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Policy Paper

Making Economic Growth work for the Poor

A devolved approach to funding Universal Primary Education in Kenya

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1. Executive Summary

The Kenyan economy is growing. The gains are shared by the better off and do not reach the poor. The government has taken a first step to better distribute these benefits by introducing free primary education in 2003. Claims that this has put more poor children into schools are increasingly difficult to make. Rather, it appears that a proportion of the higher enrolment rates are due to a re-distribution from private schools. Worse, the provision of a "free" service has not created more schools, not employed more teachers, nor given poor families the means to send their children to school. Direct and opportunity costs other than fees continue to keep the poor away and make them loose out on the benefits of free primary education. The quality of education both in terms of facilities and availability of teachers has gone down. This paper therefore argues that while gaps in the demand side of primary education must be covered more comprehensively, the supply side in particular must receive dedicated and timely support to achieve Millennium Development Goal 2 in Kenya. It proposes a devolved funding mechanism as the key policy instrument to address this gap and enable communities to directly and inclusively invest in their future through primary education. This will be a tangible way of making economic growth work for the Poor in Kenya.

The paper analyses the economic situation and the trend for growth in Kenya. It identifies the problems holding back the achievement of universal primary education in Kenya. Availability of fiscal space to address these problems is outlined, and a package of policy options to bring the gains of this to the poor is presented. It is argued that creating demand through the free primary education programme must be better supported and, most crucially, matched with a more targeted support to the supply of education services to get more poor children into quality education. Consequently, the pursuit of free primary education has to be embedded into a wider policy environment to yield the intended effects. In particular, hidden and opportunity cost for poor families to send children to school must be cushioned through targeted transfers; teachers must be paid a more competitive salary that has performance rewarding elements; and schools must be built, equipped and maintained where none or too few exist.

A number of these policy options are already pursued by the government. It has embarked on piloting cash transfer systems to benefit the poorest, methods to reduce teacher absence have been tried, and the government has made funds for sector growth available. Based on this portfolio of options, the paper submits that while these will have impact, a major obstacle to an efficient and effective expansion of the primary education is the current way of its administration. It argues that centralized delivery is its main obstacle, and that decentralization is a more suitable approach to service delivery in the education sector. It is then demonstrated that the government has appropriate fiscal transfer mechanism in place and proposed to create an education funding envelope in an existing devolved development fund that is already in place. It is argued that this will address a number of constraints on the sector and is the best approach to achieving the Millennium Development Goal for primary education in Kenya by 2015.

2. Free Primary Education for All in Kenya – Not yet.

Kenya's economy is growing. It recovered from a period of stagnation in the 1990s and has expanded steadily since 2002. GDP is currently increasing at a rate of around 6 % per year[1]. Kenya, however, continues to be a poor country. More than 45 % of the population is below the national food poverty line. The rural population is disproportionably worse off, with over 47 % below the food poverty line and a food poverty gap of 16 %. In monetary terms, this makes the Kenyan society a highly unequal one. While the Gini coefficient for the rural population has slightly declined from 0.42 in 1997 to 0.38 in 2005[2], it still is one of the highest in Sub-Saharan Africa. Figure 1 illustrates this continued inequality for rural Kenya. Clearly, the economic growth of the last years has not yet translated into inclusive development in Kenya. The poorest deciles of the population do not partake in its gains, which rather benefit an increasingly affluent middle class.

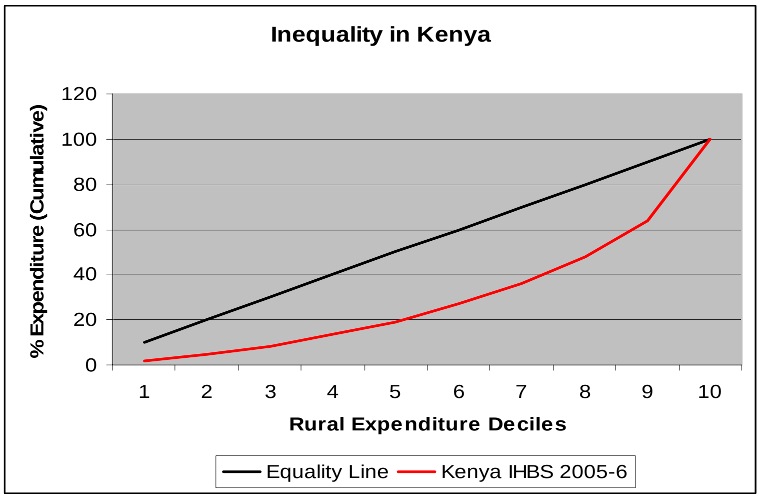

Figure 1: Lorenz Curve for Kenya
(plotted with 2005-6 Integrated Household Budget Survey Data)

