychological wellbeing of older persons, as well as reducing mortality over a three-year horizon by 6 percentage points. Conversely, the relationship between social protection and health can be shown by observing the adverse health impacts of reducing social security spending. Jensen and Richter (2004) found that, in Russia, after the pension system collapsed in 1998, there was 5 per cent increase in mortality among older people.

If Kenya were to expand its social security benefits, one result would likely be better health and nutrition among recipients and their families. In fact, evidence indicates that Kenya’s social security schemes have resulted in people consuming more food, alongside greater dietary diversity while the 2015 Inua Jamii beneficiary perceptions survey showed that over 90 per cent of social security recipient households experienced increased consumption and dietary diversity. In the same survey, the proportion of beneficiaries reporting a positive impact on health as a result of receiving social security payments was 81 per cent for the HSNP, 90 per cent for the CT-OVC programme, 89 per cent for the OPCT and 91 per cent for the PwSD-CT. The charity GiveDirectly’s UBI pilot in Kenya has also improved the physical and mental health of recipients during COVID-19, while also reducing hospital utilisation.
4.2.4 Empowering persons with disabilities and strengthening their ability to engage in the labour force

Social security can play an important role in helping persons with disabilities engage in the labour force while also enhancing their productivity. It has been estimated that not offering adequate support to persons with disabilities can reduce national GDP in low- and middle-income countries by between 1 and 6 per cent.⁸⁹ As highlighted by Figure 4.9, persons with disabilities need support across the lifecycle from a range of public services – as well as legislation that prohibits any form of discrimination – if they are to maximise their potential. Yet, in many countries, they do not receive the support they require in childhood to gain the skills they need and, during working age, can face discrimination in accessing employment.

Further, persons with disabilities experience a range of additional costs resulting from their disability. These can include: higher costs to access medical services, rehabilitation, education and care support, the costs of medicines and other health products, more expensive transport, and, the need to purchase assistive devices, among others. These higher costs mean that persons with disabilities can face challenges in gaining employment or investing in income-generating activities.

A lifecycle system of disability benefits can enable persons with disabilities engage more actively in economic activities. If persons with disabilities access financial support during working age, they are more likely to find employment – for example, by being able to cover the costs of travelling to work – as well as having the regular and predictable income that enables them to invest in income generating activities. However, as will be discussed in Section 5.1, it is also critical to provide financial support to children with disabilities to help build the skills that will enable them to gain more productive employment in the future. This financial support can also help their parents engage in economic activities.

Kenya’s economy would, therefore, likely benefit if an effective system of disability benefits were established for persons with disabilities across the lifecycle. As Section 5 will indicate, a basic system for both children and adults with disabilities would be relatively low cost, at only 0.14 per cent of GDP. It would not only offer persons with disabilities greater dignity and autonomy, but also enhance their productivity.

⁸⁹ Banks and Polack (2014).
4.2.5 Mitigating the impacts of shocks and enabling households to recover their productivity more quickly

As COVID-19 has shown, major covariate shocks and crises – such as natural disasters and external economic crises – can cause significant damage to national economies, especially if the families affected have to sell their productive assets as a coping strategy. Household level shocks – such as ill-health, disability or unemployment – can have similar impacts, also inhibiting national economic growth. Harris (2013) has cautioned about the negative impacts of an absence of comprehensive social security systems: ‘Social protection has long been thought of as an unaffordable luxury. As a result, shocks to employment can have devastating human and social consequences – less consumption of food and thus, poorer nutrition; withdrawal of children from school; loss of access to essential services; and the forced sale of assets, all of which lessen the capacity to recover once the shock passes.’ In effect, households that experience a shock may well sell their productive assets which means that they will struggle to return to the same level of productivity that they had before the crisis.

COVID-19 has had a significant negative impact on the wellbeing of families across Kenya. Many households have struggled to access even the basic essentials of life. Between April and June 2020, 40 per cent of the labour force experienced a loss in income while a further 30 per cent had no earnings at all. The World Bank estimated that, in 2020, an additional 2 million households were living under the poverty line. During May and June 2020, adults skipped meals at least once a week in 40 per cent of households. Given the slowness of the economic recovery, it is likely that many households will have had to sell assets to bring in necessary income, which will mean that they will take time to recover their productivity.

Small businesses in Kenya also experienced a significant shock during COVID-19. During the lockdown period between April and July 2020, micro-business revenue fell by 63 per cent, when compared to February 2020 and, by July 2021, it was still only two-thirds of pre-COVID levels (see Figure 4.10). Further, while 14 per cent of micro-business owners were food insecure in February 2020, during the lockdown period this rose to 61 per cent and remained at a rate of 47 per cent in July 2021.

Figure 4.10: Median revenue of micro-businesses in Kenya through the COVID-19 crisis

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91 Harris (2013).
93 Ibid.
94 Ibid.
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Even in the absence of COVID-19, a high proportion of households in Kenya are affected by shocks each year. As a result, during normal times many people experience some time living under the poverty line: for example, across rural Kenya, throughout the ten-year period between 1997 and 2007, 84 per cent of rural households spent all, or some time, living in poverty. An illustration of this can be found in the northern counties of Turkana, Marsabit, Mandera and Wajir. Figure 4.11 shows the change in the welfare ranking of households over a period of just two years, between 2010 and 2012. There was significant volatility in household consumption, with even households in the highest quintile dropped to the lowest quintile.

When a shock is covariate and affects a high proportion of producers, the national economy can experience a significant downturn. For example, the overall losses from the 2008-2011 drought in Kenya were estimated at KES968.6 billion (US$12.1 billion). This included KES64 billion (US$806 million) resulting from the destruction of physical and durable assets and KES904 billion (US$11.3 billion) for losses in the flows of the economy across all sectors. The recovery costs from the droughts were estimated at KES87 billion (US$990 million), and reconstruction at KES69 billion (US$788 million).

Ensuring that producers can address risk and shocks is an essential component of a successful economic growth strategy and there is good global evidence that, if families and producers can access social security, they are less likely to sell their productive assets. As a result, they can bounce back to higher productivity more quickly once the crisis dissipates, offering a boost to the economy. In Nicaragua, for example, families on the Red de Proteccion Social scheme were better able to cope with a sharp drop in coffee prices during 2001/02, maintaining household expenditures while those outside the programme struggled; in Ethiopia, 60 per cent of households on the Productive Safety Net Programme (PSNP) avoided selling assets to purchase food when experiencing a shock; in Uganda, recipients of the Senior Citizens’ Grant have used the transfer to support themselves during emergencies, particularly when hit by a health shock or when crops are destroyed as a result of climatic conditions; and, in Kenya, Banerjee et al (2020) report that, among recipients of the UBI in Bomet and Siaya counties who had started non-agricultural enterprises prior to COVID-19, there were no closures during the pandemic, although unsurprisingly earnings fell.

96 Gelders (2016).
97 These are consumption quintiles within these counties, not national consumption quintiles.
98 This analysis has previously appeared in Kidd et al (2019a).
100 Maluccio and Flores (2004).
102 Brook et al (2016)
In fact, if the owners of micro-enterprises can access social security during a shock, they may be able to weather a crisis and even maintain productivity. For example, in Marsabit county, FSD Kenya found that, during 2020, despite COVID-19, the income from small businesses increased among HSNP recipients by 20 per cent whereas it fell across Kenya where most owners of small firms were unable to receive protection from social security. In effect, by accessing regular and predictable transfers, the resilience of small business owners can be strengthened.

If Kenya invested in a comprehensive lifecycle social security system, it could reach the vast majority of households in Kenya with regular income support, providing them with the resilience that would enable them to protect their productive assets and maintain their businesses. Kenya’s Social Protection Sector Review of 2019 argued that, if 2 per cent of GDP were invested in universal child, old age and disability benefits, it would be possible to reach the vast majority of households nationwide with regular and predictable transfers, including 95 per cent in the poorest quintile of the population (see Figure 4.12). If a shock were to hit an area of the country, not only would households already be more resilient due to the regular transfer, the government could trigger an additional payment for the period of the shock. If such a system had been in place prior to COVID-19, the Government would have had an easy means available to support families and deliver a fiscal stimulus. As indicated earlier, unemployment benefits could also play an important role in enabling families to maintain a minimum standard of living during the period of unemployment, while also helping the recipient look for another job.

Figure 4.12: Proportion of households across the welfare distribution that would receive at least one social security benefit if Kenya were to invest in universal child, old age and disability benefits

Source: Kidd et al (2019a)

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104 Source: Analysis based on the 2015/16 KIHBS.
The potential for economic growth is reduced in many low- and middle-income countries by the absence of adequate financial services in rural and more remote communities. However, the introduction of social security can be used by governments to extend financial services into these areas. Since governments need to make the social security payments, they can use the private sector – for example, banks or mobile phone companies – to do this. Given that they should make the payments as close as possible to recipients, governments can insist that payment service providers establish pay-points within, for example, seven kilometres of all recipients. Often, these pay-points are local small businesses. Forward-thinking payment service providers can use pay-points to not only pay the recipients but also offer financial services – such as loans, savings accounts and insurance products – to both the recipients and other members of the community. In effect, governments can effectively subsidise the expansion of financial services throughout the nation, by giving payment service providers a small fee to deliver transfers.

Equity Bank’s penetration of the four northern counties of Kenya has been largely due to its role as the payment service provider for the Hunger Safety Net Programme (HSNP), with the bank now offering services to communities that were not available prior to the scheme. As Kenya continues to extend its social security system, it should continue to look for opportunities for social security payments to be used as a means of further extending financial services across the population.

