

# Policy Brief



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## How Can UNDP Accelerate Inclusive Growth and Structural Transformation in Kenya?<sup>1</sup>

**Summary:** Kenya has an opportunity to make the paradigm shift needed to achieve sustainable and inclusive growth. This policy brief argues that this requires a big push for structural transformation to enhance inclusive economic growth and employment creation. The policy implication for UNDP Kenya is that its strategy to support inclusive growth and structural transformation in Kenya must prioritize a pattern of growth that creates a sufficient number of jobs to secure productive employment in particular for the youth to accelerate progress on poverty eradication and reduce inequalities.

### 1. Introduction

Kenya has recorded a robust average annual economic growth of 5.9% during the period 2010-17 and real GDP is forecast to grow by over 6% in the medium term.<sup>2</sup> The Human Development Index improved from 0.468 in 1990 to 0.590 in 2017 an increase of 26.1%. Although progress on social indicators has been significant, more effort is required to achieve the Sustainable Development Goals (SDGs).<sup>3</sup>

Poverty remains high despite a decline in the poverty rate from 46.6% in 2005/06 to 36.1%<sup>4</sup> in 2015/16.<sup>5</sup> Poverty rates remain above 70% in remote, arid and sparsely populated north-eastern parts of Kenya.<sup>6</sup> Poverty is also

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<sup>1</sup>This policy brief is an output of the Strategic Policy Advisory Unit (SPAU) in the UNDP Kenya Country Office. The Unit focuses on upstream policy interventions in the areas of human development, pro-poor policy analysis, Agenda 2030 for Sustainable Development. It also supports the national and county governments in the design and implementation of evidence-based national development plans, county integrated development plans and other relevant policy instruments.

The views expressed in this policy brief are those of the SPAU, and do not represent the views of UNDP, the United Nations or any of its affiliate organizations.

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<sup>2</sup> Medium-term Expenditure Framework, 2017.

<sup>3</sup> Kenya Voluntary National Report, 2017.

<sup>4</sup> Using the US\$1.90 2011 PPP, the poverty rate declined from 43.6% in 2005/06 to 35.6% in 2015/16 (World Bank, 2018).

<sup>5</sup> Using the monthly adult equivalent total consumption expenditure per person below KSh 3,252 in rural and peri-urban areas and below KSh 5,995 in core-urban areas as national poverty lines (KNBS, 2018. Kenya Integrated Household Budget Survey (KIHBS), 2015/16).

<sup>6</sup> *ibid.*

feminized. The latest Kenya Integrated Household Survey (KIHS) results show that 30.2% of female headed households are poor compared to 26.0% of their male counterparts.<sup>7</sup>

Income inequality levels have not decreased significantly in recent years. Kenya's Gini coefficient of 44.5 is above the 2013 Sub-Saharan African (SSA) average of 43.8.<sup>8</sup> Nationally, more than half (59.4%) of total expenditure is controlled by top quintile (Q5) while the bottom quintile (Q1) controls the least share of 3.6%.<sup>9</sup> While increased poverty in urban areas is attributable to the lack of employment opportunities, inequitable access to public goods between rural and urban populations also informs income disparities.<sup>10</sup> Notably, a wide urban-rural gap exists in access to education, electricity, water and sanitation, health and housing services, which exacerbates inequalities<sup>11</sup> and leaves a significant proportion of the population behind.

The Kenya National Bureau of Statistics (KNBS) estimates that unemployment stands at 19.2% amongst youth aged 20 – 24 years with female constituting 64% of the unemployed<sup>12</sup>. As such, there is pressure for job creation and skills match in the labour market. The formal sector currently generates 20% of the jobs required to absorb the labour force which is growing at 2.9% per annum.

