

# YOUTH UNEMPLOYMENT, UNDER-EMPLOYMENT AND DECENT WORK IN KENYA

**Kenya Institute for Public Policy  
Research and Analysis**







**The KENYA INSTITUTE for PUBLIC  
POLICY RESEARCH and ANALYSIS**

**REPORT ON**

**YOUTH UNEMPLOYMENT, UNDER-EMPLOYMENT  
AND DECENT WORK IN KENYA**

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*By*

***Kenya Institute for Public Policy Research and Analysis (KIPPRA)***

***Bishops Garden Towers, Second Floor***

***Bishops Road***

***P. O. Box 56445-00200, Nairobi***

***Telephone: 2719933/4***

***Fax: 2719951***

***Email: [admin@kippra.or.ke](mailto:admin@kippra.or.ke)***

***Website: <http://www.kippra.org>***

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## **Executive Summary**

*This study presents the profile of youth unemployment and underemployment for Kenya, with emphasis on job quality, the size and dimensions of open unemployment and underemployment, and the role of education in reducing inequalities in labour markets. The analysis conducted is based on nationally representative data sets from the Kenya Integrated Household Budget Survey of 2006 and the 2009 national population census.*

### **Key findings**

*Kenya has a very youthful population with those aged under 15 constituting about 43% of the population. The share of population aged 15 to 34 – the youth – is 35.3%, implying that Kenya's total population of nearly 40 million individuals is dominated by young persons under the age of 35 years. The persons aged 35 years and over constitute 22% of the total population, this distribution being repeated – more or less – across all the administrative provinces.*

*Youth inactivity is a significant challenge in Kenya, estimated at 11% or 1.5 million individuals. The proportion of inactive persons – including full time students – to the total labour force is about 30 % across all provinces.*

*Measured unemployment using the conventional definition is modest, estimated at 8.6% of the working age population (15-64 years) in 2009. The respective unemployment rates for the 15-35 and 15-24 age groups in that year were 10.4% and 14.2%. Overall, for the working age population, the unemployment rate for males at 8.8% was slightly higher than that of females estimated to be 8.3%. Open unemployment, which is the ratio of the unemployed to the total labour force, ranged from 5% in Nyanza and Western provinces to about 23% in North Eastern province. About 7% of the youth amounting to 1 million individuals were openly unemployed in 2009. Remarkably, the unemployment rates do not vary much even when those individuals who are not searching for jobs are considered as unemployed.*



***The employment to population ratio for the 15 to 64 working age population was about 69% in 2009. The corresponding employment to population ratios for the youth categories aged 15-35 and 15-24 were 63% and 49%, respectively. The male and female employment to population ratios were 74% and 65%, respectively. The bulk of the employed labour force is in smallholder agriculture and the rapidly growing informal sector.***

***Although total employment has increased – such as during the Economic Recovery Strategy period of 2003 to 2007, most of the jobs created were in the informal sector – with minimal expansion of formal sector jobs. This has resulted in the consistent decline of the share of formal sector jobs to about 19 % in 2010, down from 58 % and 30 % in 1990 and 2000, respectively. About 77% of the working age population are in informal employment and the ratios are 77% and 84% for the 15-35 and 15-24 age groups, respectively. With respect to gender, 83% of females are in informal employment compared with only 71% for males. Moreover, most of the informal sector jobs are vulnerable, defined as low paying own account and unpaid family employment. The proportion of the youth engaged in vulnerable employment is about 77% of all employed youth compared with a rate of 79% for the population above 35 years.***

***Most of the jobs individuals hold lack the ‘collective aspects’ that make up decent work. These aspects include fair income, productive work, workplace security, better prospects for personal development, social protection, social integration, freedom to express concerns and equality of opportunity, according to ILO. Specifically: (i) The ratio of informal employment to total employment is high (81%); (ii) The proportion of the youth in vulnerable at 78% employment in 2009 is equally high; (iii) Average real wages are falling; and (iv) The share of the employed working excessive hours (more than 48 hours per week) is relatively high.***

***Formal education seems to play a role in reducing the chances of engaging in vulnerable jobs, and being unemployed or inactive. While about 90% of the employed primary school graduates in 2009 were engaged in vulnerable jobs, the rate was only 21% for university graduates. In***



*addition, the ratio of the youth who never attended school was 11% while that for the inactive and openly unemployed youth was 18 % and 21 %, respectively.*

*Kenya's labour force has relatively low education attainment compared to middle income countries, despite comparatively higher than average education indicators within the Africa region. Although higher levels of educational attainment is associated with better employment opportunities and reduced chances of unemployment and inactivity, about 65% of the population has only primary or incomplete secondary education and another 10% has never attended school.*

*Kenya has high levels of child labour. An estimated 3.8 million children (aged 5-14 years) reported working in the last one week prior to the 2009 census. About half of these children (51%) worked for over 65 hours during the seven days to the census. These children are likely to be out of school and are equally likely to graduate into youths without meaningful labour market skills.*

*The problem of youth unemployment is worsened by Kenya's weak job search infrastructure. According to a recent KIPPRA study on job search methods in Kenya, informal channels – notably social networks – are more accessible than formal job search methods. Public and private employment services, where they exist, are either ineffective or weak. However, informal channels promote inequalities and those with weak or no social networks are likely to remain disadvantaged in accessing any employment, let alone work.*

### ***Policy recommendations***

*A useful approach towards addressing youth unemployment in Kenya is to adopt a comprehensive macro-micro framework for employment creation and social protection, suggested by the World Bank. This framework encompasses five broad areas that are key to creating quality jobs and decent work. These broad areas include: (i) improving the macroeconomic environment, (ii) promoting domestic and foreign investment, (iii) strengthening*



*labour institutions and aspects of labour policies, (iv) education and skills development; and (v) broadening social protection schemes.*

**a) Macroeconomic environment and investment**

*Comprehensive implementation of the Constitution (2010) and the unwavering implementation of the Kenya Vision 2030 have a huge potential to spur growth and employment. The two frameworks contain far-reaching reforms that can effectively address the political and governance obstacles that have hindered economic growth and transformation in the past.*

*Addressing the factors that negatively impact on the investment climate will be decisive in creating jobs especially in the formal sector. These factors include the management of the perceived high political risk. There is also need to address the factors that may hinder the creation of any job in agriculture and the informal sectors where the bulk of the population makes a living.*

*One of the key lessons from the middle income countries Kenya aspires to emulate is the need to transform the economy from an agriculture based one to one emphasising value addition in its areas of comparative advantage. In this endeavour, Kenya needs to implement a coherent approach to industrialisation which has been a major challenge in the country for a long time.*

*Asian countries which have successfully industrialised, such as China, offer important lessons on directions for industrialisation. A key lesson is that carefully designed and implemented government interventions are critical to the development of industry and technology.*

**b) Labour institutions and aspects of labour policies**

*Sustainable employment creation requires that macroeconomic policies be complemented by sectoral employment policies. A key area for employment policy is that of labour institutions. The three broad issues identified by the ILO-IMF report of 2010 in this area, which are also clearly*



*relevant for Kenya, include: wage determination mechanisms; productivity growth; and attention to income inequalities. To a large extent, the operation of minimum wages in Kenya seems to satisfy most of what would be expected of a minimum wage policy. As examples, adjustments are done periodically and are devoid of large abrupt movements. However, Kenya's wage setting process can be improved by ensuring compliance with the legally binding minimum wages, and by providing more information, especially about labour productivity to the wage setting bodies.*