The government has therefore taken steps to re-distribute the gains of economic growth to the poorest in the country. This is a significant challenge, as the rural food poverty gap alone translates into the equivalent of US$ 600 million per year[3] (12.5 % of the 2005-6 revenue including grants)[4] required to lift all Kenyans above the food poverty line. Clearly, substantial multiplier effects are required to reduce this poverty gap in the long run. Kenya has therefore embarked on a strategy that aims at addressing the underlying problems of its poverty.

One major component of this poverty reduction strategy is the provision of free primary education. Put in place in 2003, it is expected to yield significant long-term gains with a better skilled workforce and an expanding domestic private sector that should produce some of the required multiplier effects[5]. The strategy, however, was primarily based on the assumption that school fees were the main obstacle to universal primary education and kept the poorest children

[1] Republic of Kenya, Economic Survey 2007
[2] Kenya Integrated Household Budget Survey 2005-6
[3] Ibid.
[4] Republic of Kenya, Economic Survey 2007
[5] Based on the Human Capital Theory of return on investment in education; productivity and ultimately income growth is a measurable benefit of such spending by governments. For education, estimates exist for developing countries (Psacharopoulos & Paterinos (2004))

out of school. After introducing the free service, enrolment rates in public schools went up as expected[6]. However, studies indicate that this is partially due to a re-distribution from private schools[7], while poor families continue to not send their children to school because of the direct (transport, school uniforms, books) cost and the opportunity cost (children as domestic workers in poor families)[8]. The quality of education has at the same time suffered. The same number of teachers must now cope with an increased student load, and classrooms are reaching their capacity level[9]. Clearly, addressing only one component of the demand side of education did not ensure universal primary education.

Free primary education therefore serves as a suitable example of the multi-dimensional character of designing polices that benefit the poor. The poor are not reached just because a service itself is free, but services must be delivered nearby, be of sufficient scope and quality, and indirect and opportunity cost required to enjoy the service must be covered. The 2005-6 Integrated Budget Household Survey displays current data on education, with detailed information on the reasons for non-attendance (Figure 2)[10].

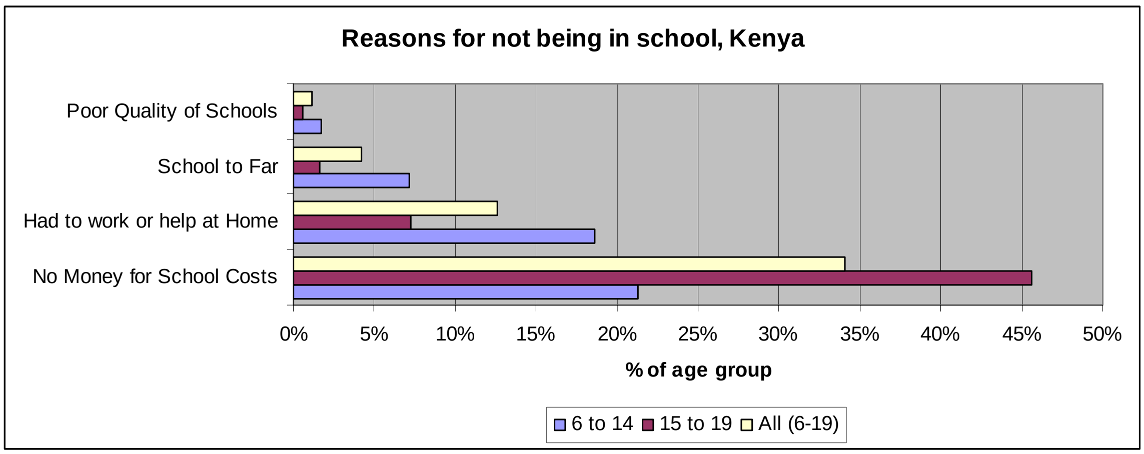

Figure 2: Reasons for not being in School, Kenya[11]
(based on 2005-6 Integrated Household Budget Survey Findings)