Slow structural transformation in production and labour markets has resulted in most workers being confined to low earning jobs or the informal sector and is another underlying cause of poverty. Kenya's Medium-Term Plan II (MTP II) 2013-2017 projected the creation of about 1 million jobs per year between 2013 and 2017. Data from the MTP II mid-term review (2017) show, however, that between 2014 and 2015, the number of new jobs was estimated at only 799,700 and 841,600, respectively. Furthermore, about 83% of these were in the informal sector,<sup>13</sup> which is characterized by low labour productivity and earnings, poor job security and no social protection. The number of jobs in the informal sector is growing faster than in the formal sector, rising by about 4 million compared to 60,000 since 2009, while the share of the formal economy in total employment shrunk to 17% from 19%.<sup>14</sup> The formal sector, which generates around 20% of the jobs required to absorb the labour force, is growing at about 2.9% per annum. With unemployment at 21.8% among youth aged 18 to 24,<sup>15</sup> there is pressure to spur growth in the formal employment sector to sustain a middle-income growth trajectory including in the productive sectors through employment creation and catalytic structural economic transformation.

## **2. What Should Be UNDP's Areas of Support to Accelerate Inclusive Growth and Structural Transformation in Kenya?**

In line with the Strategic Plan Signature Solution 1, keeping people out of poverty, and Sustainable Development Goal 1 and 8, creating jobs for young people is high on the agenda for Government of Kenya (GOK). This is fundamental as despite sustained high economic growth, poverty has declined at a slow rate of an annualized rate of 1.8% between 2005 and 2015.

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<sup>7</sup> The female labour participation rate (75.9 percent) is lower than the male labour participation rate (79.2 percent) (KNBS, 2018. Labour Force Basic Report, 2018)

<sup>8</sup> KIHS 2015/15 and World Bank, 2016.

<sup>9</sup> KIHS 2015/2016.

<sup>10</sup> World Bank, 2014.

<sup>11</sup> Oxford Poverty and Human Development Initiative, 2017.

<sup>12</sup> *ibid.*

<sup>13</sup> *ibid.*

<sup>14</sup> Kenya National Bureau of Statistics, 2017.

<sup>15</sup> World Bank, 2017

Economic growth can reduce inequality and extreme poverty only if its benefits are shared widely across the population. And employment represents an extremely important channel through which the income generated by growth is distributed. So, an inclusive and sustainable growth strategy must prioritize a pattern of growth that creates a sufficient number of jobs to secure productive employment for the majority of the workforce; the employment created needs to provide sufficient income, security and stability to workers (decent work); and employment needs to be accessible to all groups within a population. Thus, to accelerate progress on poverty eradication, reduce inequalities, foster inclusive and sustainable job creating growth, UNDP should provide policy support to MTP III and Big 4 Agenda implementation, monitoring and evaluation,<sup>16</sup> macroeconomic and poverty analysis for inclusive growth policy formulation and implementation for structural transformation, gender and extractives; support monitoring of the SDGs “big data” gaps, and poverty eradication interventions.

This support is support is aligned to one of the top priorities of the GoK – employment creation, particularly among the youth. The Kenya Vision 2030 highlights the need for institutional and economic reforms to accelerate growth and in turn create more jobs. However, strong GDP growth in Kenya has not always translated into improved labour market conditions, especially for young people. High youth unemployment, together with a lack of qualified workers and a mismatch of technical and vocational education and training (TVET) with actual labour market demand, are some of the bottlenecks that hinder employment creation in Kenya. Moreover, underemployment and youth unemployment are recognised by both Development Partners (DPs) and the GoK as a root cause of poverty, inequality, displacement and migration. During the MTP III period, the GoK has committed to creating 1.2 million new jobs annually to address the pressing problem of youth unemployment. Therefore, to benefit from the high growth rates expected during the MTP III timeframe, a stronger link between growth and employment is necessary.