Within communities, the growth of the social security system can also strengthen informal financial services, by enabling more people to become contributors. For example, in Uganda these services have been strengthened by the Senior Citizens’ Grant. More community members are able to take loans, which has a further knock-on effect of enabling people to invest in their own income-generating activities and small businesses.

It should be noted that financial inclusion does not necessarily guarantee financial health but is merely one important tool to promote financial wellbeing and encourage greater investment in the economy. For example, studies have found that the financial health of Kenyans has declined rapidly since 2016, despite rising levels of financial inclusion. In 2021, 4 out of 5 adults owned a formal account but less than 1 in 5 demonstrated an ability to secure basic daily needs, cope with the costs of unexpected shocks and invest in their livelihoods and future. The extension of financial services is most effective when accompanied by measures to promote greater income security and increase access to income that people can save and invest, such as through social security.

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106 Gubbins and Heyers (2022).
107 Gubbins and Heyers (2022.)
4.3 Long-term impacts

Investments in social security can have a range of long-term impacts on economic growth. These include building a nation’s human capital, reducing inequality, strengthening social cohesion to avoid the damage caused by social conflict while building a better investment climate, and strengthening the national social contract, which can engender higher government revenues for further investment in national social and physical infrastructures.

4.3.1 Strengthening the nation’s human capital

A successful national economy depends on the quality of its workforce. Therefore, countries must invest in the skills of their children and young people, to prepare them for their future entry into the labour market and enhance their productivity. A strong labour force means that national economies are more competitive and more likely to attract private sector investment.108 The Growth Commission (2008) noted that: “Every country that sustained high growth for long periods put substantial effort into schooling its citizens and deepening its human capital; and that, ‘investments in the health, knowledge, and skills of the people—human capital—are as important as investments in the more visible, physical capital of the country’.”

Investing in the nation’s human capital by supporting children is particularly important if Kenya is to enjoy a demographic dividend. As Figure 4.13 shows, over the next few decades the dependency ratio in Kenya will fall. This will be the result of the proportion of children in the population shrinking while that of older people remains relatively low. Consequently, there will be an expansion in the potential labour force relative to the size of the child and older populations, as baby boomers reach working age. By 2050, the working age population will reach 60 per cent of the overall population.109 This could produce a demographic dividend for Kenya, which could further drive economic growth. Kenya will be in a position to transfer resources from children to the working age population, meaning that there can be higher investment in infrastructure, job training and new technologies, and, there should be an increase in women’s participation in the labour force as they experience a reduction in their caring responsibilities. Further, with the expansion in the working age population, the rate of savings in Kenya could rise – for example, through contributions to pension funds – which could be used to invest in further growth.110

“Every country that sustained high growth for long periods put substantial effort into schooling its citizens and deepening its human capital,’ and that, ‘investments in the health, knowledge, and skills of the people—human capital—are as important as investments in the more visible, physical capital of the country.”

110 Bloom et al. (2011).
Critically, however, the extent to which Kenya enjoys the demographic dividend will depend on its investments in its citizens, especially its children. If child development is neglected – for example, by not addressing the income constraints experienced by most families – the future working age population will have lower skill levels and be at higher risk of unemployment. If this happens, Kenya may experience a demographic curse, with high levels of youth unemployment and a greater risk of social unrest. Unemployed and disenfranchised youth can be vulnerable to involvement in criminal activity and even extremism. To avoid this happening, it is essential that Kenya invests in today’s children so that the country can fully enjoy its demographic dividend.

In fact, youth unemployment is already one of the most significant challenges facing Kenya today, with 13 per cent of the labour force aged 15-24 years unemployed in 2019.111 Youth unemployment has increased dramatically since the COVID-19 crisis. Between the first and the second quarter of 2020, unemployment among 20-24 year olds rose from 13 per cent to 23 per cent.112 In this context, a potential demographic dividend threatens to become a developmental curse if it is not actively shaped into an opportunity through investments in girls, boys, young women and men, as well as broader investments in economic sectors to create a job market that can absorb a more highly skilled labour force.

Investing in children requires countries to invest in a range of essential public services. While it is important to ensure that children can access good quality health and education services, as Figure 414 indicates, this is insufficient. If societies want to enhance development outcomes among children, they also need to invest in social security. By doing so, they will address the income constraint that impedes families from investing in their own children and will ensure greater value for money from investments in health and education.

Figure 4.13: Dependency ratio in Kenya, measuring proportion of dependants (children 0-19 years and older people 65+) per 100 persons of working age (20-64 years) over time


111 https://data.worldbank.org/indicator/SL.UEM.1524.NE.ZS?locations=KE
Due to widespread low incomes, Kenya's children face many challenges which, if not addressed, will severely impact on their productivity in later life. These encompass poor nutrition as well as challenges in gaining a good quality education. As a result of inadequate investment in Kenya's children, a high proportion enter the labour force without the skills demanded by modern economies.

### Child undernutrition and its impact on future productivity

Most children in Kenya experience deficiencies in their diets. In fact, 31 per cent of households with children report not having enough food to eat or money with which to buy food. The proportion rises the poorer the household, although even better-off households struggle. In fact, on any given day, 67 per cent of children under 5 years in Kenya do not consume iron-rich foods, including meat, fish, poultry and eggs.

Unsurprisingly, the challenges in obtaining nutritious food mean that 171 per cent of Kenya's children under 5 years of age are stunted. As Figure 4.15 shows, stunting rates are highest among the poorest children but, nonetheless, many children in better-off families are also affected, indicating again that low incomes affect the majority of the population. Children with disabilities, who may face discrimination within the family, are at particular risk. As argued by the Presidential Policy and Strategy Unit (PASU) (2022: 5): “primarily because of the high levels of stunting, Kenya has a human capital score of 0.55 indicating that a child born in the country today is likely to achieve only half of his or her potential.”

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113 Source: DHS 2014.
114 Kenya Demographic and Health Survey, 2021.
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Figure 4.15: Percentage of 0-5 year olds experiencing stunting across wealth quintiles in Kenya

Source: analysis of the 2021 Demographic and Health Survey.

Indeed, this is holding back Kenya’s development potential. The Growth Commission (2008) argues: “Ill health and poor nutrition in early childhood seems to have a first-order impact on both growth and equality.” For children’s potential to be realised, it is essential that they receive adequate nutrition during their first 1,000 days. While it is important to invest in children up to 18 years of age, the highest rates of return are in this formative period, when most brain growth happens. Nutritional health has a significant impact on cognitive development during a child’s formative years which can affect their ability to perform at school.\(^\text{115}\)

Stunting and a lack of iron in the diet impact on a child’s brain development, with long-term consequences for national productivity: for example, if children experience stunting during their first few years of life, their lifetime earnings can fall by as much as 26 per cent.\(^\text{116}\) Stunting can have a significant detrimental impact on economic growth. Fink et al (2016) estimate that, across low- and middle-income countries, it caused a total loss of 69.4 million years of educational attainment per birth cohort, at a total economic cost of US$177 billion per cohort. Their research indicates that scaling up effective interventions in early childhood development in low- and middle-income countries is likely to yield long-term benefits of US$3 for every US$1 invested by preventing the faltering of growth associated with the burden of malnutrition. In Kenya, it is estimated that, in 2014, 6.9 per cent of GDP (US$4.2 billion) was lost due to child undernutrition.\(^\text{117}\)

The COVID-19 crisis has exacerbated the food insecurity experienced by children in Kenya. FSD Kenya (2020) has estimated that, if there were a 20 per cent increase in food prices and a 20 per cent decrease in household income, the number of individuals in food poverty would have increased by 87 per cent to 27.1 million people, the majority of whom would be children, further (and likely irreversibly) setting back the nation’s human capital development. In fact, during May and June 2020, children in 25 percent of households skipped meals at least once a week.\(^\text{118}\) It is likely that children with disabilities may have faced even greater challenges.

\(^{115}\) Ferguson et al. (2005).
\(^{118}\) Ibid.
Social security transfers can have significant positive impacts on the nutritional health of children. The High-Level Panel of Experts on Food Security and Nutrition have estimated that a ten per cent increase in income can improve household food security by five per cent, due to the increase in calories available for consumption. There is good evidence of social security transfers contributing to children consuming more food. In Uganda, the Senior Citizens’ Grant has increased the number of meals eaten each day by children aged 0-5 years by around 10 per cent. In Indonesia, recipients of the Program Keluarga Harapan (PKH) experienced a ten per cent increase in their average monthly consumption which contributed to the frequency of more nutritious meals being consumed. A range of countries – including South Africa, Namibia and Mauritius – provide child disability benefits which can make a real difference to the lives of the most vulnerable children. These increases in food intake, both in terms of quality and quantity, can translate into better nutritional outcomes among children. For example, in South Africa, children living with old age pensioners or accessing the Child Support Grant are up to five centimetres taller than other children. In Uganda, the Senior Citizens’ Grant has contributed to an increase in weight-for-height of children of 0.86 standard deviations. In the Philippines, stunting among recipient children fell by 9 percentage points. In Colombia, transfers paid through the Familias en Acción programme led to an increase in the height-for-age of children under 24 months, equivalent to an increase of 0.43 centimetres for a 12-month-old child. In Egypt, the Takaful programme resulted in a reduction of the probability that a child under five years of age was ever treated for malnourishment by 3.7 percentage points, although no impacts were found on child stunting. The extent to which social security transfers impact on stunting is probably related to the size of the transfer itself, which explains why old age pensions have some of the largest impacts, since grandparents are often particularly generous to their grandchildren.