It is clear that four years after school fees were waived, the direct and opportunity costs of education still keep the majority of those not attending primary school away. This reflects the economic choices poor households must inevitably make to survive, but only shows one facet of the situation. School surveys document that poor quality of schools is a very common feature of the sector today, and while for those currently out of school this may not be a concern, it is another constraint for universal primary education in Kenya.

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[6] UNDP (2006)
[7] Stanfield (2005)
[8] UNESCO (2005)
[9] ibid.; Avenstrup (2004)
[10] The Household Survey does not estimate the level of child poverty. It is therefore not possible to plot the proportion of poor children not attending school against the proportion of better off children that stay absent. From the data, however, it is apparent that living in the poorest rural districts correlates with low school attendance
[11] Kenya operates the 8-4-4 system of education, with 8 years of primary school, starting at the age of 6. With universal primary education not yet a reality, children past the age of 14 still make up a significant proportion of primary school attendees for various reasons of missing out at an earlier age. The age group of 14-19 olds is therefore included in this chart.

A clear conclusion can therefore be drawn from the household and school survey data: There are two main obstacles to achieving universal primary education in Kenya. Firstly, on the demand side, households still lack the money to pay for education-related costs, although school fees have been abolished. Secondly, on the supply side, facilities are not sufficient to allow children to attend school near their homes or, in many cases, to attend at all due to lack of space. This is connected to an insufficient number of teachers and poor learning equipment. The problems to be addressed are therefore household income (demand side) and school facilities, functionality, and quality (supply side).

4. How to make Economic Growth work for the Poor: Policy Options

A number of policy options exist to address the complex problem of providing universal primary education. Firstly, the demand of the poorest for primary education could be boosted with a targeted cash transfer scheme. This should cover the direct, indirect and opportunity cost of households in the lowest deciles for sending their children to school. Secondly, investment and recurrent financing of the education sector for additional schools, more teachers and their salaries, school running cost and materials has to have dedicated space in the national budget. Furthermore, it needs to be responsive to the actual needs considering the scale by which Free Primary Education has increased the potential demand.

Both options require fiscal space, which is key to making economic growth work for the Poor. Such fiscal space is available in Kenya. The governments total revenue in 2005/6 was 4.8 Billion US$ or 20 % of GDP (including grants). This is the result of the recent revenue growth alongside GDP expansion, indicating that economic growth in Kenya does indeed create more fiscal space for the government. Furthermore, in Kenya this translates into more social spending. Government spending in the social sector has gone up steadily in the last years, with substantial increases allocated to the education sector. Figure 3 shows the relationship between these trends. If economic growth continues as predicted, fiscal space and its sustainability is ensured.

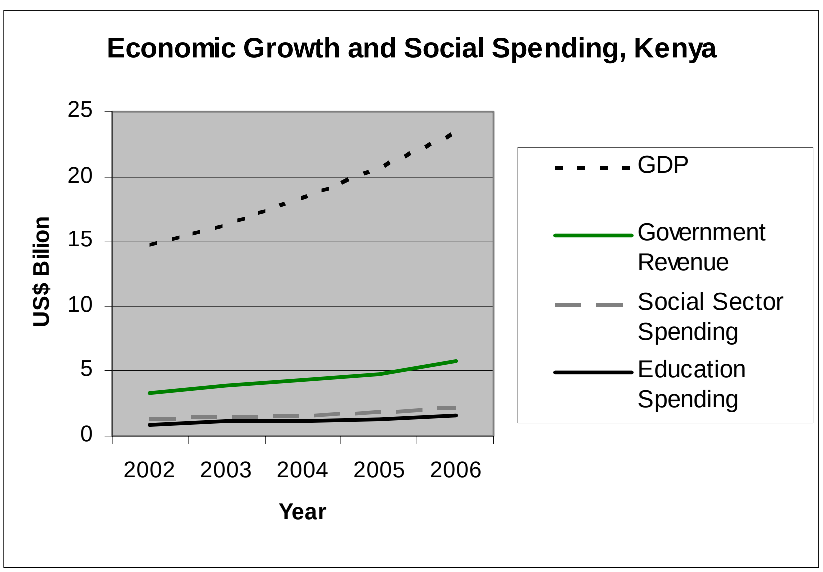

Figure 3: Economic Growth and Social Spending, Kenya
(based on data from the 2007 Kenya Economic Survey)

