



PRESS RELEASE

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Introduction

Nairobi, Kenya, 15th December 2016 - Discussions about the the middle class in developing countries tend to focus on its potential to strengthen democracy in the respective countries. The evidence for this lacks a sound basis because not all democracies have had a significant middle class and some countries with a large middle class are not democracies. Although democratization does not solely depend on the existence of a middle class, there is some evidence for the potential of the middle class to contribute substantially to the process. For Kenya, a country with a growing middle class that is not fully democratic, it is a claim worth investigating.

For decades, scholars have argued that the middle class is a critical stabilizing force for democracy (Lipset 1959, Kenny 2011, Van de Walle 2012). Nancy Birdsall of the Center for Global Development explains, "Members of the middle class are more likely to play the positive political role in the provision of accountable government, case in point, the support of the rule of law, property rights, and taxes to finance public goods such as education, to the extent that they identify with each other as 'middle class' with identifiable and distinct interests from the rich and the poor" (Birdsall 2010). NicCheeseman confirmed these attitudes among those he identified as Kenya's middle class (Cheeseman 2015).

When the combined diverse interests of this group are realized in public affairs, they tend to be those that benefit society as a whole. An oversimplification is that the poor have strong interest in transfers like social welfare programs, while the elite have an interest in maintaining a strong hold on their concentrated wealth. The interests of the middle class, however, in a functioning bureaucracy, rule of law and property rights strengthens democracy for everyone, whether in the middle class or not (Guardian 2011).

Findings of the Study

Employment Trends & Estimation of Size of the Middle Class

The employment trends in Kenya reveal a general increase in employment in formal and informal employment. In 2009 there were 10.9 million jobs which increased to 15.2 million in 2015, representing a 42% increase over the period. A majority of the jobs in Kenya are however still in the informal sector. Out of the 10.9 million employees in 2009, 8.68 million were in the informal sector as compared to 2.03 million workers in the formal sector. It is also observed that informal employment is growing at a higher rate compared to the formal employment. From 2009 to 2015, workers in the informal sector increased by 45% to 12.56 million workers over the period.

The income distribution for employees in the formal sector is negatively skewed, which implies that, a majority of the waged employees are low income earners. In 2015, individuals earning between KES 0 and KES 50,000 per month constituted 74% of all waged employees, while those earning monthly incomes between KES 50,000 and KES 100,000 per month represent 23% of all employees. On the other hand, the share of individuals earning above KES 100,000 monthly income is 2.9%.

Using the definition of the middle class as those within 1 and 2 standard deviations above the mean, we concluded that the monthly income ranges for the middle class ranges constituted of those earning between KES 49,656 to KES 67,380 in 2009, and KES 76,392 to KES 102,429 in 2015. This income band is observed to marginally widen since 2009 especially after 2012. In 2009 the difference between the upper and lower limits of the income band was KES 17,724 and in 2015, this difference increased by 46% to KES 26,036.

We note that the number of employees falling within the middle class is observed to be on the general increase; rising from **166,515 people** in 2009 to **272,569** people in 2015. As a share of total wage earners, the share of middle class employees in **2009 was 8.5% and rose to 11.00% in 2015**. On the other hand, we also note that the proportion of individuals below the middle class as a share of the total wage earners is also rising; it was 79.5% in 2009 and 86% in 2015. Individuals above the middle class have also reduced rapidly.

The rapid decrease in individuals above the middle class and the simultaneous increase in individuals in the middle class and those below the middle class imply that more individuals are getting concentrated in the lower income groups.

Gender Analysis

The report notes that formal sector employment is mainly dominated by male employees. Female employees are however marginally increasing. In 2009, the share of male employees over the total was 70% and 30% for female employees. In 2015 however, male employees constituted 63% compared to 37% for female employees, revealing an increase in female employees in the formal sector by 7 percentage points.

The trends of male and female individuals employed in the formal sector also reflect the gender disparity within middle class. In 2009, middle class comprised 116,561 male individuals and 49,955 females, and in 2015 the numbers increased to 190,798 male individuals and 81,771 female individuals. This reveals that the middle class is highly dominated by males.

Industry Analysis

In terms of industry distribution, the middle class is highly concentrated within service based industries such as *Financial and Insurance, Electricity, gas, steam, and air conditioning supply* and *Activities of Extraterritorial*

Organizations and Bodies. On the other hand, there is a low concentration of the middle class in *Agriculture* and *Water Supply and Sewerage* industries as noted in the analysis. However, factoring in differences in the sizes of the industries, the size of the middle class is being contributed to, a great extent by large industries such as Education, Manufacturing and Construction industries.

We also observed that the following industries contribute to 63% of the middle class: - Education, Manufacturing, Wholesale and Retail Trade; Repair of Motor Vehicles and Construction.

Regional Analysis

A look at the distribution of the Middle Class across major towns in Kenya as a share of the national total shows that the middle class is highly concentrated in the large cities such as Nairobi and Mombasa. We observe that 30.5% of the middle class in Kenya are concentrated in Nairobi followed by Mombasa with 11.1%, Kisumu with 3.1%, Nakuru with 2.8%, Eldoret with 1.9% and Thika with 1.8%. This is mainly attributed to the urbanization effect and the high concentration of service industries such as Finance and Insurance, Construction and Education.

Response of the Middle Class to Economic Factors

In terms of **wages**, the nominal wages for the upper limit grew from KES67,380 in 2009 to KES 109,429 in 2015. However, due to inflation, the real wage dropped from KES66,026 in 2009 to KES63,834 in 2015. Consequently, the size of the middle class marginally reduced. From 2009 to 2015, the number of individuals in the middle class as a share of total increased from 8.5% to 11% in 2015 based on the nominal income ranges. However, after accounting for **inflation**, the share reduced to 7% and 10.5% in 2009 and 2015 respectively.

Taxation of the middle class is observed not to reduce the size of the middle class since tax rate is increasing together with the share of the middle class. However, the tax rate is rising at a faster rate for a middle class individual. The Middle Class is therefore relatively inelastic to the changes in PAYE.

On the other hand, a strong correlation is observed between changes in the size of the middle class and **GDP growth rate**. The size of the middle class is elastic to the changes in GDP; an increase in GDP is observed to expand the size of the middle class.

About IEA Kenya

The Institute of Economic Affairs (IEA Kenya) is a think-tank that provides a platform for informed discussions in order to influence public policy in Kenya. We seek to promote pluralism of ideas through open, active and informed debate on public policy issues. We undertake research and conduct public education on key economic and topical issues in public affairs in Kenya and the region, and utilize the outcomes of the research for policy dialogue and to influence policy making.

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