*One of the findings from the empirical analysis of this study – also confirmed by the reviewed literature – is that some of the unemployed youth are inactive but are not searching for work. It is highly likely that having searched unsuccessfully for work for a long time, they might have become discouraged and left the labour force to work as unpaid family workers, or in low paying informal employment. To address this problem, various policy interventions can be explored, including establishing job search infrastructure, and strengthening public sector employment services under the Ministry of Labour, the Public Service Commission.*

### ***c) Education and skills development***

*To effectively address Kenyan labour market dynamics and the social problems of poverty and social inequalities, the country needs to implement skill development programmes for the youth with little or no education, raise productivity in the agriculture and informal sectors, and invest in labour intensive production technologies. At the basic level of education, enrolment could be improved by reducing child labour which is already a significant problem. The child labour problem is likely to be a manifestation of poverty and suggests that the free primary education and the free day secondary education policies should be enhanced through additional interventions. Bursary schemes that target children from low income families at very early ages and sustained at all levels of the education system would be ideal for this purpose.*

*Given that about 20 % of the openly unemployed and the inactive youths never acquired training in basic numeracy and literacy, 'second chance education programmes' can be instrumental in tackling the problem related to the quality of labour. For the older youths,*



support can be through building strong public-private partnerships in offering adult education courses. In some countries, free tuition is provided to individuals eligible for these second chance education programmes who meet certain criteria. For the younger youths, it is possible to roll out programmes in partnership with existing public and private sector institutions, such as village polytechnics, that offer subsidized basic numeracy and literacy education. Moreover, there is need to develop firm-based apprenticeship programmes in both the private and public sectors to train the youth in basic labour market skills. There is evidence that the bulk of the basic job skills demanded by firms are developed through apprenticeships rather than through formal schooling.

*Making post primary education – notably secondary and university education and technical training – more accessible is an important step for developing employable and skilled labour force. The existing literature shows that education and training interventions that target the unskilled labour-force in rural and urban areas have large positive impacts on employability and job opportunities. Such programmes would contribute significantly towards reducing youth unemployment.*

#### **d) Social protection**

*Employment creation and unemployment interventions should be coupled with targeted social protection initiatives for the poor and the vulnerable. Already, Kenya has launched various initiatives in these directions, focusing on orphans, vulnerable children, and the elderly. However, the precarious context of the business and social environment in Kenya is such that some protection should also be afforded to the youth in general. For example in agriculture and the informal sector where the bulk of the youth works, downside shocks can reduce considerable investment to nothing. The enhancement of social medical insurance can also release the youth from the need to cover catastrophic medical bills, enabling them to direct the savings thus generated to business investment. Social protection programmes should also be designed in ways that help address the twin problems of poor learning and low education achievement among the youth from low-income families.*



***e) The feasibility issue***

*Feasibility is part and parcel of every policy recommendation. A recommendation that cannot be carried out for financial or technical reasons is hardly worth making. It is recognized that some of the job creation recommendations in subsections (a)-(d) above require considerable administrative and managerial capacities as well as financial resources to implement. There is need to examine this issue in another study, even as some of the proposed recommendations are tried on a limited scale.*



## List of Abbreviations and Acronyms

AIDS	Acquired Immunodeficiency Syndrome
ASAL	Arid and Semi Arid Lands
CBS	Central Bureau of Statistics
COTU	Central Organisation of Trade Unions
ERS	Economic recovery Strategy
GDP	Gross Domestic Product
HIV	Human Immunodeficiency Virus
ILO	International Labour Organization
KIHBS	Kenya Integrated Household Budget Survey
KIPPRA	Kenya Institute for Public Policy Research and Analysis
MSE	Micro and Small Enterprises
NARC	National Rainbow Coalition
NCIC	National Cohesion and Integration Commission
NCPAD	National Council for Population and Development
NESC	National Economic and Social Council
NGO	Non-Government Organisation
OECD	Organisation for Economic Co-operation and Development
PWP	Public Works Programmes
SME	Small and Medium Enterprises
SSA	Sub-Saharan Africa
UN	United Nations
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
YEDF	Youth Enterprise Development Fund



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## 1. Background

The generation of adequate employment opportunities has remained a top agenda for most governments across the world, most notably among the poorer countries with no unemployment or other welfare benefits. High unemployment remains one of the greatest challenges facing sub-Saharan Africa today with the youth bearing the brunt of the burden. High rates of unemployment and underemployment present multiple challenges such as exacerbation of poverty and delinquency among the youth.

According to Kenya's most recent household survey, the 2005/06 Kenya Integrated Household Budget Survey - hereafter KIHBS 2005/6, overall rate of open unemployment is estimated at 12.7 % but open unemployment among the youth aged 15-24 is nearly twice as large at 24 %. Although measured open unemployment is low, the majority of individuals remains underemployed – or employed in low productivity jobs – and therefore cannot meet their subsistence needs.

Although a large proportion of the labour force might be classified as employed (using the conventional definition of unemployment by the International Labour Organization (ILO)), nearly half of the working persons are the “working poor.” Specifically, of those who work 40 or more hours a week, about 46.1 % are classified as poor. A larger proportion of the underemployed persons are poor and among those working between 1-27 hours a week, 69.8 % live below the poverty line while among those working 28-39 hours a week, 65.6 % are poor. Nearly 65.9 % of the labour force without any form of employment lives in poverty.

There are disparities in the types of employment opportunities available among the working age population. A very high proportion of the labour force has little access to quality employment



opportunities or decent work.<sup>1</sup> Although current studies use hours worked as a measure of underemployment, there is limited analysis on the earnings levels for this category of workers.

Even with the increasing unemployment rates and growth in youth population, the economy has not been able to create enough jobs to meet the growing labour force. For instance, the economic recovery strategy target of creating 500,000 jobs per year was not met despite the tremendous GDP growth rates generated by the strategy (Republic of Kenya, 2007). An average of 467,000 jobs was created annually between 2003 and 2007 yet there was need to create one million jobs to absorb the current and new entrants into the job market. Most of these new jobs, over 80 %, were created in the informal sector which is characterized by poor quality jobs, low earnings; underemployment; personal and property insecurity and hazardous environment (Manda, 2002; Manda and Odhiambo, 2003).

Currently, about 20 % of the labour force is employed in the formal sector while the remaining 80 % are engaged in the informal sector and agriculture. Youth employment prospects in the formal sector have been generally low. If these prospects are measured by the ratio of the expansion in formal sector employment each year to the number of graduates from the secondary and tertiary institutions, assuming all secondary school graduates join the labour market, only about 19 % and 13 % of all graduates could have been absorbed in formal sector jobs in 1980 and 1990, respectively. The prospects declined to about 1 % in 2000 before rising to about 14 % in 2009. Thus, as currently structured, the formal sector may not produce the number of jobs required to absorb the large number of young people entering the labour market annually, even if the target growth rate of 10 per stated in Kenya Vision 2030 were to be achieved.

In order to better understand the functioning of the labour market in Kenya, besides analyzing open unemployment, there is need to analyze the quality of work available and the characteristics of the employed and unemployed. There is need to define 'decent work' and measure the productivity of the working population. One of the objectives of this study is to provide a profile of types of jobs in Kenya. The study provides a synthesis of the extent of unemployment and underemployment in the country, with special reference to the youth. In addition, the main

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<sup>1</sup> According to the ILO, decent work among other attributes involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families.



factors associated with unemployment and the characteristics of both the unemployed and underemployed are analyzed.

