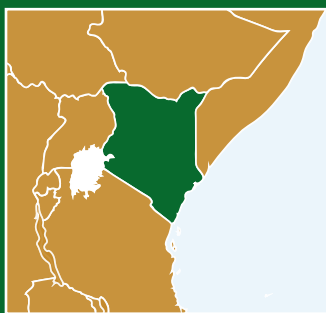# policy

July 2014

DEMOGRAPHIC DIVIDEND OPPORTUNITIES FOR KENYA

RESULTS FROM THE DEMDIV MODEL

Brief

National Council for Population and Development
and Health Policy Project

The demographic dividend is a temporary opportunity for faster economic growth that begins when fertility rates fall, leading to a larger proportion of working-age adults and fewer young dependents. Integrated family planning (FP), education and economic development policies can facilitate a demographic dividend for Kenya. A balanced population age structure, combined with investments in education and a policy environment that stimulates robust economic development, would help Kenya achieve the Vision 2030 goal of *a globally competitive and prosperous nation with a high quality of life*.

DemDiv/Kenya

Each country's potential demographic dividend is unique. DemDiv is a new modeling tool developed by the USAID-funded Health Policy Project (HPP) that projects the potential demographic dividend for a country based on interacting policy changes in the family planning, education, and economic sectors.

The DemDiv model was piloted in Kenya by a multisectoral Technical Working Group chaired by the National Council for Population and Development. Four scenarios were developed for the period from 2010 to 2050:

- A *base case* scenario of no changes in economic, education or FP variables

- An e*conomic-only* scenario of improvements in financial market efficiency, imports, information and communication technology (ICT), labor market flexibility, and public institutions

- An *economic + education* scenario of improvements in economic and education variables

- An *economic + education + FP* scenario of combined improvements in all three sectors

The Potential Dividend in Kenya

DemDiv shows that a combined scenario of investments in FP, education, and economic policies would provide the greatest benefits to Kenya.

In the base scenario, with no investments in FP, the fertility rate would be the same in 2050 as it is today—more than four children per woman. Kenya's age structure would remain very young and be dominated by dependents. In contrast, the combined scenario, which includes increased use of FP, produces a youth bulge, which moves into the working-age years in 2050. When there is a higher proportion of adults relative to children, working-age people have fewer dependents to support with the same income and assets, making more resources available to invest in their children and in the economy as a whole. If the working-age population is healthy, educated, and productive, these people can be the driving force behind Kenya's demographic dividend.

Kenya's Possible Age Structures

2050 base scenario

2050 combined scenario

Percentage of Total Population
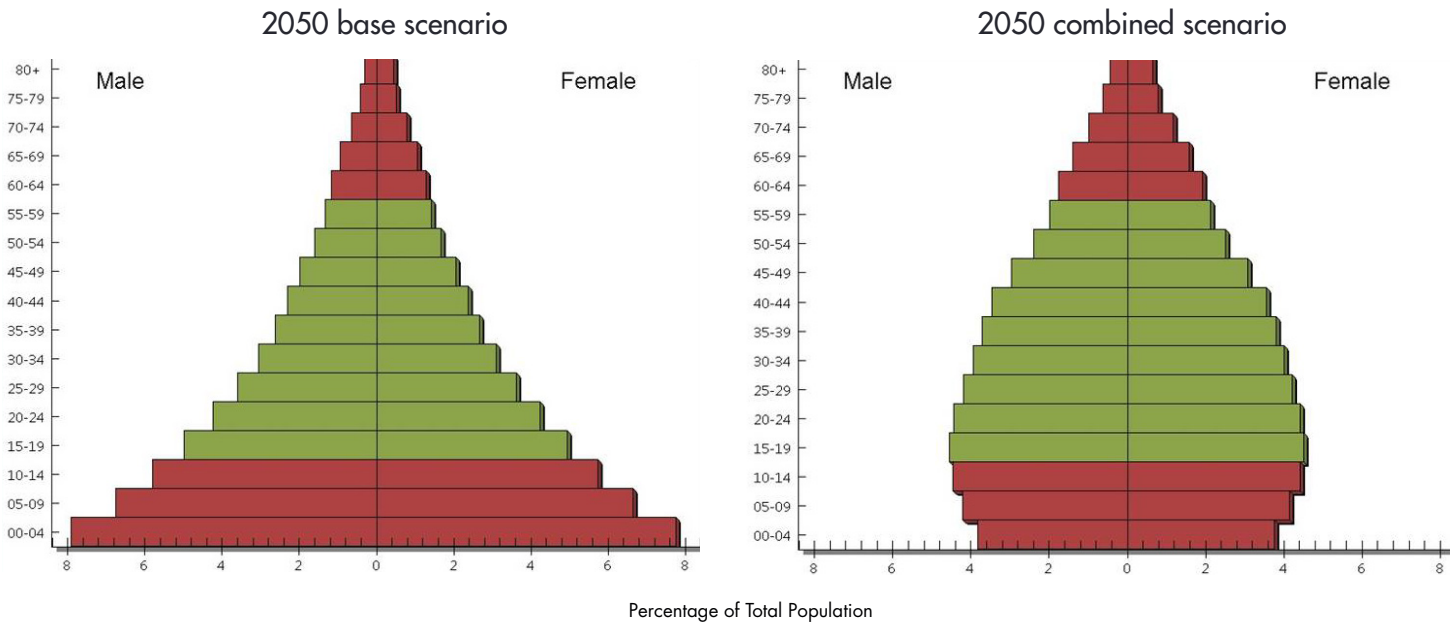
Kenya's Employment Gap
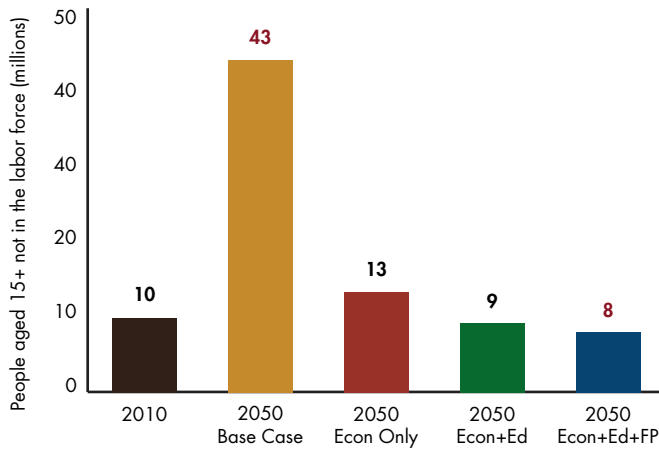
The employment gap represents the number of people of working age who are not active in the labor force. Meeting employment needs is a critical function of economic development. Combined FP, economic, and education policies produce the smallest employment gap. Minimizing the employment gap is a key factor in whether the demographic dividend will be successfully achieved.