However, poorly designed social security transfers may have negative impacts on child wellbeing. A study of the Philippines’ poverty-targeted Pantawid programme has demonstrated that, while, as noted above, it reduced stunting rates by 9 percentage points among recipient children, it increased stunting by 11 percentage points among non-recipients. The researchers argue that this is because the benefit caused the prices of high-protein foods to rise, due to increased demand as recipient parents purchased more meat, fish, milk and eggs for their children. As a result, non-recipients – many of whom were poorer than the recipients, due to the targeting errors – could no longer afford to reduce their expenditure on these same items, as their incomes had not increased since they were not receiving the transfers. Instead, they had to replace high-protein foods with less nutritious items that had not increased in price, such as rice. The researchers argued that this negative impact on the nutrition of non-recipients would be avoided if the child benefit was provided on a universal basis.

International research has found a clear relationship between diet, cognitive development and academic achievement. A lack of proper nutrition and exposure to illness and infection during childhood can have lifelong consequences on educational attainment and health. Research has found that infants with iron deficiency anaemia have mental capacity scores that are between 6-15 percentage points lower than their non-iron-deficient peers. Iron deficiency has also been linked with lower test scores at school. There is some evidence that improvements in child nutrition that derive specifically from social security can translate into higher educational and employment outcomes. An evaluation of South Africa’s Child Support Grant has demonstrated that children receiving the benefit from a very young age perform better at Maths and English. Further, Arnos et al (2009) have calculated that the estimated height gains from the Child Support Grant will lead to increases in earnings in later life and a discounted rate of return on CSG payments of between 160 and 230 per cent.

125 Attanasio et al. (2005) However, no effect was found on the nutritional status of older children.
126 Breisinger et al. (2018).
130 Walter (2003).
131 DSD, SASSA and UNICEF (2012).
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Educational outcomes among school age children

Although the rates of return from investing in children are highest during the first 1,000 days, they are still significant once children reach school age. Therefore, governments that wish to invest in a high-quality workforce should also ensure that children can not only access school through to the end of secondary education but be given the opportunities to perform well. Enhanced educational outcomes among children not only require governments to invest in good quality, free education, but also investments in health services and social security. Low-income families are not in a position to invest adequately in their children if they do not receive additional income support from government.

While Kenya is doing relatively well regarding school attendance among children, many are delayed in the grade attained. As Figure 4.16 shows, across the poorest 70 per cent of the population, only 14 per cent of children aged 12-17 years are attending secondary school. Further, from age 12 years, children begin to drop out of school, which means they will never achieve the level of education that they require. Even among the 30 per cent of households on higher incomes, drop-outs from school are relatively high: indeed, one reason that these households are better-off may be the result of the income from children who have left school to enter the labour market. A key reason for not attending school is cost: despite the policies of universal Primary and Secondary Education, caregivers still have to cover the costs of uniforms, books, stationary, and transport if they are to keep their children in school, while some girls may not attend secondary school due to the costs of sanitary products. It is probable that school attendance is significantly lower among children with disabilities.

Even when children attend school, other factors linked to low incomes may affect their performance. Children will not perform well if they experience hunger in the classroom, a challenge for many children. Research has shown that eating an adequate diet regularly (in particular at breakfast) – which requires a higher income – has been associated with enhanced academic achievement. A hungry child will be unable to concentrate in class and, to date, Kenya provides only a small proportion of children with meals when they are at school. Indeed, there are indications that the undernutrition of children in Kenya continues among school age children. For example, while, in 2005, 5 year old boys were ranked as 94th tallest in the world, by country, by 2019, the same boys had dropped to 137th; similarly, 5 year old girls were ranked 104th tallest in 2005, but the same girls had had fallen to 130th by 2019.

Further, international research has indicated that 86 per cent of the variation on educational performance among children is the result of out of school factors. A growing body of international evidence shows that the home learning environment, both in early childhood and throughout school, is a powerful predictor of children’s educational attainment.

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135 Adolphus et al. (2016); Kim et al. (2016).
136 NCD-RISC (n.d.).
137 Goldhaber et al. (1999); Hirsch (2007).
The number of children’s books in the home is strongly associated with supporting children’s receptive and expressive vocabulary, whereas toys that elicit symbolic play support fine motor skill development, strengthening children’s early language skills and theory of mind. These are all skills that have enduring influence into pre-adolescence. Children also benefit from being able to participate in out-of-school activities. Yet, these activities and learning materials cost money and, as a result, many children in Kenya miss out on extra-curricular activities, impacting on them reaching their full potential.

Parents also need to spend time with their children, to stimulate their cognitive development. Yet, around 54 per cent of women and 59 per cent of men in Kenya work more than 40 hours per week on average and, among households on higher incomes, working hours are even longer (which, in part, explains their higher incomes). In fact, in the top quintile of the population, 25 per cent of men work more than 60 hours a week while 25 per cent of women work more than 50 hours. Some people work multiple jobs while many also spend a significant amount of time commuting. In addition, at home, parents – particularly mothers – have a wide range of domestic responsibilities.

Children’s performance at school and their development can also be affected by domestic violence in the home, which itself is more likely among households on low incomes. Money pressures can exacerbate gendered tensions within relationships and economic dependence on male partners can make it difficult for women to remove themselves and their children from abusive environments. On average, in Kenya 47 per cent of women who are, or have been, married have experienced domestic violence. As well as impeding a safe home learning environment, domestic violence can damage the cognitive and sensory growth among children as well as their language development, while making sleep problems, emotional distress and depression more likely. Domestic violence has increased during COVID-19 as families have come under greater financial strain. In fact while, prior to the pandemic, the average age of girls experiencing sexual violence was 16 years, this has fallen to 12 years during the crisis.

Research undertaken by the Taweweza Foundation Uwezo initiative confirms this analysis. It suggests that low incomes have resulted in widespread poor educational attainment across children in Kenya. Children are progressing through school grades before acquiring the necessary competencies: for example, only 30 per cent of children in Class 3 possess the skills to undertake Class 2 level work. On average, 1 out of 10 children in Kenyan primary schools are completing Class 8 without having acquired the basic competencies expected of a child completing Class 2. Importantly, the lower the income of families, the lower the performance of children. The COVID-19 crisis has resulted in further educational losses to children, following the closure of schools, with learning outcomes among children severely affected. Indeed, a study from PASU (2021) found that up to 16 per cent (270,000) of adolescent girls and 8 per cent (125,000) of adolescent boys did not return to school in January 2021, following the closure of all schools in March 2020 at the beginning of the COVID-19 crisis. Over 300,000 girls got pregnant in the first year of the pandemic and over 100,000 girls got married within the same period. This further demonstrates the need for the Government to urgently invest in children to realise the full potential of its investments in the education sector, including through an expansion in the national social security system.

When families receive additional income from social security, the global evidence indicates that they use it to send their children to school. In rural areas of Turkey, children aged 14 to 17 years living in households receiving a cash transfer were 17 per cent more likely to be enrolled in secondary school compared to non-recipients. The impact was highest among boys from recipient households, who were 23 per cent more likely to be enrolled in comparison to non-recipients. In Bolivia, among 14 year-old children receiving the Bono Juancito Pinto grant for children, the likelihood of being enrolled in grade 8 increased by 5 per cent. A study of the Red de Protección Social in Nicaragua, found that, among children aged 7 to 13 years who had not completed fourth grade, school enrolment increased by 18 percentage points among recipient households, compared to a 7 percentage point increase in enrolment among the control group. Indonesia’s Program Kelargua Harapan (PKH) increased school enrolment among 7 to 15 year-olds by 4 percentage points, six years after the programme was implemented. And, in Kenya, the CT-OVC programme was responsible for an increase in secondary school education of 7 percentage points.

Old age pensions have also impacted on school attendance by children since they are often used by grandparents to help their grandchildren attend school. For example, in Bolivia, the Renta Dignidad pension has been associated with an increase in investments in children’s education of roughly 60 per cent while school enrolment is 8 percentage

138 Miquelote et al. (2012).
139 Lehrl et al. (2019).
140 Staggs and Riger (2005).
142 Osofsky (1999).
143 Bhalla (2021); Mittal and Singh (2020).
144 MLSP (2019); Flowe et al (2020).
145 Uwezo (2016).
146 Kathula (2020).
147 Ahmed et al. (2007) Note: The programme had no impact on enrolment at primary school level, as enrolment rates were found to be higher among non-recipient households who may have enrolled children with the aim of increasing their chances of being eligible for the programme.
148 Canelas et al. (2018)
149 Maluccio and Flores (2005)
150 Cahyadi et al. (2020)
points higher in old age pensioner households; in South Africa, the Old Age Grant has resulted in an 8 per cent increase in school attendance among the poorest quintile of the population; in Brazil, the pension has reduced the enrolment gap among girls by 20 per cent; and, in Uganda, as a result of the Senior Citizens’ Grant the proportion of children aged 6-12 years finalising primary school increased from 68 per cent to 71 per cent, while the mean number of days missed in the previous 30 scheduled school days fell from 1.7 days to 1.1.152

Old age pensions can also indirectly benefit families by allowing them to reduce their support to their elderly parents and invest more in their own children, further enhancing their capacities and future productivity. In South Africa, Mexico and the Philippines, for example, older people receive lower remittances from their adult children once they benefit from the pension, thereby freeing up resources that can be used on children.153

There is less evidence of social security impacting on education outcomes, largely due to an absence of research in long-term longitudinal studies. Nonetheless, in Kenya children in households receiving the HSNP were found to be 7 per cent more likely to have passed standard IV154. A beneficiary perceptions survey also found that 86 per cent of social security recipients in Kenya reported a positive impact on performance at school and school attendance. Globally, there is evidence of higher incomes, in general, being correlated with better educational performance and lower levels of domestic violence.155 Similarly, there is also evidence of social security benefits reducing the likelihood of domestic violence.156 Higher incomes are also associated with a more conducive home learning environment for children: for example, children in higher income families in Sri Lanka were more likely to have books to read than those in lower income families.157

The additional productivity resulting from investing in children’s human capital through social security in Kenya

If Kenya were to increase its investment in children through a child benefit offered to every child, the rates of return through greater productivity would be significant. White and Greenslade (2021) have undertaken an assessment of the costs and benefits of investing in a universal child benefit (UCB) across Kenya, beginning in 2022 among young children and expanding to reach all children by 2030 (similar to the scenario set out in Section 5). The analysis found that the overall increase in earnings among recipients as a result of the benefit, up to 2040, would be KES2,900 billion (US$26.35 billion) in 2022 values. This would be the equivalent of 22.5 per cent of 2022’s predicted GDP, a significant sum. The overall increase in incomes among recipients over their working lives, up to retirement, would, of course be much higher.