UNDP’s policy support should therefore identify opportunities in sectors with great employment potential, such as agriculture and agri-business, sustainable housing and urban development, sustainable infrastructure, the manufacturing sector and the blue economy. These sectors form the backbone of the Big 4 Agenda and contribute directly to the MTP III goals of socio-economic transformation, increased job creation and improved quality of life for all Kenyans. These will furthermore be propelled through Kenya’s continued lead in the ongoing digital transformation of Africa which contains enormous potential. UNDP should align its policy support with the Government strategy for job creation, with particular focus on increasing the competitiveness of SMEs; facilitating the establishment of Special Economic Zones (SEZs) and industrial parks and supporting skills training and internship programmes for young people and alternative livelihoods for the declining pastoral/agro-pastoral sector. UNDP should also contribute to creating an enabling environment for private sector investment.

This proposed support is based on an acknowledgement that current pattern of Kenya’s economic growth has not been pro-poor and inclusive due to slow structural transformation. Slow structural transformation in production and labour markets has resulted in most workers being confined to low earning jobs or the informal sector and is another underlying cause of poverty.

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<sup>16</sup> The Government of Kenya has outlined four big priority areas (the Big 4 Agenda) for the next five years. These are agricultural and food security, affordable housing, increased share of manufacturing, and universal health coverage. The attainment of these goals should help advance the Vision 2030 agenda – helping Kenya to move forward towards an upper middle-income economy with a high standard of living.

### 3. The Proposed UNDP Approach

The proposed Inclusive Economic Growth and Structural Transformation Strategy is based on a theory of change which argues that improving economic policy frameworks, diversifying the economy and strengthening the capacities of institutions, enterprises and individuals, will minimize economic exclusion and marginalisation of the poor, and generate realizable opportunities for decent and productive employment for target groups. Key elements of the strategy include: strengthening national capacities for inclusive pro-poor planning and policy making, promoting sustainable management of natural resources, in particular, extractives; strengthening national social protection systems; enhancing productive capacities, value chain development; and developing inclusive and sustainable business practices in rural areas, providing a conducive environment for job opportunities for youth in rural areas. The strategy will thus contribute to reinforcing the links between poverty eradication, environmental management and gender equality in its interventions. The strategy includes the following key principles:

- i. More **integrated and area-based** approach with strong programmatic linkages to the other UNDP practice areas – governance, peace and security, environmental sustainability, climate change and resilience -- for more cohesive and comprehensive interventions. To maximize the impact of the interventions, the strategy has an increased focus on selected sectors, geographical areas and specific target groups, namely, rural women and youth.
- ii. More **people-centred** with strong linkages between upstream and downstream interventions, where research and pilots will inform planning and policy making and enhanced institutional capacities will contribute to improved implementation of plans and policies on the ground.
- iii. Innovative **south-south and triangular cooperation**. UNDP will use its global networks and institutional infrastructure to facilitate global north-south, south-south and triangular cooperation.
- iv. **New partnerships** with the private sector, philanthropic organisation, foundations, academic institutions and civil society organizations (CSOs).

### 4. Conclusion and Policy Implications

Kenya has an opportunity to make the paradigm shift needed to achieve sustainable and inclusive growth. This policy brief argues that this requires a big push for structural transformation to enhance inclusive economic growth and employment creation. This would imply UNDP's support to achieve inclusive growth and structural transformation in Kenya focusing on:

- i. Up-scaling policy advisory support to GoK to enhance productivity, accelerate diversified and equitable growth – including addressing the high level of unemployment and inequality.
- ii. Identifying SDGs accelerators, implementation and monitoring of the SDGs at both national and sub-national levels.
- iii. Managing natural resources for sustainable human development.
- iv. Developing a green growth strategy in the sectors which government has identified as priority for structural transformation.
- v. Building resilience to shock and its drivers.
- vi. Developing of small and medium enterprises (SMEs) through improvement of the business environment and other supportive measures like improving the value chains, access to finance, improvement of the trade support network, market development and trade facilitation.
- vii. Mobilizing and scaling up innovative financing.

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