Impact of Kenya's Fiscal Choices on Poverty and Inequality:
A Child-Sensitive Snapshot

Brief based on *Poverty and Distributional Impacts of Fiscal Policy in Kenya: A Commitment to Equity (CEQ) Assessment with Extensions to Gender and Children*

Key Messages

One in three children in Kenya faces both monetary and multidimensional poverty, with the highest poverty rates in arid and rural regions. Addressing child poverty requires tackling both monetary and multidimensional needs.

Public spending benefits low-income households more than it does higher-income households, but the most deprived children receive a disproportionately smaller share of education and health investments. Therefore, social assistance programmes are important, as they help bridge this gap, enabling the poorest families to better access and benefit from essential government services such as healthcare and education.

The fiscal system reduces inequality but increases child poverty, according to the study outlined below, revealing a gap in how tax and transfer policies address the specific needs of children.

Social assistance programmes are well-targeted but too small to drive systemic change. Scaling up social protection programmes, and strengthening eligibility criteria to include more children can boost their effectiveness.

Expanding coverage and increasing cash transfer amounts within social assistance programmes can significantly reduce child poverty and inequality, especially when paired with universal education and health services.

Introduction

Children represent 42 per cent of Kenya's population and are critical to the country's development of human capital. However, child poverty remains a persistent challenge, particularly in rural and arid and semi-arid (ASAL) areas, where access to quality education, healthcare, nutrition, and basic services is limited. In 2022, 42.4 per cent of children lived in poverty while 47.7 per cent experienced multidimensional poverty, highlighting continued gaps in essential services such as education, health, water, and sanitation[1] (KNBS, 2024). Rural and ASAL regions are the most deprived, with a disproportionately high number of children living in poverty and experiencing multiple deprivations. Although child mortality fell significantly from 115 to 41 deaths per 1,000 live births between 2003 and 2022, persistent issues such as child stunting (18 per cent) and 2.5 million out-of-school children, point to systemic challenges that require more effective public investment and equitable fiscal policies.

While the UN Convention on the Rights of the Child[2] and Kenya's Children Act, 2022[3] call on the Government to invest in the welfare of children, historically, fiscal incidence analysis (FIA) has lacked a specific emphasis on child welfare. Understanding how children are affected by government spending and taxation is critical. Therefore, this study assesses the effectiveness of Kenya's fiscal interventions, such as free primary education, public health spending, social assistance programmes and taxes, in reducing child poverty and inequality. It provides evidence to guide the optimization of fiscal policy to more equitably support vulnerable children. As Kenya advances its development agenda, evaluating the distributional impacts of public spending is essential to ensure it secures the long-term well-being of its youngest citizens.

1 KNBS (2024). The Kenya Poverty Report: Based on the 2022 Kenya Continuous Household Survey.

2 Assembly, U. G. (1989). Convention on the Rights of the Child. *United nations, treaty series,* 1577(3), 1-23.

3 The Children Act, 2022.

Data and Methodology

The Commitment to Equity for Children (CEQ4C) framework[4] is an extension of the CEQ methodology, which combines household survey data with administrative budget and tax data to estimate impacts of policy. Within this framework, concepts of pre-fiscal and post-fiscal household income are constructed: market income, net market income, gross income, disposable income, consumable income, and final income.

This study uses the 2022 Kenya Continuous Household Survey (KCHS) as the primary data source. The survey data is complemented by administrative data from the 2022/2023 fiscal year on tax and expenditure, as well as other data including public student populations and public health facility visits when calculating the incidence official interventions and poverty and inequality statistics. For this study, UNICEF also makes use of the 2022 Kenya Demographic and Health Survey (DHS) to develop a multidimensional child poverty index.

Focusing on children under 18, CEQ4C adapts the CEQ's fiscal allocation approach, establishing child-specific linkages at three levels: macro, by reevaluating income concepts to prioritize public budget components relevant to children's welfare; meso, through policy simulations targeting child-relevant expenditures and revenues; and micro, by integrating a multidimensional child poverty module into poverty and inequality measurements.

4 Cuesta, J., Jellema, J., & Ferrone, L. (2021). Fiscal policy, Multidimensional poverty, and equity in Uganda: A Child-Lens analysis. *The European Journal of Development Research,* 33(3), 427-458;

Inchauste, Gabriela, and Nora C. Lustig (eds.). (2017). The Distributional Impact of Fiscal Policy: Evidence from Developing Countries. Washington, DC: World Bank;

Lustig, Nora. (2018). Commitment to Equity Handbook, Estimating the Impact of Fiscal Policy on Inequality and Poverty. New Orleans: CEQ Institute, Tulane University; Washington, DC: Brookings Institution Press.