### ***1.1 Why focus on youth?***

Africa's population is young with more than half of it being under 25 years. The World Bank (2009) puts the population of young people in Africa aged 15 to 24 years at 200 million. In Kenya, about 30 % of the population in 2009 was estimated to be young people within the ages of 15-29 years. The future of the country -- certainly in the context of its *Kenya Vision 2030* -- rests very critically on this age group.

The youth represents a particular opportunity and if not productively tapped may become a threat to national development and security. The youth could be a source of civil conflict and social tension if this untapped resource is poorly managed. Undoubtedly, youth without education, jobs or the prospect of a meaningful future, may fuel instability, radicalization and violent conflict. On the positive side, the youth are a potential resource for fast and sustained growth and development if they are gainfully and productively engaged. Their transformational capacity might be what is necessary for societies to move away from the inherited development bottlenecks, such as adverse cultural practices, negative ethnicity and corruption.

In many African countries including Kenya, the degree to which the youth can contribute to the development effort of their countries in particular and the continent in general is constrained by lack of job opportunities. Young people face particular challenges in accessing the labour markets and are more likely to lose their jobs during economic downturns. They face specific barriers to entry into labour markets, due largely to lack of experience and social networks (see Clark and Summers, 1982; Freeman and Wise, 1982; Leo, 2012).

There is a significant social and economic cost associated with underutilization of the skills and time of the youth. They are not only exposed to social exclusion in the face of underutilization of their skills, but also have the effect of triggering intergenerational poverty and worsening social



cohesion across generations. The youth are more likely to accept recruitment into fighting forces when they face high incidence of poverty. As noted by the Organization for Economic Co-operation and Development (OECD), lack of employment opportunities may result in social conflicts such as violence and juvenile delinquency (OECD, 2009). A comprehensive analysis of labour market challenges confronting the youth in Kenya is therefore required to find long-term solutions to the challenges of youth underemployment and joblessness (inactivity or unemployment).

### *1.2 Defining unemployment*

According to the ILO, a person is unemployed if he or she is of or above the minimum employment age, is actively looking for a job, is available for work, and have not worked during a given reference period. To be considered as 'actively looking' for a job, the unemployed needs to take specific steps, including: registration at a public or private employment exchange or centre; application to employers; checking at worksites, farms, factory gates, market or other assembly places; placing or answering newspaper advertisements; seeking assistance of friends or relatives; looking for land, building, machinery or equipment to establish own enterprise; arranging for financial resources; and applying for permits and licenses. In effect, the ILO statistical sources define the unemployed as "persons who are available and looking for paid employment, who have registered at any of the employment centres" (ILO, 1989).

The application of the ILO definition of unemployment to most countries in Africa, including Kenya, seems quite problematic considering the peculiar nature of the labour market in Africa. A considerable number of jobless people in many African countries, Kenya included, may be available for work but fail to look for work because there are few or limited employment placement and registration centres to record jobseekers. Even where these facilities exist, people stay away from them because of the perception of no jobs, coupled with absence of unemployment benefits as an incentive to attract jobless people. This contributes to a large number of the 'discouraged workers, who are not counted as unemployed.



Moreover, a high degree of informality on the continent's work environment provides a safety net for many jobseekers. Indeed, many jobseekers – especially those with limited employable skills required in the formal labour market – are compelled to seek refuge in the informal economy as a survival strategy. The performance of the African labour markets is thus best evaluated in terms of the number of people working in a production unit, for example, a firm, a farm and a household even without pay. The low unemployment rates registered in African countries are due to application of conventional ILO definitions of unemployment in an environment with extensive non-formal economic activities, such as street hawking, and farm workers who in most cases earn little from their labour.

Unemployment as defined by ILO is increasingly inadequate for labour market assessments in low income countries, especially in Africa (Cling et al. 2006; Fares et al. 2006; World Bank 2006). The discussion of unemployment in developing countries usually focuses on the extent of *disguised* unemployment or *underemployment*, in contrast to the developed country context in which *unemployment* is viewed in terms of the mismatch between labour demand and supply (Boateng, 2000). Clearly, the analysis of unemployment of the youth in Africa must include both the conventional *unemployment* and *underemployment* (using ILO definitions), as well as those who do not look for a job because of the lack of realistic opportunity, or those who are involved in indecent work.

### **1.3 Who are the youth?**

Youth as an economic and social concept refers to a distinctive stage in the lifecycle between childhood and adulthood (Curtain, 2001). From a legal perspective, the minimum age of youth varies in terms of marriage, voting right, employment and political office holding. In Kenya, the minimum legal age for marriage and voting right is 18 years. However, the minimum age of 15 is used for admission into employment as stipulated by the ILO Convention No. 138.

In practice, there are differing conventions for classifying youths. The United Nations (UN) classification refers to individuals within the age range of 15 to 24 years, while the African



Union and Kenya defines them to be between 15 to 35 years. In most employment studies, the UN classification is used. However, the Kenya definition of youth (15-35 years) is adopted for this study.

#### ***1.4 Organisation of the paper***

This paper consists of three parts. Part I provides an overview of macroeconomic context and a review of current state of unemployment, underemployment, and the working poor in Kenya with a special focus on the youth. It also reviews government policies on youth unemployment and the effectiveness of development strategies in addressing these problems. Part II provides an analysis of incidence of unemployment of the youth. Part III reviews recent efforts in Kenya to implement interventions to address factors constraining entry of the youth to the labour markets. The policy implications and recommendations of the study are in the concluding section.



## **PART I: The Current State of Youth Employment and Unemployment**

### **2. Data and Methodology**

This study is based on data from primary and secondary sources. The literature review informing the study is drawn from government policy documents, and publications produced by local and international agencies such as the Kenya Institute for Public Policy Research and Analysis (KIPPRA), ILO, United Nations Development Programme (UNDP), National Economic and Social Council (NESC), and World Bank, among others. This is supplemented with information from stakeholders' fora. The existing nationally representative datasets, notably KIHBS 2005/6 and the 2009 census data are used extensively.

Guided by the literature, some sections of the paper make use of regression methods to analyze the factors associated with the various labour market categories of the youth. The conclusions and policy proposals are informed by these analyses, as well as by a selected review of the literature.

### **3. The Macro-economy, Population Structure and Employment**

Kenya experienced economic recovery as measured by the GDP growth rate beginning in the year 2003. The GDP growth averaged 4.6 % between 2003 and 2012. However, the economic growth rate that peaked at 7.0 % in 2007, declined sharply in 2008 following the overlapping effects of the post election violence in early 2008, the global financial crisis, drought and high global energy and food prices (see Table 3.1).

