

Job Creation *versus* Cash Transfers in Kenya

by Eduardo Zepeda, Senior Researcher, International Poverty Centre

After a long period of economic regression, the Kenyan economy has recently started to recover, raising hopes for reducing poverty. Buoyed by this recovery, the Economic Recovery Strategy of the Kenyan Government has the ambitious goal of creating 500,000 jobs per year. But if these jobs are going to be reasonably productive, Kenya will need to grow more rapidly than 6 per cent per year.

However, there is no guarantee that poor households will benefit from such projected growth or the jobs that it generates. So, targeted programmes will continue to play an essential role in the medium term in reducing poverty. This One Pager offers an initial assessment of the effectiveness of two such programmes—a job-creation programme and a cash-transfer programme based on child grants.¹

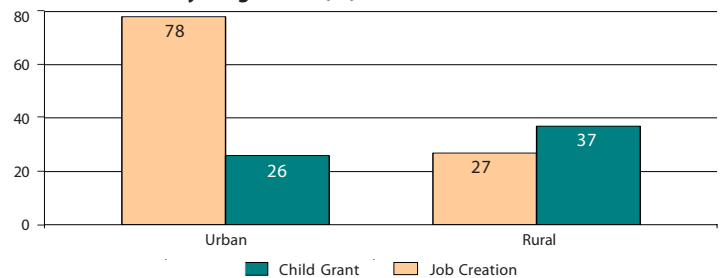
Targeted cash transfers are popular nowadays among governments and donor agencies. Often, they are based on the number of school-age children in a household and conditional on school attendance and health check-ups. Using data from Kenya's 1998/99 Labour Force Survey (LFS), we simulate such a transfer to all children aged 6 to 14 years in poor households. The cost is a mere four per cent of total household income. The result is a *six percentage point fall* in the incidence of poverty and an *eight percentage point reduction* in the depth of poverty.

What would be the impact of a job programme that is similarly financed? To answer this question, we simulate the effect of wages paid by such a programme to a group that includes both: 1) all unemployed workers from poor households and 2) all workers from such households whose labour earnings were lower than the level of wages paid by the programme. The wage level of such a programme is critical. We set the wage roughly equivalent to the poverty lines for rural and urban areas—*specifically*, the minimum wage of unskilled workers in rural agriculture and that of unskilled workers in all urban sectors other than Nairobi.

The overall percentage point decreases across the country in the incidence and depth of poverty are similar for the cash-transfer and job programmes. However, since the number of school-age children per household is larger in rural areas, the cash-transfer programme has a stronger impact there (providing a 37 per cent increase in household income—see Figure). However, in urban areas, where poor workers are relatively worse-off, the job programme has a stronger impact (boosting household income by 78 per cent).

An additional important finding is that the lower the capacity of a household to secure gainful employment, the larger the benefit of

The Income Gain by Programme (%) for Poor Households



Source: Own calculations based on Kenya's 1998/99 Labour Force Survey (LFS).

the job creation programme. The benefits of the job programme in urban areas are most pronounced for the poorest 10 per cent of households.

Both child-transfer and job programmes have a progressive regional impact, i.e., the increase in income is larger, the poorer the district. But the job programme tends to be more beneficial for the poorest households. In nine of the ten poorest urban districts, the job programme out-performs the child-transfer programme; and even in five of the ten poorest rural districts, the job programme is superior. The basic reason is that the job programme enables the poorest households to begin generating income.

Both child-transfer and job programmes help enhance the development of human capabilities, especially of children. The evidence suggests that increasing the income of poor households suffices—independently of conditionalities—to improve education and health. This assumes, of course, that there is an adequate supply of such services. But a job programme is likely to have a stronger multiplier impact than child grants by helping to build economic and social infrastructure. If such a programme builds health clinics and schools, for instance, it can help boost the supply of social services.

If enhancing the current productive capabilities of poor workers is an important objective, then a job programme is also likely to be better. Such a programme provides these workers with more productive employment and develops skills. One objection often lodged against job programmes is that they could distort labour markets, such as by raising minimum wages. However, under Kenya's low-wage, labour-surplus conditions, policymakers should be more concerned with creating economic dynamism than worrying about such imaginary impacts, which are more applicable to developed economies.

Note:

1. See Eduardo Zepeda (2007). 'Addressing the Employment-Poverty Nexus in Kenya', IPC Working Paper, forthcoming.