Results

Overall, the study finds that, the current system of taxes and transfers in Kenya aggravates child poverty, which exceeds the national poverty rate. Child monetary poverty increases from 41.8 per cent at before taxes and transfers to 44.7 per cent at after taxes and transfers, 2.5 percentage points increase (Figure 1-a). While inequality among children is lower than that for the broader population, fiscal interventions, comprising taxes and transfers, reduce child inequality by o.5 Gini points, a smaller margin compared to the total population (Figure 1-b). This highlights the need for more child-focused fiscal policies to ensure that early-life inequalities are effectively addressed, laying a stronger foundation for long-term social and economic equity.

Figure 1: Poverty and inequality for children and overall population

Figure 1-a: Poverty headcount

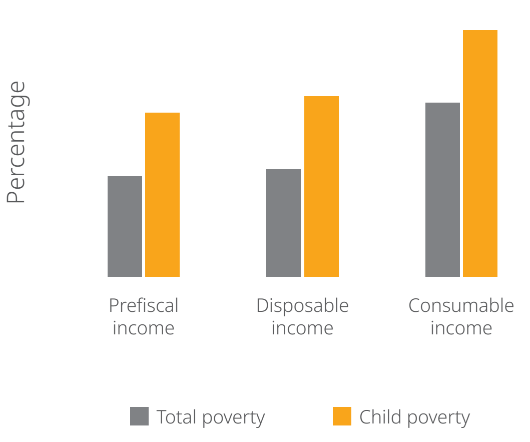
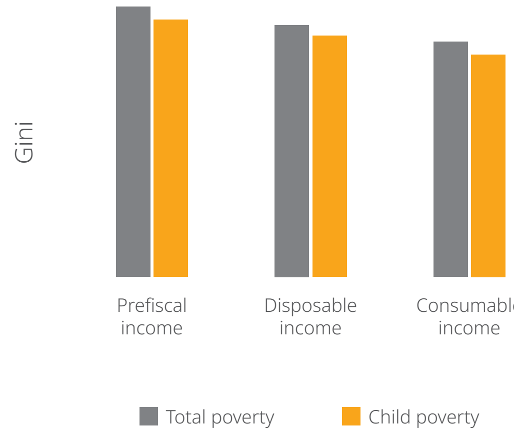
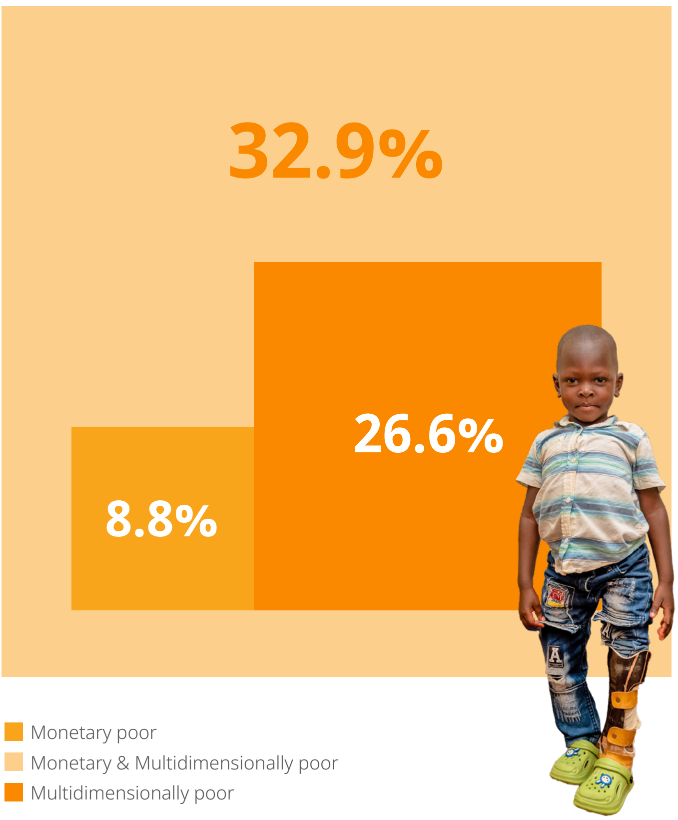