**Table 3.1: Selected socio-economic indicators for Kenya, 2003 – 2010**

	2003	2004	2005	2006	2007	2008	2009	2010
Annual Growth of GDP	2.9	5.1	5.7	6.1	7.0	1.6	2.6	5.6
Total Employment (millions)	7.33	7.99	8.51	8.99	9.48	9.95	10.46	10.96
Population (millions)	32.7	32.8	35.1	36.1	37.2	38.3	38.6	39.8
Employment to Population Ratio	0.22	0.24	0.24	0.25	0.25	0.26	0.27	0.28

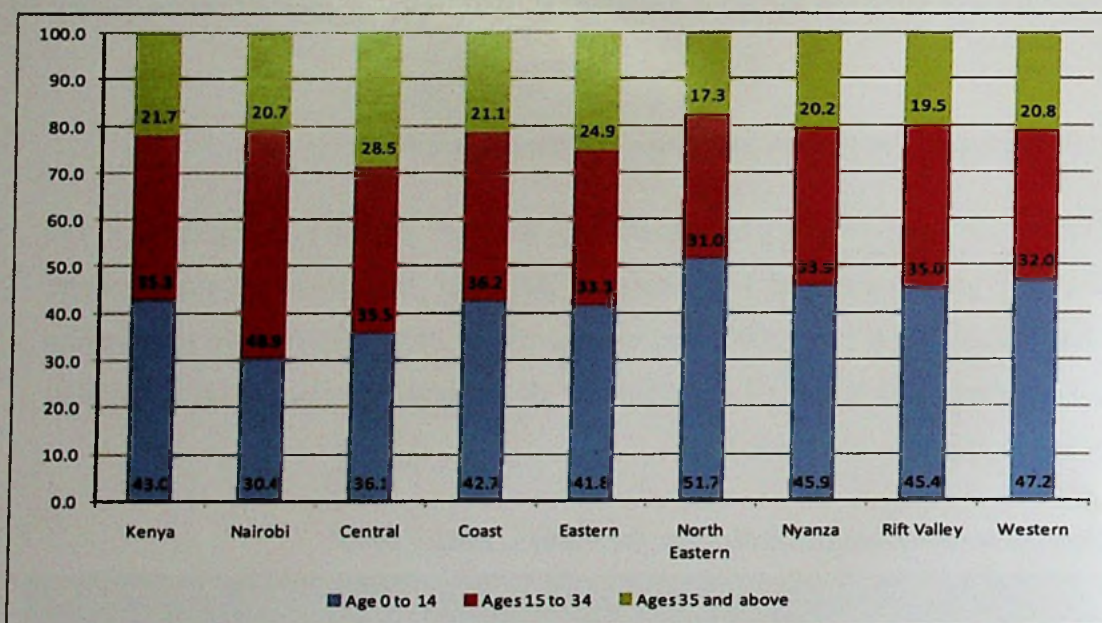
Data source: Economic Survey, Various



Over the 2003 to 2010 period, the employment-to-population ratio increased from 0.22 to 0.28 implying that total employment growth increased faster than population growth. However, as will be evident later, most of the growth in employment was in the informal sector which is characterised by poor quality jobs.

Kenya's population is largely youthful, and those aged 35 or less constitutes nearly 80 % of the total population. That Kenya is a young population is illustrated by its age structure captured by the 2009 census, illustrated in Figure 3.1. The share of population under 15 is 43 %, while that of the youth aged 15 to 34 is 35.3 %. A similar distribution is repeated across all the provinces,<sup>2</sup> North Eastern's highest provincial total fertility rate of 5.9 % being reflected in its greatest share of population under age 15.

**Figure 3.1: Structure of the Population in Kenya and its Provinces, 2009**



Data source: Census, 2009.

<sup>2</sup> This study recognises the need for regional Kenya analysis to move away from the province and district to the county, in line with the new constitutional dispensation since 2010. However, the choice of province as the unit of regional analysis was driven by the desire to undertake some historical comparisons.



The annual population growth rate increased steadily from 2.5 % in 1948 and peaked in 1979 at a rate of 3.8 %. Declining albeit high annual population growth rates begun around 1989 when it reached 3.4 % and further to 2.5 % in 1999. The 2009 census indicates that the 1999-2009 inter-censal population growth rate was 3.0 %, still among the highest in the world.<sup>3</sup>

The population dependency ratio remains high. The youth dependency ratio % of the working age population was about 78 % in 2009.

**Table 3.2: Age distribution of the population (%)**

	2009
Total population (millions)	39.8
Population (0-14) - Children	43
Population (15-64) – Working Age Population	55
Population (65+) – Aged	3
Child dependency ratio (under 15s as % of working-age-population)	78
Elderly dependency ratio (Aged as % of working-age-population)	5
Overall dependency ratio	82.4

Data source: World Development Indicators, 2011.

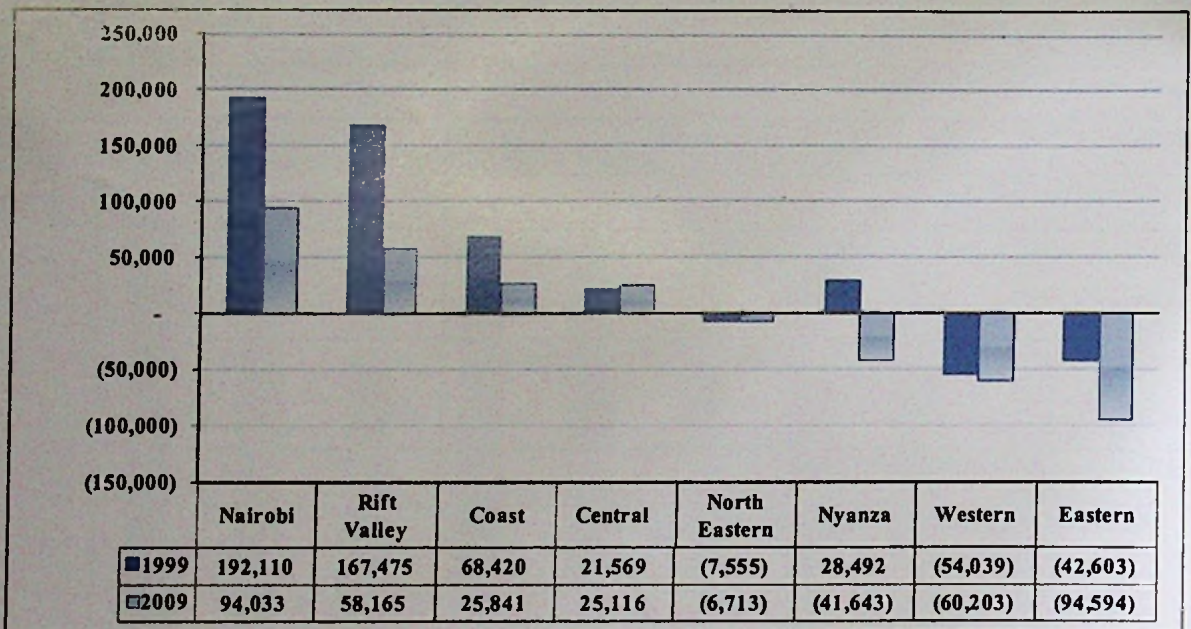
Additional to natural population growth and the population structure, a significant factor affecting employment is regional migration, which is reflected in data provided by the National Council for Population and Development (NCPAD) in Figure 3.2. The data shows that four Kenyan provinces have been net receivers of migrants during the inter-censal periods to 1999 and 2009, including Nairobi, Rift Valley, Coast and Central provinces. The largely arid and semi-arid lands (ASAL) of Eastern and North Eastern provinces are net losers of people through migration – unsurprisingly so given their share of national poverty in a country of vast

<sup>3</sup> The CIA World Fact Book places Kenya's 2012 rate at 2.444%, the 27<sup>th</sup> highest globally.



inequalities.<sup>4</sup> For example, the two provinces account for six of the seven out of Kenya's 47 counties with more than 30% of their populations in (expenditure) Quintile 1, in contrast to six other counties with less than 5% of their populations in that quintile.<sup>5</sup> Western province is also a net loser, probably due to severe land constraints juxtaposed by poor alternative livelihoods opportunities in the western Kenya region.<sup>6</sup> However, Nyanza's change from being a net inflow to a net outflow province over the period is interesting, probably explained by the dismal performance of the region's key industries, including the stagnating sugar industry and the shutting down of key employer enterprises, such as its textile factories.<sup>7</sup>

Figure 3.2: Net Migration by Province, 1999 and 2009



Data source: NCPAD (2011: 72).