Notwithstanding, this figure illustrates the very large increases in productivity that would arise from Kenya investing in children through social security transfers, which would further contribute to economic growth.

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155 Barnett (2000); Considine and Zappalà (2002); Hirsch (2007); Sankar (2019); WHO (2002); Jewkes (2002); Evans (2005); UN DESA (2006); Bhatla et al. (2010).
There is now global recognition that high levels of income inequality are neither good for countries, nor their citizens. This includes a recognition – after many years of debate – that high inequality is bad for economic growth. Recent research by the IMF has demonstrated that income inequality has a positive effect on economic development until the Gini index reaches 0.27, at which point inequality has a negative impact, which becomes more severe as inequality increases. Dabla-Norris et al (2015) have found that, while a one percentage point increase in the income share of the top 20 per cent of the population is associated with a lower GDP growth by 0.08 percentage points in the following five years, a one percentage point increase in the income share of the bottom 20 per cent leads to a 0.38 percentage point rise in economic growth. Further, Ostry et al (2014) found that lower levels of inequality are robustly correlated with faster and longer periods of economic growth. For example, a 10 per cent reduction in income inequality was found to increase the expected length of a spell of economic growth by 50 per cent. ESCAP (2015) has argued that “...inequality could threaten the [Asia and Pacific] region’s economic dynamism, sow the seeds of economic crisis, and undermine the sustainability of economic growth,” a lesson that could equally apply to Africa. Indeed, Hakura et al (2016) find that income and gender inequality work together to jointly impede growth, resulting in large growth losses in Sub-Saharan Africa. They estimate that average annual GDP per capita growth in African countries could be as much as 0.09 percentage points higher if income and gender inequality were reduced to the levels observed in the Association of Southeast Asian Nations (ASEAN).

The pathways through which lower levels of inequality promote economic growth are multiple. Through redistribution and the provision of higher quality public services, including social security, countries invest more in human capital and, as argued in Section 4.2.2, strengthen the quality of their workforce. It is also because, as Section 4.1.1 noted, through redistribution via higher taxes and social security, demand and consumption can increase. However, there is also growing evidence that high levels of inequality directly harm society and individuals. For example, Pickett and Wilkinson (2009) have demonstrated that lower child wellbeing is strongly correlated with inequality and that higher inequality is associated with higher rates of infant mortality, stunting and lower birth weight. Other studies have found a correlation between poorer self-reported health and higher inequality.

Kenya’s current level of inequality is relatively high. In 2015/16, the Gini coefficient was 0.39, which is well above the point at which inequality harms economic growth.

It is essential that Kenya tackles inequality if it is to further strengthen economic growth. Well-designed social security systems can play a critical role in redistributing wealth from the rich to the majority of the population and are an effective tool in tackling inequality, thereby contributing directly to economic growth. The IMF (2017) has found that direct transfers and taxes have reduced income inequality by over a third across high income countries. According to Joumard et al (2012) and Causa and Hermansen (2017), on average direct transfers account for more than three quarters of the overall impact of redistributive policies on inequality in OECD countries. Direct transfers have reduced income disparities at the bottom of the distribution, while taxes reduce disparities at the top.

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**Box 4.4: Impact of gender inequality on economic growth**

In addition to income inequality, high levels of gender inequality can also impede growth. Across countries of all income levels, gender gaps in economic participation have resulted in large losses in GDP (Elborgh-Woytek, 2013; Stotsky, 2006). In Sub-Saharan Africa, Cuberes and Teignier (2012) estimate GDP per capita losses of 13 per cent attributable to gender gaps in the labour market. These losses largely result from the less efficient allocation of resources of a restricted talent pool (Cuberes and Teignier, 2015; Elborgh-Woytek, 2013). Mitra et al (2015) further suggest that greater political equality for women may alter the composition of public expenditure in favour of health and education, which can stimulate growth over the medium to long term. Well-designed social security schemes can play an important role in addressing gender inequality, in particular when women are given access to their own personal source of income.
Figure 4.17 shows the impact of social security transfers and taxation on inequality across OECD countries. The top of the blue bars indicates levels of inequality without social security and taxation while the top of the orange bars shows actual levels of inequality. It demonstrates that some of the world’s most equal countries – including those in Scandinavia – would be very unequal if they did not invest in social security. However, impacts are lower in Chile, Mexico, the Republic of Korea and Turkey, which invest much less in social security, with most support going to the wealthier members of society who are more likely to have participated in social insurance schemes.

In fact, there is a strong correlation between levels of investment in social security and reductions in inequality.\(^\text{164}\) The more that countries spend, the greater the fall in inequality. Further, universal schemes are much more effective in reducing inequality than poverty-targeted programmes, largely due to the higher expenditures which require higher levels of taxation being paid by the wealthier members of society. As Figure 4.18 demonstrates, recent research across Asia has found that countries that have invested in more universal social security systems have had much greater impacts on inequality than countries where a charity approach and poverty targeting dominate. As Rothstein (2018) argues: “One of the most effective ways for decreasing economic inequality … is via universal or broad-based public services and benefits such as universal health care and pensions, child care allowances and free higher education.”

Kenya could significantly reduce inequality if it were to expand its social security system. The option for building universal child, old age and disability benefits outlined in Section 5.3 would, if implemented, reduce Kenya’s national Gini coefficient by 8 per cent by 2038. This would imply a redistribution of wealth from the richest members of society to the majority of the population and would shift the size of markets: for example, those on low- and middle-incomes are more likely to spend on goods produced in Kenya, while those on higher incomes are likely to maintain their expenditures, although they may save a little less or have less to send overseas. Therefore, investing in universal social security is advantageous for national producers. Further, given that the increase in investment in social security would boost economic growth, it is likely that, even if the wealthier members of society pay increased taxes by 2030, they may well be more prosperous overall, having reaped the benefits of greater redistribution.

By investing in universal social security, therefore, Kenya would reduce inequality, which would be good for economic growth. In fact, lower levels of inequality would also bring other benefits for growth, as discussed in the following sections.

**Figure 4.18: Simulated impacts on inequality of social security systems across Asia, comparing situations of with and without transfers and taxes in the year of the surveys**

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4.3.3 Strengthening national social cohesion and building a better investment climate for businesses

Historically, investments in universal social security have been an important mechanism used by governments to strengthen national social cohesion and build more peaceful societies. One of the reasons for Western Europe’s economic success has been its investment in universal social security – and other universal public services – following the Second World War. Before the war, Western Europe had largely followed a ‘poor relief’ charity model, which delivered social security to the poor and excluded the majority of society. This model engendered distrust in government and helped fuel the rise of fascism and the pre-conditions for the War, which caused significant harm to European economies. Once peace was achieved, governments realised that they had to build a new social model that treated all citizens equally, to avoid the risk of further conflict. This was achieved by building a system of universal public services, which benefitted all citizens on an equal basis. The result was stronger and more cohesive societies, which created the conditions for public and private investment and a positive environment for businesses. Since the Second World War, the system of universal public services has established a platform for Europe to enjoy an almost unbroken period of sustained economic growth and prosperity. As Sweden’s Ministry of Finance (2018) states: “Another important explanation for the widespread public trust in the welfare systems and for why they are perceived as legitimate is that that have been mainly universal and covered everyone, rather than being needs-based (selective) and covering only those with the greatest need. It is easier to build a universal welfare policy on simple and clear-cut rules. This creates legitimacy and reduces distrust in politics and the system. The universal policy also means that commonly shared welfare benefits everyone. Experience has shown that citizens are more willing to accept financial responsibility for various initiatives when they understand how the initiatives will benefit them.”

There are indications that universal, lifecycle social security has helped build more cohesive societies across a range of low- and middle-income countries. Examples include South Africa after apartheid (old age pensions, disability benefits and child benefits), Timor-Leste after independence (old age pensions and disability benefits), Georgia after the break-up of the Soviet Union and the war with Russia (old age pensions and disability benefits), Nepal during and after the civil war (old age pensions, widows’ and disability benefits) and Kosovo after the break-up of the former Yugoslavia (old age pensions).

If Kenya were to build on its investment in the universal Older Persons Cash Transfer (OPCT) to expand its universal social security system, this is likely to gradually engender a more equal and cohesive society, reducing the threat of social unrest which, as the IMF (2020) has warned, has increased with COVID-19. Indeed, in the 2020 edition of the annual Nelson Mandela lecture, the United Nations General Secretary António Guterres warned that the world is at “breaking point” and concluded that countries need to build a “new social contract for a new era”. Kenya’s investment in universal social security would not only deliver greater social cohesion but, as happened in Europe after the Second World War, would enhance the investment climate for entrepreneurs, potentially attracting into the country more foreign investors. By investing in universal social security, Kenya would be able avoid the type of political turmoil and violence that hit many countries in the North Africa and Middle East region following the 2008/09 global recession and devastated their economies.