With fiscal space available, the Kenyan government has embarked on a number of actions to address the deficiencies of the education sector. It has allocated funds for teaching materials and undertakes to train and employ more teachers. Outside the sector, cash transfer schemes are being tested as a means to target the income deficiencies of poor households. The infrastructure component of the supply side of education received additional funding in the 2006-7 budget. The preconditions are in place.

The mechanism of making use of this fiscal space efficiently and with the desired impact on the poorest children, however, requires fundamental re-thinking. Traditionally, education is a centrally managed sector of the government. Local government spending on education, in relation to total education spending, is insignificant and has since 2002 been on a declining trend (Figure 4).

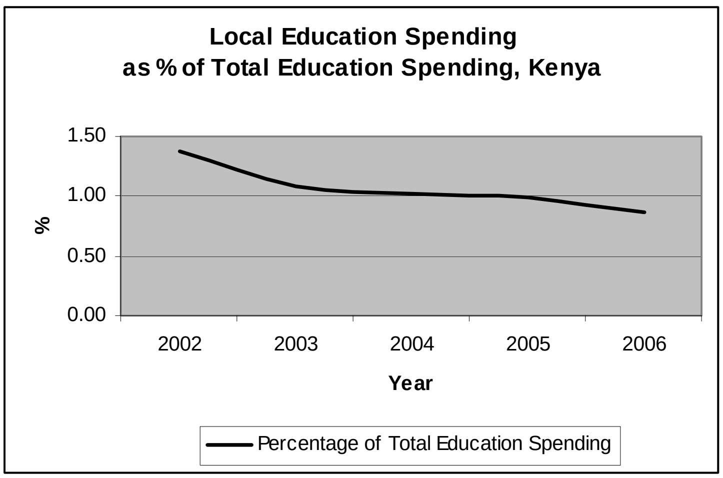

Figure 4: Local Education Spending as % of Total Education Spending, Kenya
(based on 2007 Kenya Economic Survey)

Central government role in education makes sense in terms of national curricula, standards of teacher qualification and comparable assessments. It does not, however, make sense in terms of building and running schools, paying teachers' salaries, or disbursing cash grants to poor families for partaking in education. Along these arguments the merits of centralized or solely de-concentrated service delivery in the education sector is increasingly in question[12]. Decentralised service provision in education, on the other hand, has numerous advantages, not least for the poor. It is open to better participation by the claimholders, reduces transaction cost, can provide individualized solutions that address the problem at its origin, and consequently becomes more effective and targeted than services under remote management. A central function would be reduced to the important components of contents and standards setting.

On a general level the Kenyan government has understood these advantages. In 2000 it put in place the "Local Authority Transfer Fund" (LATF), a central government funding instrument using block grants that are released upon application by the local governments. In 2003 parliament created the "Constituency Development Fund" (CDF), a devolved fund that channels a percentage of the government's total revenue to all constituencies based on their poverty index ranking. The CDF therefore goes further than the LATF did; funds are transferred directly to the constituencies[13].

[12] Steffensen et al. (2004)
[13] Government of Kenya, The Constituencies Development Act, 2003

This keeps transaction cost low, decision making at constituency level is inclusive of the community, and local priorities can be fully reflected in spending. The fund has therefore initially received positive reviews in comparison to the LATF. In the long run, however, it appears to suffer from similar institutional problems. Generally, local government in Kenya does not have sufficient powers to effectively administer such fiscal transfers[14]. Both funds have faced allegations of lacking transparency and accountability in the allocation process[15].