<sup>4</sup> The traditional nomadic lifestyle of North Eastern province pastoralists explains some of their movements into and out of the province. However, extensive population movements have recently been occasioned by the turmoil in neighbouring Somalia. There is anecdotal evidence of the movements deeper into Kenya of Somalis who can neither speak Kiswahili nor English, suggesting they are recent arrivals from the Somali conflict who might originally have taken refuge in North Eastern province, but are now moving further away from the conflict area.

<sup>5</sup> As explained below, these quintiles are based on assets rather than incomes. The counties with more than a 30% share include: Isiolo (32%); Tana River and Wajir (41%); Marsabit (43%); Samburu (47%); Mandera (51%); and Turkana (78%). Those with less than a 5% share include: Mombasa (0.5%); Kajiado (1.1%); Nairobi (1.2%); Lamu (2.4%); Kirinyaga (3.2%); and Kiambu (4.1%).

<sup>6</sup> Other provinces also have a land constraint; but, for example, Central province's surplus labour constitutes the itinerant workers who merely commute to the country's economic hub, Nairobi.

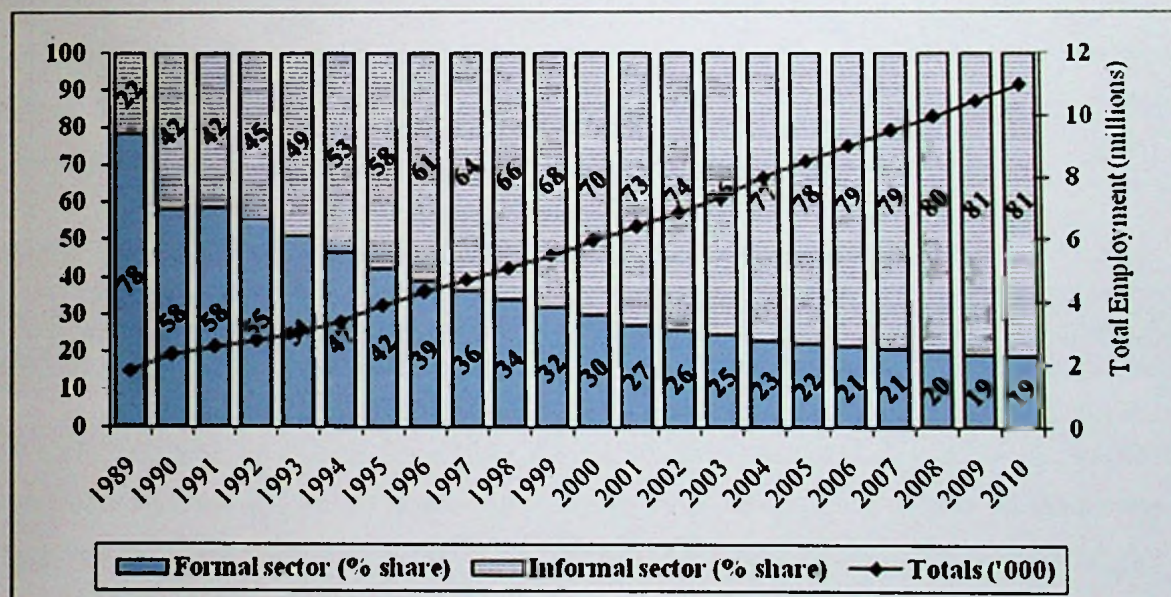
<sup>7</sup> Indeed, a booming economy in Nyanza province would have provided a destination for Western province's surplus labour. The data is unavailable with which to estimate the net effect of population flight from, and return migration into Nyanza precipitated by the post 2007 elections violence.



Despite the strong economic growth that characterized the post 2002 period, growth of formal sector jobs (good quality jobs) has been minimal as most jobs created were in the informal sector. Figure 3.3 represents trends in the shares of categories of employment. The data show that between 1989 and 2010, total employment grew from under 2 million jobs to close at over 11 million, the formal sector having a 2010 share of less than 20 %.

The importance of the non-formal job opportunities is reflected in the fact that the share of wage employment had fallen from a 22.1 % share of total employment in 2004. What is even more significant about this finding is the fact that formal employment share of total employment fell during the 2003-2010 period which has been the country's more recent economic boom period. Thus, for the formal sector, Kenya experienced minimal growth in jobs, a factor underscored for example, by KIPPRA's (2010: 26) evidence that 90 % of 2008's new jobs arose in the informal sector.

**Figure 3.3: Total Employment and Formal and Informal Sector Shares (%), 1989-2010**



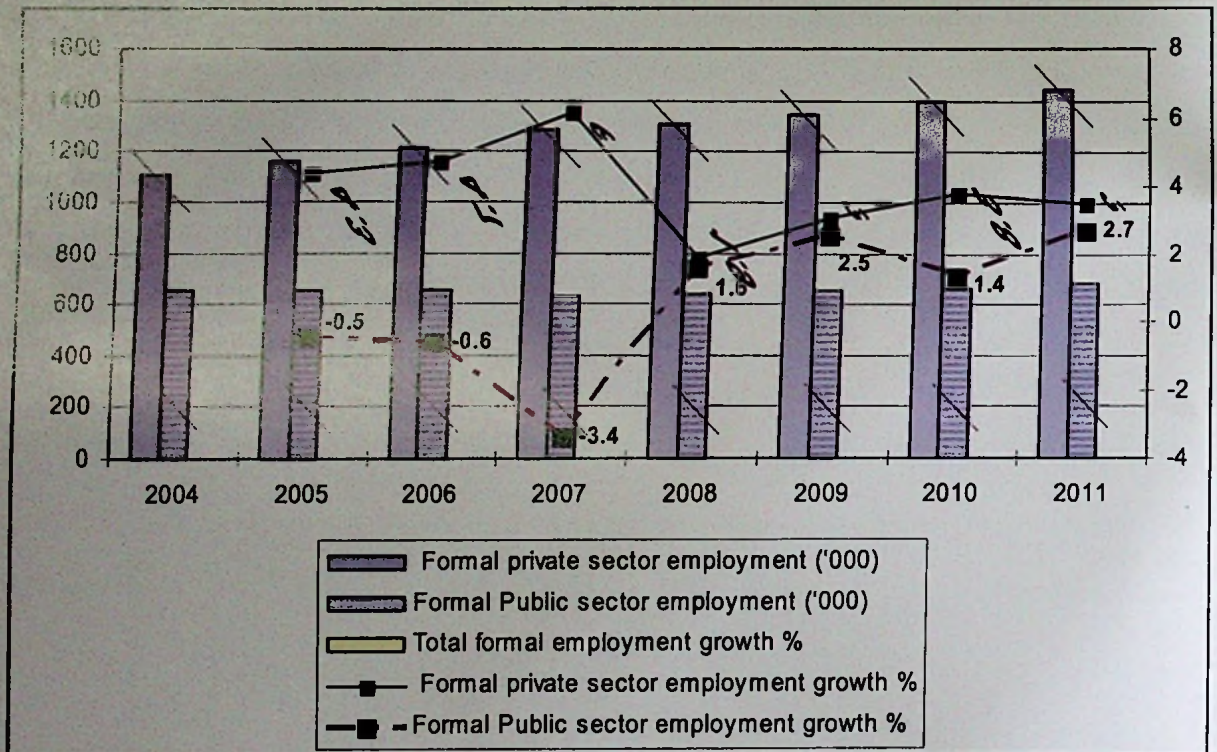
Data source: Republic of Kenya, *Economic Survey*, various issues.