Generating inclusive and sustainable economic growth in Kenya: the role of social security

A major constraint holding back Kenya’s economy is limited government finances. The IMF estimates that government revenues in 2021 are likely to be only 16.3 per cent of GDP.166 This is very low and well behind the levels of government revenues found across high-income countries, where rates of between 35 and 50 per cent of GDP are the norm. Due to low revenues, the Government of Kenya is constrained in its ability to invest in good quality, universal public services as well as in other areas, such as infrastructure and agriculture. Consequently, economic growth is also constrained.

A key reason for low government revenues in Kenya – as in many other countries – is the unwillingness of much of the population to pay taxes, with tax avoidance common. People are reluctant to pay taxes because they do not believe that their taxes are being put to good use. Their daily experience of poor-quality infrastructure and public services undermines their trust in the state and impacts on their willingness to pay taxes. Trust is further undermined when social security schemes are regarded as poor quality: for example, when selection for poverty-targeted schemes appears to be arbitrary, as happens in Kenya, the natural reaction of those who feel they have been unjustly excluded is anger and disappointment, which is directed towards governments. Further, when most of the population – including the main taxpayers – are, by design, excluded from poverty-targeted schemes, they are less likely to want to pay their taxes.

In fact, poverty-targeted cash transfer programmes can engender a vicious circle of distrust in government, which undermines the social contract and makes citizens less willing to pay taxes.167 As a result, national tax revenues remain small and governments find themselves forced into delivering only poverty-targeted schemes, often with falling transfer values.168 Kenya has made no progress in increasing revenues as a percentage of GDP over the past 12 years, which indicates the potential existence of this vicious circle. In 2009, government revenues were at the same level as 2021 at 16.4 per cent.169 It is critically important for Kenya to break out of this vicious circle. If not, economic growth will be held back since the Government will be less able to invest in public services and essential infrastructure. Finance will also not be available to help Kenya move towards a ‘green’ economy, which will mean that opportunities for job creation in new sectors will be lost.

However, by investing in universal social security, the Government of Kenya could, as indicated in Section 5.3, engender greater trust between citizens and the state and create a stronger social contract, as long as they also maintain the quality of the universal benefits (see Box 5-2). The cash received in their hands each month across most households would be visible proof that the Government is

Box 5.2: The importance of strengthening the OPCT, to build the social contract

In addition to income inequality, high levels of gender inequality can also impede growth. Across countries of all income levels, gender gaps in economic participation have resulted in large losses in GDP (Elborgh-Woytek, 2013; Stotsky, 2006). In Sub-Saharan Africa, Cuberes and Teignier (2012) estimate GDP per capita losses of 13 per cent attributable to gender gaps in the labour market. These losses largely result from the less efficient allocation of resources of a restricted talent pool (Cuberes and Teignier, 2015, Elborgh-Woytek, 2013). Mitra et al (2015) further suggest that greater political equality for women may alter the composition of public expenditure in favour of health and education, which can stimulate growth over the medium to long term. Well-designed social security schemes can play an important role in addressing gender inequality, in particular when women are given access to their own personal source of income.

166 Source: IMF’s World Economic Outlook database, October 2021 version.
167 For more on how poorly-designed poverty-targeted programmes can undermine trust in government and exacerbate social cohesion, see, for example, Ellis (2012), Lavers (2022), Sibun (2022).
169 Source: IMF’s World Economic Outlook database, October 2021 version.
delivering on its word to improve public services. This in turn, would encourage citizens to accept higher levels of taxation which would, as indicated by Figure 4.19, create a virtuous circle that generates higher levels of government revenue and more government investment, not only in social security but in public services more generally. It is this virtuous circle that enabled high-income countries to significantly increase government revenues after the Second World War and create a propitious environment for stronger economic growth.

![Figure 4.19: The virtuous circle of investing in good quality public services – including social security – and a strong social contract](image)


However, when building a stronger social contract, it is important to stress not only the rights of citizens, but also their responsibilities. Yet, in a functioning nation-state, every citizen of working age should be expected to declare their incomes so that, if eligible, they can be taxed. It is at the core of the social contract: citizens have the right to access public services, but they also have the responsibility to pay their taxes. They can only do this if they declare their incomes to the state.

High-income countries began the process of declaring incomes many years ago, at a time when they also had high levels of informal employment. For example, in the United States and Belgium, income declarations were made mandatory in 1913 and 1919 respectively. In theory, there is no reason why the same demands could not be placed on the citizens of Kenya, despite low levels of education among some categories of the population. This would not, of course, mean that most people would pay income tax since the majority should be under the tax threshold, provided the tax threshold is set at an appropriate level. Nonetheless, by declaring their incomes they would be incorporated within the tax system and have a greater sense of their place within the nation-state and their right to access public services.

A major change like this would, of course, be challenging to introduce. However, a universal social security system,
along with an appropriately designed taxation system, could be used to create a strong incentive for people to declare their approximate incomes. If Kenya were to introduce a child benefit for every child, the Government could decide to only pay it to those who have made an annual income declaration. In practical terms, families could make an income declaration at the same time as applying for the child benefit (which, in effect, is what happens whenever a family applies for the Child Support Grant in South Africa). To enable income declarations to happen, one-stop shops could be established at local level, perhaps linked to Huduma centres, where people could apply for social security benefits, as well as obtain birth certificates for their children and make income declarations. If the value of the child benefit were higher than the tax paid (which should be the case for most families, as few should be liable to pay income tax given their income levels in a context of appropriate tax thresholds), there would be a strong incentive for people to declare their incomes.

Over time, similar linkages could be made to other social security schemes such as the OPCT and future disability and maternity benefits. For example, after the system has been running for several years, rules could be established whereby people could only receive the OPCT if they have a track record of making income declarations over a number of years, even if they have declared zero income (as might happen with in the case of women with full-time care responsibilities).

Higher government revenues would not happen overnight, even if universal social security benefits were expanded immediately. It would take time for them to grow. Nonetheless, there is evidence, as Figure 4.20 indicates, that some countries that have invested in universal – or high coverage – social security over the past 20 years have enjoyed significant growth in government revenues. While it is not possible to prove causality, it is likely that the increase in revenues is, in part, due to the greater trust generated by universal social security schemes.

Figure 4.20: Government revenues as a proportion of GDP across seven countries offering high coverage of social security benefits to people with disabilities and older people

Source: Kidd, Axelsson et al (2020)
Proposal for investing in Kenya’s economic growth through expanded social security: A child benefit that leaves no child behind
Proposal for investing in Kenya’s economic growth through expanded social security: A child benefit that leaves no child behind

If Kenya decides to continue its commitment to universal social security (which it has already begun with the introduction of its Inua Jamii universal pension), this is likely to yield significant dividends for Kenya’s economy. Maximising the impacts of social security on resilient growth is particularly important in light of Kenya’s current growth model, with the COVID-19 crisis having slowed growth and the potential economic fruits of an approaching demographic dividend threatening to transform into a ‘demographic curse’ if the nation’s human capital is not appropriately invested in (see Section 4.3.1). This section will present a proposal to expand Kenya’s social security framework to include a child benefit for every child in Kenya. The child benefit would provide a substantial contribution to bottom-up resilient growth, cushioning households from shocks and providing a stable base to maintain consumption and support investment in productive activities.

A first sub-section will introduce the design details of the two proposed options for introducing a child benefit for every child (including the level of investment required and the coverage achieved by the proposed child benefit options); the second sub-section will present the potential impacts on poverty and wellbeing from introducing the proposed child benefit options; and, a final sub-section will consider how investment in a child benefit for every child can help Kenya to address the problems of weak demand in the economy and high public debt, presenting the results of CGE analysis to simulate the potential impacts of the child benefit on boosting macro-economic outcomes (GDP, employment and tax revenue).
5.1 Long-term impacts on economic growth

In the short- to medium-term, Kenya could choose to invest in the nation’s children and promote bottom-up resilient growth by gradually introducing a child benefit for every child in Kenya. Kenya has already successfully piloted the introduction of a child benefit to roughly 8,000 children in the most populous sub-counties of Embu, Kajiado and Kisumu and the Ministry of Public Service, Gender, Senior Citizens Affairs & Special Programmes (MPSGSCASP) is currently in the final stages of developing design proposals for a mainstreamed long-term child benefit for every child to be implemented incrementally.

Two scenarios for the introduction of a child benefit for every child in Kenya are presented in Table 5.1. Scenario 1 is aligned to the Ministry’s current proposals for a child benefit starting with children aged 0-36 months (0-2 years) nationally in 2023, with the scheme gradually expanding as children stay on the scheme until their 18th birthday. Under this scenario, all children aged 0-17 years in Kenya are reached by the programme by 2038. The scenario provides KES 800 per child per month, which is indexed to inflation in future years. Scenario 2 concerns a ‘big(ger) bang’ option for a child benefit to help deal with the current economic crisis. This scenario considers the option for a child benefit to start with slightly older children aged 0-9 years nationally in 2023, with the scheme gradually expanding as children stay on the scheme until their 18th birthday. Under this scenario, all children aged 0-17 years in Kenya are reached by the programme by 2031, making the expansion of the programme quicker than Scenario 1. The scenario also provides KES 800 per child per month, again indexed to inflation.