Figure 1-b: Inequality



One in three children face both monetary and multidimensional poverty. About 26.6 per cent of children, despite living in non-poor households, lack access to essential services (Figure 2). Conversely, 8.8 per cent are monetarily poor but not multidimensionally deprived, often in low-income, urban areas with better access to services. A third (32.9 per cent) of monetary poor children also face multiple deprivations, particularly in high-poverty counties, where access to sanitation, housing, and clean water is limited. Stark disparities persist between regions, with 46.1 per cent of children in rural areas living in poverty compared to 40.1 per cent for their urban counterparts, and an alarming 72.8 per cent in ASAL areas compared to 38.1 per cent in non-ASAL areas.

Figure 2: Overlap between monetary and multidimensional child poverty



Public benefits, such as education and health, impact low-income households more, while taxes are paid mostly by the high-income households (Figure 3). Though direct transfers are highly concentrated in the lowest deciles, their impact is small. Similarly, the most deprived children benefit more from government in-kind transfers, especially in the form of education and health spending. For example, cumulative benefits directed towards households with five or more deprivations are more than 20 per cent of their of pre-fiscal income on average. On the contrary, the tax burden on these households is relatively low, less than 5 per cent of their pre-fiscal income on average. Households with zero or fewer deprivations pay relatively more tax and receive a smaller share of public benefits (Figure 3-a &b).

Figure 3: Fiscal incidence by income and deprivation

Figure 3-a: Incidence by income decile

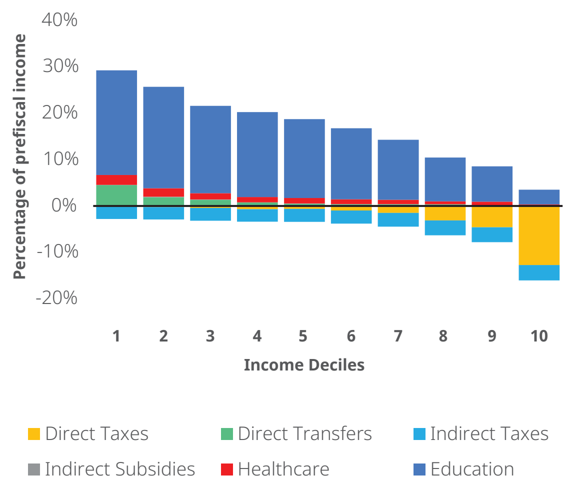
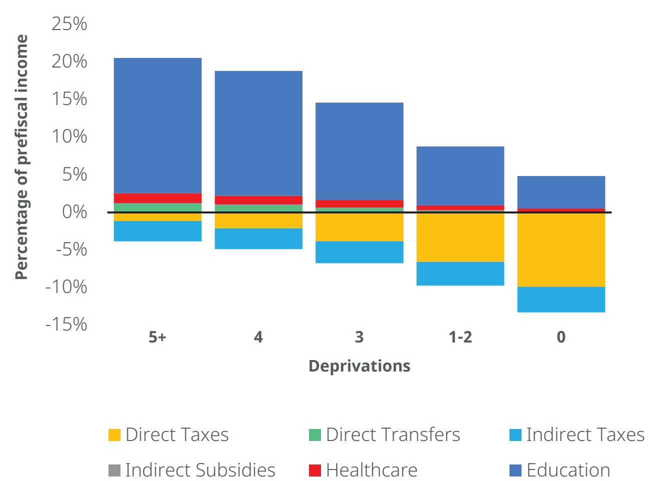


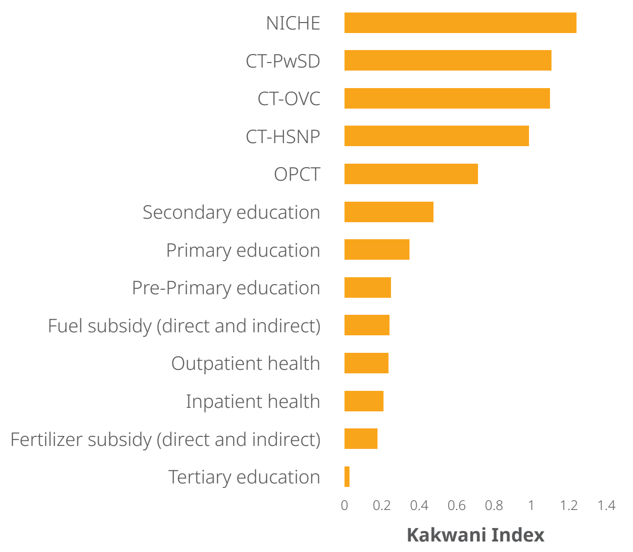
Figure 3-b: Incidence by multidimensional deprivation count