In the formal sector, the private sector employs about twice as many workers as the public sector since 2007 (see Figure 3.4). The rate of growth of formal private sector wage



employment has been increasing since 2008 to stand at 3.5% in 2011. Formal public sector employment growth rate is lower and unsteady but has nevertheless increased relative to its pre-2008 negative growth rates.

Figure 3.4: Formal Private and Public Sector Employment Levels and Total Growth, 2004-2011



Data source: Republic of Kenya, *Economic Survey*, various issues

As summarised in Table 3.3, the manufacturing industry shares in total wage employment did not change markedly during the 2006 to 2010 period, after declining by 1% during those five years. The largest source of wage jobs remained the community, social and personal services sector at 41% of total wage employment in 2010 followed by Agriculture and Forestry with a share of about 17%.



**Table 3.3: Share of employment by sector to total employment**

	2006	2007	2008	2009	2010
Community, social and personal services	40.3	39.6	39.8	40.9	40.9
Agriculture and forestry	18.0	17.8	17.5	17.0	16.7
Manufacturing	14.0	13.9	13.6	13.3	13.0
Wholesale and retail trade, restaurants and hotel	10.0	10.3	10.4	10.8	11.0
Transport and communications	7.1	8.1	8.1	7.3	7.3
Building and construction	4.3	4.3	4.4	4.7	4.9
Finance, insurance, real estate and business services	5.0	4.9	4.9	4.9	4.8
Electricity and water	1.1	1.0	1.0	1.0	1.0
Mining and quarrying	0.3	0.3	0.3	0.3	0.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Data source: Government of Kenya Economic Survey (2011) and KIPPRA computations.

Table 3.4 illustrates the national and regional structure of the labour force and inactivity based on data from the 2009 census. While at the national level the employed constituted 61.7 % of the working age population (15–64 years), those working for pay – including those on sick leave and regular leave – accounted for only 22.7 % of the total cohort. The dominant employment category is that of own family agriculture holdings with 27.3 % share of employment while own family business accounts for 11.2 % of employment. The provincial employment rates range from North Eastern province's rate of 48.7 % to Western province's 65 %.

**Table 3.4: Employment and joblessness by Province (15-64 years), 2009 (% of total)**

	Kenya	Nairobi	Central	Coast	Eastern	North Eastern	Nyanza	Rift Valley	Western
Employed	61.7	63.2	64.7	54.6	60.7	48.7	64.3	62.6	65.0
Unemployed	7.4	10.6	5.7	9.2	5.3	22.7	4.8	6.4	5.2
Inactive	30.5	25.9	29.5	36.0	33.7	27.1	30.7	30.5	29.6
Other	0.4	0.3	0.1	0.3	0.3	1.4	0.2	0.5	0.2
<b>Total</b>	<b>20, 557, 010</b>	<b>2,133,640</b>	<b>2,577,470</b>	<b>1,782,360</b>	<b>3,003,560</b>	<b>1,063,820</b>	<b>2,730,330</b>	<b>5,145,200</b>	<b>2,120,630</b>

Data Source: Census, 2009.



Table 3.5 illustrates the dominance of the private sector in the formal sector, accounting for 74.2% of the total employment. Under the formal sector, Central Government and the Teachers Service Commission have dominant equal shares of employment (33%) while the Local Authorities had the least share (12%)

**Table 3.5: Distribution of formal sector employment (15-64 years), 2009**

<b>Formal sector employment</b>	<b>2009</b>
Private sector employment	<b>2,074,680</b>
Public Sector employment <ul style="list-style-type: none"> <li>• Central Government (33.9%)</li> <li>• Local Authorities (11.7%)</li> <li>• Teachers Service Commission (33.4%)</li> <li>• State Owned Enterprises (20.9%)</li> </ul>	<b>722,920</b>
<b>Total</b>	<b>2,797,600</b>

Data Source: Census, 2009.

Note: Private sector employment excludes employment in local and international non-government organization (NGO), faith based organizations and self employment in modern establishments which totaled 462,330.

In the census data, those classified as employed included individuals who: (i) worked for pay; (ii) were on leave; (iii) on sick leave; (iv) in own family business; (v) in own family agriculture holding; (vi) interns/apprentices; and (vii) volunteers. As is apparent from the data represented in Table 3.5, a relatively large percentage of the working age population is employed. However, the overall employment rate exceeding 60% across all recent national datasets may mask the precarious nature of most of the jobs.

Even though the majority of the youth (about 63%) fall in the category of the employed, it is important to gauge the quality of jobs they hold. This is done initially by attempting to determine the proportion of “vulnerable jobs” to total employment. The vulnerable employment rate is defined as the percentage of own account and unpaid family workers in total employment (United Nations, 2011). Vulnerable employment is characterized by informal working



arrangements, lack of adequate social protection, low pay and difficult working conditions. In the Kenyan context, vulnerable jobs would encompass the informal sector (*jua kali*), self employed (informal), small scale agriculture, pastoralist activities, and so on; as detailed in Figure 3.5. Thus, non-vulnerable jobs are seen to be those of a permanent nature primarily in the formal sector. Since the 2009 census required individuals to indicate their 'main employer', the foregoing characterization allows an approximation of the numbers of youths and other individuals engaged in vulnerable as opposed to non-vulnerable jobs. As Figure 3.5 shows, about 77 % of all employed youth and 79 % of those aged above 35 years were engaged in vulnerable employment

**Figure 3.5: Vulnerable and Non-Vulnerable Employment by Age Groups**

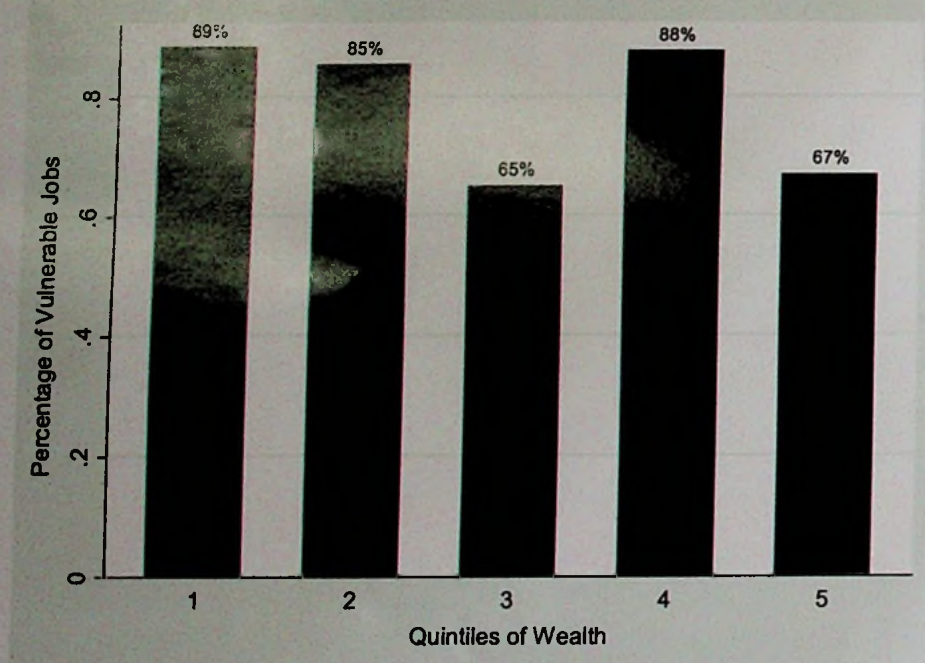
Main Employer	Total Workers (Ages 15 and above)	Ages 15-34 years (Youth)	Above 35 years
Private Sector	<b>Non-vulnerable employment</b> (3,342,770)  18% of the total workers	<b>Non-vulnerable employment</b> (2,024,320)  23% of the employed youth	<b>Non-vulnerable employment</b> (1,291,480)  21% of those above 35 years
Local Authorities			
Central Government			
Teachers Service Commission			
State Owned Enterprise			
International NGO			
Local NGO			
Faith Based Organization			
Self Modern			
Informal Sector ( <i>Jua Kali</i> )			
Self Employed – Informal			
Small Scale Agriculture			
Self Small Scale Agriculture			
Pastoralist Employed			
Self Pastoralist			
Private Household			
Other	Other (22,120)	Other (17,920)	Other (7,240)
<b>Total</b>	<b>18,910,050</b>	<b>8,956,730</b>	<b>6,218,940</b>