Table 5.1: Details of scenarios for introducing a child benefit for every child in Kenya included in the CGE analysis

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Age eligibility in first year of programme (2023)</th>
<th>Expansion in age eligibility over time</th>
<th>Year that all 0-17-year-olds are reached</th>
<th>Monthly transfer value per child (KES)</th>
<th>Cost in first year of programme (KES billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario 1</td>
<td>0-2 years (0-36 months or up until child’s 3rd birthday)</td>
<td>Children stay on the scheme as they age</td>
<td>2038</td>
<td>800</td>
<td>43.07</td>
</tr>
<tr>
<td>Scenario 2</td>
<td>0-9 years (up until child’s 10th birthday)</td>
<td>Children stay on the scheme as they age</td>
<td>2031</td>
<td>800</td>
<td>131.60</td>
</tr>
</tbody>
</table>
5.1.1 Level of investment required

The average level of investment required each year for the two scenarios is set out in Figure 5.2 (based on IMF predicted growth rates for the next 5 years). Scenario 1 would begin at 0.29 per cent of GDP in 2023 and peak at 0.83 per cent of GDP in 2037, before falling as a percentage of GDP as the economy grows to accommodate the expansion of the programme. Scenario 2 would begin at roughly 0.92 per cent of GDP and rise to 1.13 per cent of GDP in 2031 when all children aged 0-17 years are reached, before falling as a percentage of GDP.

Source: based on own calculations based on data from IMF and UN DESA
5.1.2 Proposed transfer value

Figure 5.3 shows the monthly transfer values of other child benefits globally, as a percentage of GDP per capita, alongside the proposed value for Kenya. It indicates that KES800 would be more or less in line with the median value of child benefits globally and, therefore, set at a reasonable level. However, the value of this benefit will deteriorate rapidly if not indexed to inflation, so it is imperative that this is indexed.

A transfer of KES800 would enable families to cover a high proportion of a child’s monthly food consumption. On average, KES800 per month is the equivalent of 50 per cent of the average expenditure on a child food. As shown by Figure 5.4, among the poorest families, it would cover more than all of a child’s current food expenditure, meaning that families could significantly improve the diets of their children.

Source: Calculated based on data from IMF Economic Outlook database, UNICEF and ODI (2020) and numerous national sources. For full list of sources, see Annex 2 of Feasibility Study.

The graph includes a small number of child benefits that are high coverage – such as Mongolia and South Africa – but not fully universal.
Generating inclusive and sustainable economic growth in Kenya: the role of social security

Overall, a child benefit of KES800 would cover 31 per cent of the total monthly costs a child. Therefore, if parents invested all of the money in the recipient child, it would make a significant difference to their wellbeing. And, as shown by Figure 5.5, the KES800 per month would be the equivalent of 69 per cent of the total expenditure on children in the poorest decile of the population. Therefore, a transfer of KES800 per month would fulfil the child benefit’s purpose of supplementing the income of families as they seek to care for their children. And, the poorer the family, the greater the relative support they would receive from the child benefit, as a share of the child’s needs. Further, while the child benefit would offer KES800 per child, in reality many families would receive more than one benefit due to the presence of more than one child in the household, meaning that the total transfer per family would, in most cases, be higher.

Source: Analysis of the KIHBS 2015/16.

Figure 5.4: Comparison of a transfer value of KES800 with children’s monthly food consumption

Figure 5.5: Comparison of a transfer value of KES800 with children’s monthly consumption expenditure

Source: Analysis of the KIHBS 2015/16.
5.1.3 Coverage of the population under the two scenarios for introducing a child benefit for Kenya

If Kenya were to introduce a child benefit, it would be an effective way to achieve substantial coverage of households nationally in the medium-term and, in doing so, stimulate consumption among the majority of households. Child benefit options would reach a high proportion of the national population, either as direct or indirect recipients. Initially, in 2023, 38 per cent of the national population will be reached by the child benefit either directly or indirectly under Scenario 1 and 75 per cent under Scenario 2. Coverage of the general population will increase when additional recipients are reached each year, until around 88 per cent of the population are either direct or indirect recipients (living in a household with a child eligible for the benefit) by the time all children aged 0-17 are reached in 2031. As Figure 5.6 indicates, the child benefit options would reach persons across all age groups.

![Figure 5.6: Percentage of the population in a household receiving a child benefit transfer across 5-year age groups under the two policy scenarios in 2023, 2028, 2033 and 2038](source)

Source: based on own calculations based on data from IMF and UN DESA
Both child benefit scenarios would reach a substantial proportion of all households in Kenya. Overall, in 2023, roughly 28 per cent of all households would be receiving at least one child benefit transfer under Scenario 1 and 56 per cent of all households under Scenario 2, rising to 69 per cent of all households by 2038 under both scenarios.

As Figure 5.7 indicates, the child benefit would reach households across the welfare distribution, reaching a significant proportion of middle-income households who, as discussed previously, are likely to be experiencing high rates of income volatility and precarity.

Figure 5.7: Percentage of households in Kenya receiving a child benefit transfer across the welfare distribution under the two policy scenarios in 2023, 2028, 2033 and 2038

Source: based on own calculations based on data from IMF and UN DESA
5.2 Potential impacts on poverty and wellbeing from introducing a child benefit for Kenya

The proposed child benefit options would significantly boost the consumption of households with children across Kenya. Among recipient households, per capita consumption will increase, on average, by 4 per cent under Scenario 1 and 7 per cent under Scenario 2 in 2023 and, by 2038, increased by 11 per cent under both Scenario 1 and 2 when all children aged 0-17 are reached. Figure 5.8 shows the potential increase in per capita consumption among recipient households across the welfare distribution, from the poorest household to the richest, under each Scenario. It demonstrates that, among the poorest decile of the population, household consumption will increase by 10 per cent under Scenario 1 and 20 per cent under Scenario 2 in 2023 and, by 2038, by 31 per cent under both Scenarios. Importantly, among families on middle incomes, the average increase in consumption will also be significant, at 3 per cent under Scenario 1 and 6 per cent under Scenario 2 in 2023 and, by 2038, by 9 per cent under both Scenarios. While the child benefit is universal in design and inclusive of all income groups, it is a particularly 'pro-poor' policy given that the higher the increase in household consumption, the poorer the family.

Figure 5.8: Impacts of the two Scenarios for a child benefit for Kenya on consumption among recipient households in 2023, 2028, 2033 and 2038

Source: simulations undertaken based on KIHBS 2015/16.
5.3 Simulated macro-economic impacts of introducing a child benefit for Kenya

In addition to playing a crucial role in addressing poverty and boosting wellbeing in Kenya, the proposed options for a child benefit for Kenya are also projected to boost Kenya’s economy along the pathways identified in Section 4. In particular, the child benefit can play a key role in addressing two key areas of concerns that are holding back Kenya’s economy currently: weak demand and high public debt.

This sub-section presents analysis of the two policy scenarios for introducing a child benefit that leaves no child behind in Kenya undertaken using a using a Computable General Equilibrium (CGE) model. This CGE model is used to simulate the likely impacts of the introduction of the two child benefit scenarios on macro-economic indicators: GDP growth, tax revenue and employment.

As this section will discuss, the impact of the proposed child benefit options on these macro-economic outcomes varies depending on how the child benefit is financed. The CGE analysis considers the impacts of the proposed child benefit options in boosting Kenya’s economy under two different financing methods:

- Externally financed (through the provision of financing support from external development partners).
- Internally financed (through an equal combination of corporate and income tax (50/50) with progressive income taxation and unchanged consumption in real terms for the highest income quintile).

For the purpose of this analysis, these two financing methods are merely indicative of two broad potential financing routes Kenya could take if it chose to introduce a child benefit. For example, if the child benefit was to be financed through funding from external development partners, this would require significant further discussion and coordination. However, the analysis presented in this paper demonstrates to policymakers the potential tangible impact that an investment in a child benefit could have in boosting Kenya’s economy and, in doing so, poses a key challenge to development partners as to how they can best support the Government in financing such a crucial investment.

Indeed, in the context of challenging weak demand and high public debt that Kenya faces as the nation continues to recover from the economic fall-out of the COVID-19 crisis, these proposed child benefit options represent a unique opportunity for development partners to use their funds to effectively support the Government of Kenya in achieving multiple development goals and setting in motion a cycle of resilient bottom-up growth for the benefit of all Kenyans.

Of course, if the Government were to finance the child benefit through national revenues this would be preferable and more fiscally sustainable. To do so, it will be important for the Government of Kenya to mobilise domestic resources through increased taxation: currently tax revenues are low, representing just 16.5 per cent of GDP in 20XX. Section 5.3.2 will explain how the use of universal benefits such as the proposed child benefit options can play a key role in promoting this stronger fiscal consolidation in the longer-term. As such, the analysis presented in this section also includes the option to finance the child benefit internally through an equal combination of corporate and income tax. One suggestion is to pursue a partnership model whereby development partners fund increased investment in expanded social security (through the introduction of the child benefit) in the immediate term in the context of supporting COVID-19 recovery through the provision of an immediate initial demand-side stimulus, with this transitioning to a government-led financing model in the longer-term.
5.3.1 Impact on GDP

By effectively boosting consumption and stimulating demand in local economies – as well contributing to a healthier and more productive workforce – the child benefit options are projected to contribute to significant aggregate effects on national economic growth for Kenya.

The CGE model simulations show that the economic impact generated by the child benefit depends on the method by which the policy is financed. The effects of the child benefit on GDP (consistent with the other macro-economic indicators) are highest if transfers are funded through external funding since this option does not involve any rise in domestic taxes that could potentially dampen economic activity and represents an entirely exogenous injection of capital. However, when considering financing via taxation, the expansionary effect resulting from higher social transfers (the impacts on economic growth) outweighs the potential dampening growth effect from a rise in taxes, meaning that funding the transfers through national tax revenues also has a strong impact in promoting resilient economic growth.

The analysis shows that the two scenarios for introducing a child benefit would boost Kenya’s GDP under both financing methods modelled (external and internal financing methods). Figure 5.9 shows the percentage change in GDP as a result of each policy scenario if it was financed exclusively through external funding via development partners. The ‘big(ger) bang’ option in Scenario 2 results in a faster and larger annual increase in GDP (0.71 per cent in year 10) than in Scenario 1 (0.41 in year 10). The cumulative effect on real GDP would be substantial, boosting GDP by 2.54 percentage points by 2033 under Scenario 1 and 5.33 percentage points under Scenario 2.