The demographic dividend is evident when Kenya's possible GDP per capita by 2050 is compared among the four scenarios. Investing solely in economic policies produces a dramatic sevenfold increase in GDP per capita, while integrating education improvements

boosts incomes nearly 10 times over. Adding in FP creates a demographic dividend of over US$2,500 per person through higher levels of investment and the effect of a smaller population.

Gross Domestic Product (GDP) Per Capita
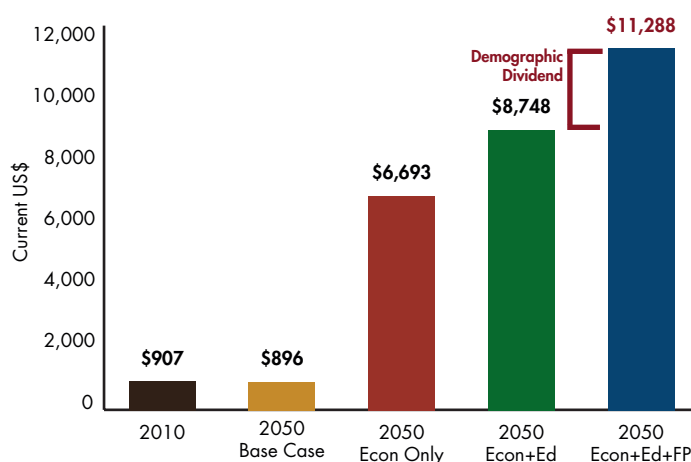
Effects of Kenya's Demographic Dividend

The DemDiv model offers a plan of action to achieve the promise of the demographic dividend in Kenya. Although policies that focus on a single sector contribute to development, they are most powerful when combined with other socioeconomic strategies.

Family planning is critical to attaining the Vision 2030 goal of improved quality of life, and sets the stage for Kenya's demographic dividend. Increasing access to and use of FP will

- Save the lives of more than 5 million children and 350,000 mothers.
- Balance Kenya's age structure, with the working-age population growing to 73 percent of the total population in 2050.

Investments in education generate a skilled workforce, which raises people's incomes and improves economic development. Increasing secondary school completion rates, especially for girls, and providing high-quality education and training to meet the needs of the changing labor market will

- Increase educational attainment for all children to 16 years by 2050.
- Eliminate the gender gap in education.
- Increase women's participation in the formal labor force.
- Raise incomes at the household level.

An economic policy environment that fosters job growth and attracts investment is vital to the achievement of Vision 2030 goals and the demographic dividend. By supporting domestic industries, improving market efficiency and strengthening governance of public institutions,

- GDP per capita will be more than 12 times higher by 2050.
- Nearly 90 percent of the working-age population will be employed.

Policy Recommendations

To successfully achieve the demographic dividend, Kenya should take the following policy actions:

Family Planning

- Fully implement the government's Family Planning 2020 (FP2020) commitment to increase the contraceptive prevalence rate to 56 percent by 2015, and to 70 percent (modern methods) by 2050.
- Increase the national and county government budgets for FP and eliminate the commodity funding gap.
- Improve the logistics system to reduce stockouts and ensure commodities are readily available to women and men.

Education

- Support government efforts to reduce dropouts and increase secondary completion rates.
- Re-establish mid-level colleges to prepare workers with necessary technical skills in addition to those of university-educated workers.
- Reduce the barriers and costs of tertiary education and put educational programs in place that prepare students for the twenty-first century labor force.

3

Economy

- Reduce reliance on imports and invest in the production of local and homegrown goods.

- Improve the flexibility and efficiency of the labor and financial markets by reducing taxes on new businesses, improving labor-employer relations, and lowering service fees on bank accounts and mobile money transfer services.

- Invest in the ICT sector to improve Internet and mobile phone infrastructure.

- Reduce corruption in public institutions by addressing the irregular payments that are often required for services.

Notes

Data sources for DemDiv/Kenya include: Kenya Demographic and Health Survey (family planning), United Nations Statistics Division and Barro & Lee (education), Kenya National Bureau of Statistics and the World Economic Forum's Global Competitiveness Index (economy).

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UNESCO Institute for Statistics, table 8: School life expectancy (approximation method). Data on school life expectancy (years) from primary to tertiary by country and sex, available from UIS website, http://www.uis.unesco.org.

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