Source: 2009 Census.



The vulnerable/non-vulnerable dichotomy might suggest a direct link to the levels of earnings, whereby vulnerable employment is linked to low incomes, while non-vulnerable jobs are linked to high incomes. Since the 2009 census did not explore earnings, this study developed an indicative wealth index based on household access to various assets: radio, TV, mobile or landline telephone and computer.<sup>8</sup> The wealth index enabled an examination of the quintile distribution of vulnerable employment, presented in Figure 3.6. The analysis shows that 89% of the quintile 1 employees aged 15 and above were in vulnerable employment, compared to 67% for quintile 5 (the richest). While the extent of vulnerable employment is remarkable, this reality is consistent with the employment distribution of Figure 3.3, whose formal sector share of employment was a modest 19%.

**Figure 3.6: Quintile Distribution of Vulnerable Employment for Age 15 +, 2009**



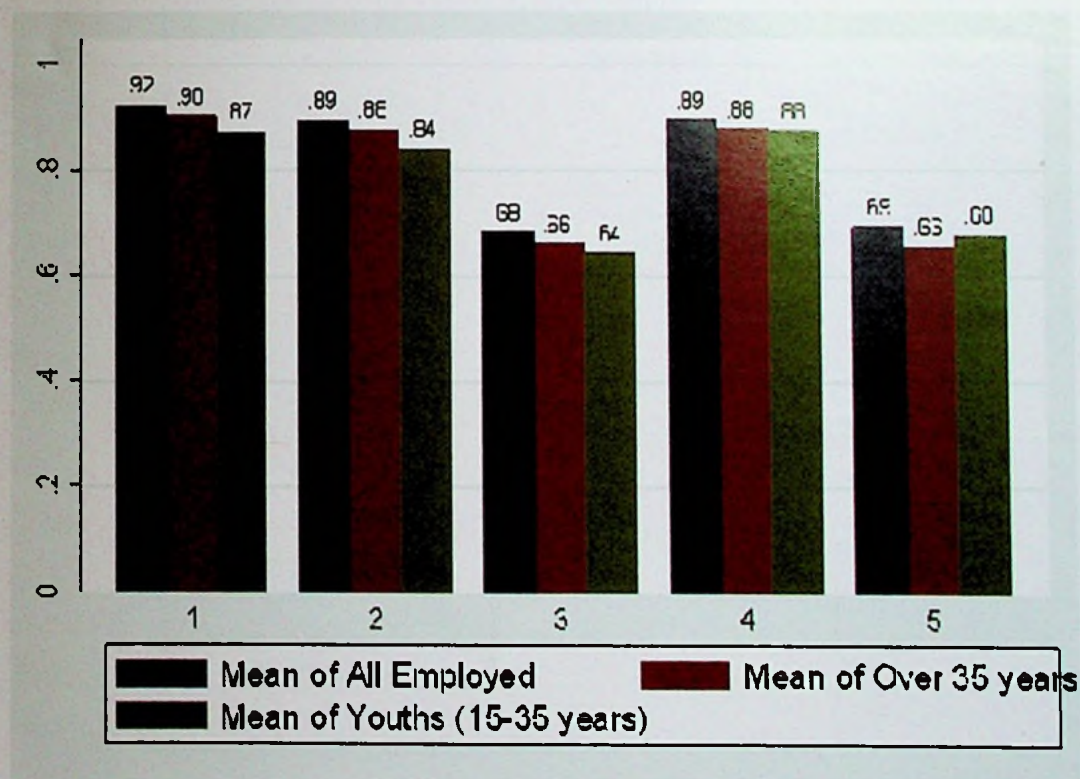
Source: calculated from Census 2009

<sup>8</sup> Since the Census 2009 did not collect specific income/expenditure data, the principal component analysis method was applied to data on the ownership of assets – radio, TV, cellular phone, landline phone and access to computer service – to develop a proxy for wealth status separately for urban, rural and peri-urban areas. The overall ‘asset’ or ‘wealth’ index was a standardized measure of each of these separate indices agreed with intuition, in being good proxies for household wealth based on correlations with other outcomes (such as schooling and labour market variables across quintiles).



A further analysis is undertaken of the quintile distribution of vulnerable employment by age categories, the results being presented in Figure 3.7. The figure shows that rising wealth status is associated with a reduction in the incidence of vulnerable employment for all employed persons, those of age 36 and above (36+), and for the youth (ages 15 to 35). Thus, while 92 % of all employed persons in quintile 1 had vulnerable jobs, the share was only 69 % in quintile 5. Comparable figures for the 36+ category were 90% and 66%. For the youths, the comparable shares were 87 % and 68 %. Quintile 4 presents a curious blip in the trend across the wealth divide. An interesting aspect of Figure 3.7 is that the share of youths in vulnerable employment is generally lower than that for older people for all the quintiles. However, given the age structure of the population – with youths accounting for 35.3 % compared to the 36+ accounting for 21.7 % (Figure 3.1) – the numbers of the youth in vulnerable employment in all the quintiles is invariably much greater than that of the 36+ group.