Public spending is progressive but not pro-poor, favoring less-deprived children and perpetuating inequities. Although education and health spending are progressive, they fail to favour the poor, as wealthier households benefit disproportionately (e.g., 28.2 per cent of inpatient health benefits for top income deciles) and children with 1–2 deprivations secure 40 per cent of health spending, while the most deprived receive a mere 6 per cent, perpetuating inequities in access to essential services.

The NICHE program stands out as one of the most progressive cash transfers in Kenya. Transfers in Kenya are generally progressive, meaning they benefit poorer households more than richer ones. Among these, cash transfers rank highest in progressivity, while subsidies are only mildly progressive. NICHE exhibits an exceptionally high degree of progressivity, with a Kakwani Index of 123.6, indicating that its benefits are strongly concentrated among the poorest households. While this reflects effective pro-poor targeting, the program's small size and narrow coverage mean its overall impact on inequality is limited. This underscores the need to assess both the progressivity and scale of cash transfers when evaluating equity outcomes.

Figure 4: Progressivity of transfers in Kenya



Expanding coverage of social assistance programmes significantly reduces inequality, with moderate poverty alleviation. The study's policy simulations reveal that extending the CT-OVC programme to all households with children living below the extreme poverty line reduces inequality by 0.534 Gini points and poverty by 0.149 percentage points, with higher poverty reduction in rural areas (0.33 percentage points) compared to urban areas (0.083 percentage points). However, it is important to note that reliance on orphanhood as a targeting criterion for CT-OVC may limit its effectiveness, as evidence shows that orphaned children are not consistently poorer or more deprived than non-orphans,[5] highlighting the need for more accurate, multidimensional approaches to identifying child vulnerability. Similarly, expanding NICHE to all food insecure households reduces poverty by 0.553 percentage points and inequality by 0.252 Gini points, highlighting the effectiveness of broader coverage in addressing income disparities.[6]

Increasing transfer values enhances both poverty and inequality reduction. Raising transfer values for programme like HSNP, CT-OVC, PwSD-CT, and OPCT from KSh 2,000 to KSh 3,000 per month reduces poverty by 0.402 percentage points and lowers inequality by 0.123 Gini points. The modest inequality impact reflects the limited beneficiary base (1.87 million) relative to Kenya's 20.2 million poor people, underscoring the need for both higher transfers and broader coverage to maximize impact. Combining expanded coverage with higher transfer values and complementary interventions is critical for sustained impact.

5 National Social Protection Secretariat, WFP Kenya, and UNICEF Kenya. 2018. Child Vulnerability and Social Protection in Kenya. Nairobi, Kenya.

6 The poverty impacts reported are based on static estimates and may understate the full benefits of social assistance programmes. Evidence shows that poverty reduction often occurs over time as households invest in health, education, and livelihoods—effects not captured by point-in-time analysis.

Policy Recommendations

1. Expand cash transfer programmes to all extremely poor households and increase transfer values to at least Ksh. 3,000 to accelerate poverty reduction and reduce inequality.
2. Pair cash transfers with complementary services such as education, healthcare, and nutritional support to sustain long-term human capital gains.
3. Prioritize rural areas in programme expansion while maintaining coverage in urban poverty hotspots to maximize impact.
4. Establish regular recertification mechanisms and apply updated eligibility criteria in programmes like CT-OVC to ensure social protection remains targeted to the poorest households and minimize inclusion errors. This is particularly important given emerging evidence that orphanhood alone is not a reliable indicator of child vulnerability, and continued reliance on it may exclude equally or more deprived non-orphaned children.

Disclaimer

This brief was written by Vivian Nyakangi, James Babu Ochieng and Ana Gabriela Guerrero Serdan from UNICEF KCO based on the *Poverty and Distributional Impacts of Fiscal Policy in Kenya: A Commitment to Equity (CEQ) Assessment with Extensions to Gender and Children (link to main report). The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the views of the organizations with which they are affiliated*.

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UNICEF Kenya Country Office
UN Complex, UN Avenue
Gigiri, Nairobi
Kenya