Box 5.1: Addressing concerns over the potential impact of a child benefit on inflationary pressures in Kenya

There is growing concern in relation to the strong inflationary pressures currently observed in Kenya, and there could be concerns as to whether a cash injection such as the introduction of a child benefit would add to those pressures as an unintended consequence. Cash transfers can intensify trading activities and economic exchange in local markets, which can in turn affect local prices (Tirivayi et al, 2013). However, empirical studies on the spill over effects of cash transfers on the local economy have been failing to identify any significant impacts of cash transfers on inflation. Handa et al. (2001) examined spill over effects from the Progresa/Oportunidades programme in Mexico, but found no evidence of inflationary effects, potentially due to beneficiaries spending their money outside of their own communities. Systematic reviews by Kabeer et al. (2012) and Bastagli et al (2016) confirmed the lack of any evidence of cash transfers leading to inflationary pressure in the local economy.

Figure 5.9: Annual percentage change in Kenya’s GDP as a result of the two child benefit proposals if financed through external funding via development partners

Source: CGE analysis of the macro-economic impacts of two scenarios for a child benefit for Kenya
The impacts would be slightly reduced if they were instead financed through national tax revenues but would still be significant. Figure 5.10 shows the percentage change in GDP as a result of each policy scenario if it was financed through a combination of corporate and income tax (50/50) with progressive income taxation and unchanged consumption in real terms for the highest income quintile.

Similarly, the ‘big(ger) bang’ option in Scenario 2 results in a faster and larger annual increase in GDP (0.48 per cent in year 10) than in Scenario 1 (0.27 in year 10). The cumulative effect on real GDP would be substantial, **boosting GDP by 1.7 percentage points** by 2033 under Scenario 1 and **3.6 percentage points** under Scenario 2.

**Figure 5.10: Annual percentage change in Kenya’s GDP as a result of the two child benefit proposals if financed through an equal combination of income and corporate tax**

Source: CGE analysis of the macro-economic impacts of two scenarios for a child benefit for Kenya

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173 Assumed to be financed through a combination of corporate and income tax (50/50) with progressive income taxation and unchanged consumption in real terms for the highest income quintile.
5.3.2 Impact on tax revenues

Kenya is currently facing a challenging fiscal context as it continues to emerge from the economic crisis generated by the COVID-19 pandemic and faces fresh challenges with high levels of inflation and reduced agricultural output due to new shocks.174 While Kenya’s economy has continued to recover from the economic fall-out of the COVID-19 crisis in 2022 with real gross domestic product (GDP) increasing by 6 per cent year-on-year in the first half of 2022 (driven largely by broad-based increases in services and industry), this recovery was dampened by global commodity price shocks, the long regional drought, and uncertainty in the run up to the 2022 general elections.175 The government has managed to reduce the budget deficit in the fiscal year (FY) 2021/22 from 8.2 per cent to 6.2 per cent through revenue measures and expenditure moderation.176 However, significant fiscal constraints remain, and addressing weak demand and high levels of public debt remains a high political priority. President Ruto’s administration has reported that it is revising its budget for the fiscal year 2023/24 to reduce expenditure by 300 billion shillings ($2.47 billion).177

The Ministry of Finance has reported that the Government is planning to set a budget deficit of 4.3 per cent of GDP in the next financial year.178 With competing budgets, it is important for the Kenyan Government to understand which options are available to sustainably finance social security investments that will promote stronger and more resilient growth for Kenya’s economy. Governments can use a variety of methods to mobilize resources to ensure financial, fiscal, and economic sustainability of national social protection systems. For instance, well documented strategies for resource mobilization include increasing tax revenues; re-allocating public expenditures; drawing on official development assistance; fighting illicit financial flows; tapping into reserves; borrowing/re-structuring debt; and adapting the macroeconomic framework.179 All these options will require creative thinking and strong political will. These eight options are summarised below in Figure 5.11.

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**Figure 5.11: Options to generate fiscal space for investing in social protection**

- **Borrow or restructure existing debt**
  - entails active use of low-cost domestic and foreign borrowing options.

- **Reallocate spending**
  - by eliminating spending inefficiencies; replacing high-cost, low-impact investments with those with larger socio-economic impacts; and tackling corruption.

- **Fight illicit financial flows**
  - such as money laundering, bribery, tax evasion, trade mispricing and other financial crimes.

- **Increase tax revenues**
  - by altering different types of tax rates or by strengthening the efficiency of tax collection and overall compliance.

- **Raise social security contributions (by employees and/or employers)**
  - by increasing coverage and therefore collection of contributions

- **Adapt the macroeconomic framework**
  - by allowing for higher budget deficit paths and/or higher levels of inflation without jeopardizing macroeconomic stability.

- **Tap into reserves**
  - implies using fiscal savings and other funds (e.g. sovereign wealth funds, foreign exchange reserves) for domestic and regional development.

- **Development assistance**
  - by engaging with donors to increase development aid and international transfers.

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Source: authors’ elaboration based on Ortiz et al (2019)

174 World Bank (2022a).
175 World Bank (2022b).
176 World Bank (2022b).
177 Miriri (2022).
178 Miriri (2022).
Despite there being a number of options available to generate fiscal space if there is strong political will to increase investments in social security, concerns over high public debt could present a key argument against further investments in inclusive social security.

Yet, investing in universal benefits – such as the proposed child benefit – is likely to play a key role in beginning to address this issue of weak demand and high levels of public debt and promote healthier levels of government revenue over time by stimulating the economy. In fact, CGE analysis conducted for this study suggests that there will likely be a significant increase in tax revenues because of the proposed child benefit options.

As Figure 5.12 shows, by 2033, as a result of the increased economic activity stimulated by the child benefit, the two child benefit options are projected to increase tax revenue in Kenya by 4.5 percentage points under Scenario 1 and 6.7 percentage points under Scenario 2. In doing so, the simulated child benefit scenarios can trigger a virtuous cycle in which poverty reduction can also be positively associated with fiscal sustainability, following the theory of change outlined in Section 4.3.4.

![Figure 5.12: Annual percentage change in tax revenue in Kenya as a result of the two child benefit proposals if financed through an equal combination of income and corporate tax](image)

Source: CGE analysis of the macro-economic impacts of two scenarios for a child benefit for Kenya

### 5.3.3 Impact on employment

Both proposed child benefit options have a positive impact on employment. Similarly, the effects of the child benefit on employment are highest if transfers are funded through external funding. As expected, Scenario 2 also yields a higher rise in employment than Scenario 1, as shown by Figure 5.13. Investing in Scenario 1 is simulated to boost employment in Kenya by 0.13 percentage points in year 10, when financed through external funding. Investing in Scenario 2 is simulated to boost employment in Kenya by 0.23 percentage points by year 10. The cumulative effect on the real employment rate in just 10 years would be significant, boosting employment by 0.82 percentage points by 2033 under Scenario 1 and 1.71 percentage points under Scenario 2. This cumulative effect translates to an estimated 162,000 additional people employed under Scenario 1 and 334,000 additional people employed under Scenario 2. This result is from the CGE simulation which tracks down the additional demand for goods and services due to the increase in household income. Because of the additional demand, industries produce more and will require greater employment of factors of production (labour and capital). The simulated increase in employment reflects an increase in the use of labour as a factor of production.

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180 Assumed to be financed through a combination of corporate and income tax (50/50) with progressive income taxation and unchanged consumption in real terms for the highest income quintile.
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The impacts would be slightly reduced if they were instead financed through domestic tax revenues but would still be significant. As Figure 5.13 shows, by year 10 (2033), investing in Scenario 1 is simulated to boost employment in Kenya by 0.09 percentage points under Scenario 1 and 0.15 percentage points under Scenario 2. The cumulative effect on the real employment rate in just 10 years would be significant, boosting employment by 0.52 percentage points by 2033 under Scenario 1 and 1.14 percentage points under Scenario 2.

Figure 5.13: Annual percentage change in employment in Kenya as a result of the two child benefit proposals if financed through external funding via development partners

Source: CGE analysis of the macro-economic impacts of two scenarios for a child benefit for Kenya

Figure 5.14: Annual percentage change in employment in Kenya as a result of the two child benefit proposals if financed through an equal combination of income and corporate tax

Source: CGE analysis of the macro-economic impacts of two scenarios for a child benefit for Kenya

181 Assumed to be financed through a combination of corporate and income tax (50/50) with progressive income taxation and unchanged consumption in real terms for the highest income quintile.
Conclusion
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Conclusion

Although social security does not guarantee higher economic growth, since it depends on other factors being in place, it is an essential component of an effective and resilient economic growth strategy. The economic success of high-income countries has demonstrated the importance of investing in social security as an essential public service, alongside other public services such as health and education. The pathways through which social security can help generate and sustain economic growth are multiple: some of the benefits will be immediate, while others will take longer to bear fruit.

Kenya’s current level of investment in social security is too limited to bring about the scale of impact found in high-income countries and, increasingly, other low- and middle-income countries. The introduction of the universal Older Persons Cash Transfer (OPCT) in 2018 was a major step forward for the country. Kenya needs to build on this by introducing other universal, lifecycle schemes, such as a child benefit. The country should aim to reach a minimum level of investment in social security of 2 per cent of GDP by 2030 (although, if such an investment were introduced immediately, it would go a long way to supporting economic recovery from COVID-19 and bring significant political benefits to the Government).