These are valid concerns, but should not distract from the intrinsic strength of decentralized service delivery and devolved funding mechanisms. The problems of the CDF can be addressed, and they can be addressed at an institutional level. Strengthened mechanisms are the key to this, and clarity of fund allocation a suitable means. It is therefore proposed to set up a dedicated education envelope within the CDF that channels revenue from Kenya's economic growth directly into the localities where sector expansion is crucial to achieve universal primary education. This installation of a dedicated funding window will inevitably address some of the concerns that were raised in regards to the CDF. The lack of transparency in fund allocation is largely reduced by the earmarking of the funds. Schools and their running are the most transparent part of service delivery in a community, with Parents / Teacher Association contributing substantially to sector governance. Also, targeting of interventions is improved by the earmarking and tying of funds to education outcomes, for example by using conditional education transfers to poor families that require school attendance. It is therefore submitted that a devolved funding window for local education service delivery will not only be the most efficient way to disburse funds for achieving universal primary education, but that it will at the same time have positive effects on the governance of the devolved fund it is part of.

Considering that the Kenyan government is currently receiving substantial funding for this purpose in addition to its revenue growth[16] this funding window would be a timely addition to, and indeed an improvement of the existing central and devolved fiscal transfer systems in place. This goes along with the experiences of other countries. Establishing the subsidiarity principle[17] across government levels contributes to a more equitable and pro-poor service delivery.[18] Studies have confirmed this in a number of developing countries, in particular for services that are least complex such as primary education, basic healthcare, and water and sanitation facilities[19]. Dedicated fiscal transfers from the central to the local level have both been successful in either making up for revenue gaps or underscoring national priorities at the local level and have improved the governance of such funds.[20]

[14] Kimenyi (2005)
[15] UNDP (2006)
[16] IBRD funding (www.worldbank.org)
[17] Government functions should be assigned to the lowest level of government that is capable of efficiently undertaking this function
[18] UNDP (2005)
[19] Faguet (2004)
[20] Shah (2004)

6. Limited Investment, Long-Term Gains: Impact of the Policy

The achievement of MDG 2 in Kenya has already been costed[21]. A recent study concludes that the achievement of the goal by 2015 is feasible in Kenya, if the primary education budget *"…is used in a cost-effective way."*[22]. An additional resource allocation of at least 0.8 % of the GDP per year (in 2006 equivalent to about 200 Million US$) will be required for this, including targeted education subsidies for poor families. With the trend of economic and revenue growth in Kenya this is certainly feasible. The investment will clearly pay off. The average social return on investment in primary education in Sub-Saharan Africa is 25.4 %[23]. While this is an averaged figure, two studies in Kenya in the 1970s and 1980s put the specific social rate of return at about 16 %[24]. Both figures clearly indicate that investment in primary education has a positive and highly significant effect on economic development.

The impact will be, however, not limited to a monetary return on investment in terms of national productivity increase. A significant impact is expected from the proposed fiscal transfer mechanism. An earmarked funding envelope under the CDF would have significant advantages in pro-poor targeting. Already, the fund is based on the poverty rating of the constituencies. If this is combined with attendance and enrolment performance, the allocation of funds could be well targeted to districts and counties where the poor are kept out of education. This will have positive effects on local government capacity, transparency, inclusiveness of decision making, and participation of the poor in their own development. These are real and tangible benefits of a fully devolved development fund, and they will certainly add to a general improvement in local level development in Kenya.

8. Recommendation for a devolved approach to funding Universal Primary Education in Kenya

Free primary education is one of the largest challenges the country has embarked on, and is about to be followed-up by free secondary education. This requires substantial investment and commitment. From the experience in other sectors, and in the Education sector in other countries, local governments are in a much better position to manage such expansion. It is therefore submitted that the best option to accelerate universal primary education and the achievement of Millennium Development Goal 2 is the creation of an education envelope in the Kenyan Constituency Development Fund that will disburse dedicated means to address all elements of the supply and the demand side of primary education at the local level.

Changing the way the education sector is funded by setting up an education envelope in a fully devolved fund will consequently be a very real and tangible way to make Kenya's economic growth work for the poor. It can ultimately set an example for other sectors and poverty alleviation initiatives.

[21] Vos (2004)
[22] ibid. pp24f
[23] Psacharopoulos & Paterinos (2004) Returns to Investment in Education
[24] ibid.

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