One concern that could be raised by critics of investing in universal social security is that there is a trade-off with investments in other areas, such as health, education, agricultural extension, active labour market programmes or infrastructure. However, choosing one area of investment over another would be a false choice. If governments wish to achieve health, education and economic growth outcomes, there needs to be a balanced investment across all public services and infrastructure, including in social security. Consequently, if the income constraints faced by Kenyan families are not addressed through social security, the value for money from investing in other areas will be reduced. Further, an expansion in social security along the lines presented in this paper is financially feasible, not least through the additional tax generated by economic growth. In fact, assuming reasonable economic growth, the Government would not need to cut spending in any other areas: indeed, they could also expand in real terms.

Kenya needs to build a more prosperous and fairer country for all its citizens. While this will require investment by the Government and a strong supportive role for development partners, it will result in a stronger economy and a workforce and businesses that are able to compete in global markets. There is a danger that underinvestment in social security could bring lasting harm, especially if it allows resentment and anger to fester as families struggle with the consequences of COVID-19, resulting in widespread social and political discontent. This paper has demonstrated that the Government should not focus on the fiscal consequences of further investment, since, over time, social security will begin to pay for itself while government revenues will expand, as the national social contract is strengthened. The real concern should come from not investing.


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Annex 1

Methodological note for computable general equilibrium (CGE) analysis conducted for this study
Methodological note for computable general equilibrium (CGE) analysis conducted for this study

The computable general equilibrium (CGE) model used for this study is based on the dynamic Partnership for Economic Policy standard model, PEP 1-t (Decaluwé et al., 2013). The CGE model uses a social accounting matrix (SAM) from (Thurlow, 2021). Several standard assumptions are built into the CGE model. Some of the more critical assumptions are on the production side where the model assumes constant returns to scale and that firms are price takers (perfect competition).

There are four institutional sectors (households, firms, government, and the rest of the world). In the model, we assume one type of labour, and household groups that are disaggregated by income quintiles. The model distinguishes between three income sources: labour income (salaries and wages), capital income and income transfers. On the consumption side, households use their income for taxes, transfers to other institutions, consumption, and savings; their behaviour is modelled as a linear expenditure system (LES) and subject to its budget constraint.

We modify the standard PEP 1-t model to allow households spending on education to impact human capital formation. In addition, we allow for wage rigidities that give rise to unemployment. Below we highlight the modifications we have made to the PEP 1-t model concerning production, household consumption, human capital accumulation and wage bargaining. The full description of the PEP 1-t model can be found in Decaluwé et al. (2013).

The model uses a nested production structure. At the top level, value added and total intermediate consumption is combined in fixed proportions following a Leontief production function.

\[ VA_{j,t} = v_j XST_{j,t} \]  \hspace{1cm} (1)

\[ CI_{j,t} = i_0 XST_{j,t} \]  \hspace{1cm} (2)

Where \( XST_{j,t} \) is total aggregate output of industry \( j \), \( VA_{j,t} \) is the value added of industry \( j \) and \( CI_{j,t} \) is the total intermediate consumption of industry \( j \). The parameters \( i_0 \) and \( v_j \) are share coefficients. At the second level, value added is combined from labour and capital following a constant elasticity of substitution (CES) specification.

\[ VA_{j,t} = B^{VA}_j \left[ \beta^{VA}_j (HC_lLDC_{j,t})^{-\rho^{VA}_j} + (1 - \beta^{VA}_j) KDC_{j,t}^{\rho^{VA}_j} \right]^{\frac{1}{\rho^{VA}_j}} \]  \hspace{1cm} (3)

Aggregate intermediate consumption by firms in industry \( j \) is made up of various goods and services. It is assumed that intermediate inputs are perfectly complementary and are combined following a Leontief production function. Hence, no substitutions are possible.

\[ DI_{i,j,t} = a_{ij,j} CI_{j,t} \]  \hspace{1cm} (4)
where $D_{ij,t}$ is intermediate consumption of commodity $i$ by industry $j$ and $a_{ij}$ is the input-output coefficient. Household savings are a linear function of disposable income, such that,

\[
Y_{DH,h,t} = YH_{h,t} - TDH_{h,t} - TR_{gvt,h,t}
\]  

\[
CH_{h,t} = YDH_{h,t} - SH_{h,t} - \sum_{agng} TR_{agng,h,t}
\]  

\[
SH_{h,t} = PIXCON^h sh0_{h,t} + sh1_{h,t} YDH_{h,t}
\]

where $YDH_{h,t}$ is disposable income of type $h$ households, $TDH_{h,t}$ is income taxes paid by type $h$ households, $CH_{h,t}$ is consumption budget of type $h$ households, $SH_{h,t}$ is savings of type $h$ households and $PIXCON^h$ is consumer price index. The parameter $\eta$ is the price elasticity of indexed transfers, the parameters $sh0_{h,t}$ and $sh1_{h,t}$ is respectively the intercept and the slope of type $h$ household savings. Households net transfers from the government and non-government agents are indexed $gov$ and $agng$.

Type $h$ household demand for each good is determined by utility maximization subject to the budget constraint.

\[
PC_{i,t}C_{i,h,t} = PC_{i,t}C_{MIN_{i,h,t}} + Y^{LES}_{i,h} \left( CH_{h,t} - \sum_{ij} PC_{ij,t}C_{ij,h,t} \right)
\]

where $C_{i,h,t}$ is consumption of commodity $i$ by type $h$ households, $C_{MIN_{i,h,t}}$ is minimum consumption of commodity $i$ by type $h$ households and $Y^{LES}_{i,h}$ is marginal share of commodity $i$ in type $h$ household consumption budget.

We modify the model to allow households education spending to affect human capital formation. A rise in households disposable income affects spending on education services and this affect the accumulation of human capital.

For simplicity we define the household demand for education services as a subset of the demand for services.

\[
PC_{edu,t}C_{edu,h,t} = PC_{edu,t}C_{MIN_{edu,h,t}} + Y^{LES}_{edu,h} \left( CH_{h,t} - \sum_{ij} PC_{ij,t}C_{ij,h,t} \right)
\]

where $PC_{edu,t}$ is the price for education services, $C_{edu,h,t}$ is the consumption of education services by type $h$ household, $C_{MIN_{edu,h,t}}$ is the minimum consumption of education services and $Y^{LES}_{edu,h}$ is the marginal share of education services in type $h$ household consumption budget. We assume that the consumption of education services affects the accumulation of human capital with a time lag of four years. Hence, the accumulation of human capital is given by

\[
HC_t = (1 - \delta_{HC}) HC_{t-1} + Y^{HC} \prod_h \left( \frac{C_{edu,h,t-4}}{POP_{t-4}} \right) \delta_{HC}
\]
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where $POP$ is population of working age, $γHC$ is a scale parameter, $ωLS$ is a share parameter governing the contribution to human capital formation by the different household types and $σHC$ is a parameter governing the relation between education consumption and human capital. We assume that human capital depreciates at the rate $δHC$.

\[
W_{it} = A_W^i UN_{it}^{ωi} PRI CON_i
\]

where $W$ is the nominal wage rate, $UN$ is the unemployment rate, $AWC$ is a calibrated scale parameter and $σWC$ is the parameter governing the relation between the unemployment rate and the wage rate.

In terms of closure rules, we assume that the nominal exchange rate is the numeraire. Labour is mobile across sectors, whereas capital is sector specific. Finally, we allow for the possibility for a country to borrow from the rest of the world. World prices are fixed, following the assumption that the analysed countries are small. We consider nominal government spending and tax rates as exogenous. This implies that government savings can vary in response to variations in economic activity.

Calibration

The model is calibrated to the Kenya Social Accounting Matrix which was extended to include representative households by income quintiles and updated to 2015/16 using the latest available household survey (Kenya Integrated Household Budget Survey) and data from the National Treasury of Kenya and the World Bank.

The model contains a number of free parameters that cannot be calibrated from the SAM. Population growth is set to 2.6 per cent for all periods following the growth rate reported in UNDESA (2021). The interest rate is assigned a value of 13.7 per cent as reported by the World Bank, while the depreciation rate of 4.6 per cent is taken from the PWT10.0 (Feenstra et al., 2015).

Elasticities used in the CES and CET functions are all assigned the default values in the PEP1-t model. Likewise, the elasticity of international demand for exported commodities and the price elasticity of indexed transfers is assigned their default values. The unemployment rate is set to 12.8 per cent following ILO. For the wage curve we use a parameter equal to -0.1, meaning that a 10 per cent increase in the unemployment rate leads to a 1 per cent decrease in wages. This is a value often econometrically estimated in the literature see, for example, Kingdon and Knight (2006) and Nijkamp and Poot (2005).

To allow for unemployment we augment the model with a wage curve following Blanchflower and Oswald (1995) who show an empirical negative relation between wages rates and unemployment rates. This approach allows us to pragmatically introduce unemployment, while avoiding strong assumptions on the underlying labour market imperfections causing it. The wage curve implies that the wage is set above its market clearing level creating involuntary unemployment. The wage curve is given by

The dynamic of the CGE model is recursive, which means that the behavioural assumptions do not involve intertemporal optimisation (as opposed to intertemporal dynamic models). In the recursive dynamic CGE model, each period is solved as a static equilibrium, subject to the variables inherited from the preceding period. The dynamic model assumes that the population grows at a constant rate. Labour supply is assumed to grow at the same rate as the population index, as a result of population growth, or a shift in the participation rate, or a combination of both.

182 Three theories have been used to set up structural models of wage determination in imperfectly competitive labour markets that are consistent with a wage curve. These are: Collective wage bargaining (McDonald and Solow, 1981), efficiency wages (Shapiro and Stiglitz, 1984) and search and matching (Pissandres, 1990). For a discussion of the three different theoretical approaches see Boeters and Savard, 2013.
References