**Figure 3.7: Quintile Distribution of Vulnerable Employment**

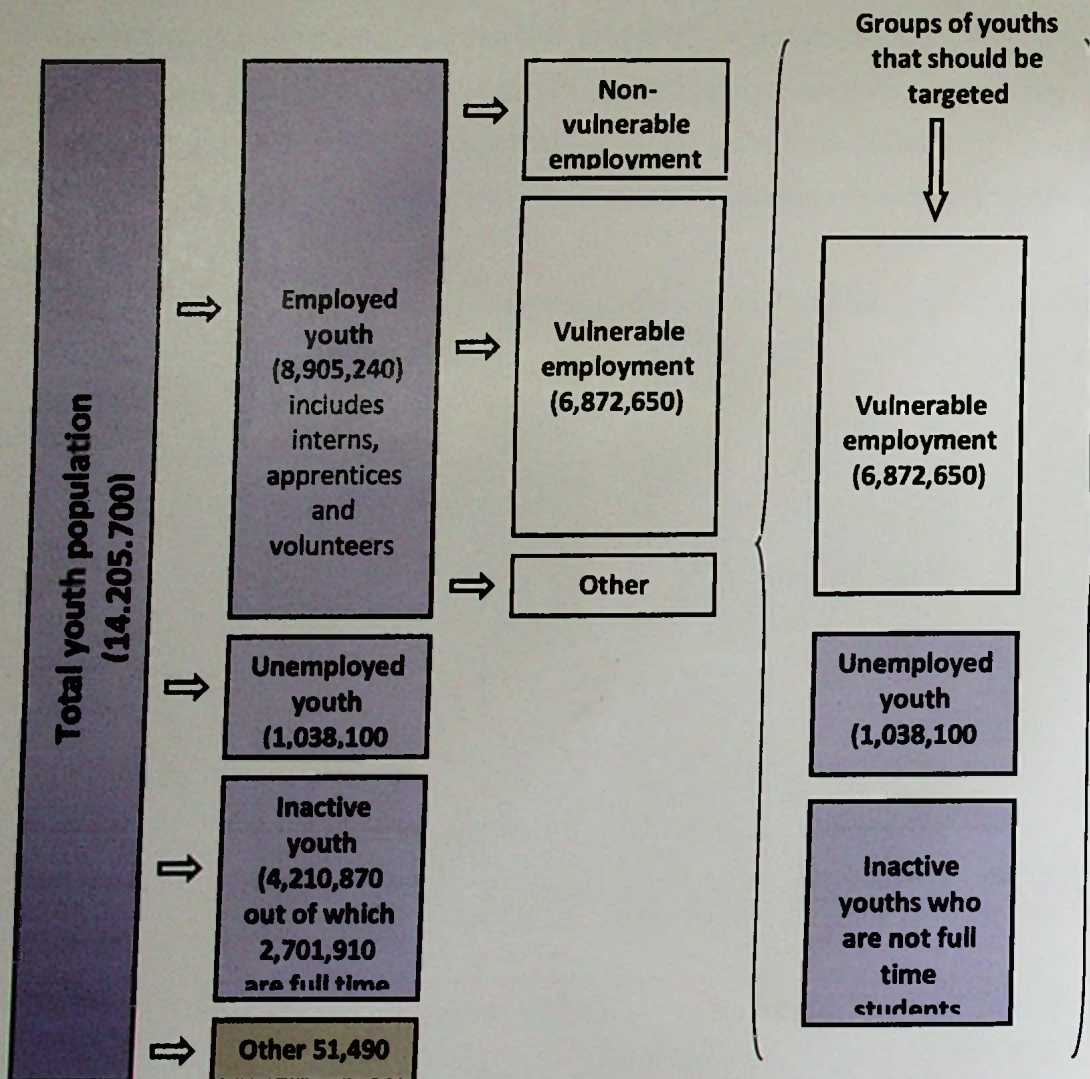


Data source: Census 2009.



Figure 3.8 illustrates the magnitude of the labour market challenge with a focus on the youth. Approximately 60% of the youth are employed, but 78% of these are in vulnerable employment. The figure illustrates the fact that besides inactivity and open unemployment, there is also need to focus policy attention to nearly half of the total youth population who are employed in vulnerable jobs.

Figure 3.8: Youth Employment and Joblessness, 2009



Data Source: 2009 Census



Due to the absence of income data in the census, this analysis chose to use a time criterion to evaluate the quality of jobs in the labour market. The premise is that individuals who reported working “very long hours” – greater than 65 hours in the last one week – are likely to be engaged in low paying (per work unit), and therefore, low quality jobs. On the other hand, those who reported working very few hours (less than 29 hours) are likely to desire more hours since they likely attract low wage incomes.<sup>9</sup>

As summarized in Table 3.6, analysis of the recent census data shows that out of the nearly 19 million employed individuals, only about 18 % worked between 36 and 45 hours in the last week, a time frame which is close to the expected work week of 40 hours (assuming an 8 hour day for 5 days). The corresponding ratio for the youth who worked between 36 and 45 hours was about 19 %. About 18 % of all workers and 16 % of the youths were underemployed, i.e., worked for less than 29 hours in the last seven days. A significant number of the employed individuals worked for over 65 hours in a week. Specifically, nearly 18 % of all workers and 22 % of the youths worked beyond 65 hours. If the underemployed are included, about two out of every five jobs could be of poor quality on account of weekly work hours alone. Quality of work – employment *terms* – could also be gauged by provision of medical allowance and/or insurance, house allowance, and leave entitlement. On medical insurance, data from Kenya’s pre-eminent medical insurer, the National Hospital Insurance Fund show a total insurance membership of 2.8 million with members and their dependents amounting to 6.6 million.<sup>10</sup> Juxtaposing this coverage against Table 3.6’s employment level of 18.9 million suggests that access to medical assurance is low, implying low quality of work.

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<sup>9</sup> Yet, a more significant factor could be the earning rate enabling one working a few hours to have a higher gross income than one working longer hours.

<sup>10</sup> These data are from *Strategic Review of the National Hospital Insurance Fund - Kenya* undertaken by Deloitte in 2010, for the Ministry of Medical Services and NHIF. While its various disclaimers deter its citation, the document is available at [https://www.vbginvestmentclimate.org/advisory-services/health/upload/Kenya-Strategic-review-of-the-NHIF-final\\_cv.pdf](https://www.vbginvestmentclimate.org/advisory-services/health/upload/Kenya-Strategic-review-of-the-NHIF-final_cv.pdf) Accessed 20/09/2012..



**Table 3.6: Percentage Distribution of Employment by Hours Worked in the 7 pre-census days**

	All workers*	Workers aged less than 15 years	The Youth (15-35 years)	Workers above 35 years
0-29 hours	17.8	25.5	15.7	16.2
29-35 hours	11.2	7.9	11.5	12.7
36-45 hours	17.6	7.2	19.2	21.8
46-55 hours	13.8	4.1	16.0	16.5
56-65 hours	13.0	3.9	15.6	14.9
66 hours and above	26.5	51.3	22.1	17.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total number</b>	<b>18,910,050</b>	<b>3,785,870</b>	<b>8,905,240</b>	<b>6,218,940</b>

Source: 2009 Census.

Note: \*includes individuals who reported working aged 5 years and above

A different issue arising from Table 3.6 concerns the high level of employment of workers aged less than 16 years, who by all the definitions listed above – UN, ILO, African Union and Kenya – have not graduated into the youth category. The rate of their employment diminishes with an increase in working hours, and then abruptly rises to 51 % for those working more than 65 hours per week – which is more than 8 hours per day. This suggests that a large proportion of school age children are out of it, drawing petty earnings which encourage the long hours spent at work. Indeed, analysis of the data shows that 99 % of this category is in vulnerable employment. This relatively large group of children will in the near future graduate into youths who enter the labour market with no meaningful education and consequently little or no labour market skills that can result in gainful employment.

The census data also enables an analysis of the distribution of hours worked as a proxy for quality of work across the vulnerable/non-vulnerable divide. The results summarized in Table 3.7 show that nearly half of those employed in vulnerable jobs (48 %) were either underemployed (i.e. worked for less than 29 hours in the past one week) or worked for 66 hours or more per week. However, the situation is only marginally better for those in non-vulnerable jobs, the two categories accounting for 25 % of that employment category.



**Table 3.7: Hours worked in non-vulnerable and vulnerable jobs (% of total)**

Number of hours worked	Non-Vulnerable Job	Vulnerable Job
0-29 hours (underemployed)	6.8	20.2
29-35 hours	5.2	12.5
36-45 hours	23.9	16.3
46-55 hours	21.3	12.2
56-65 hours	23.9	10.7
66 hours and above	18.9	28.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

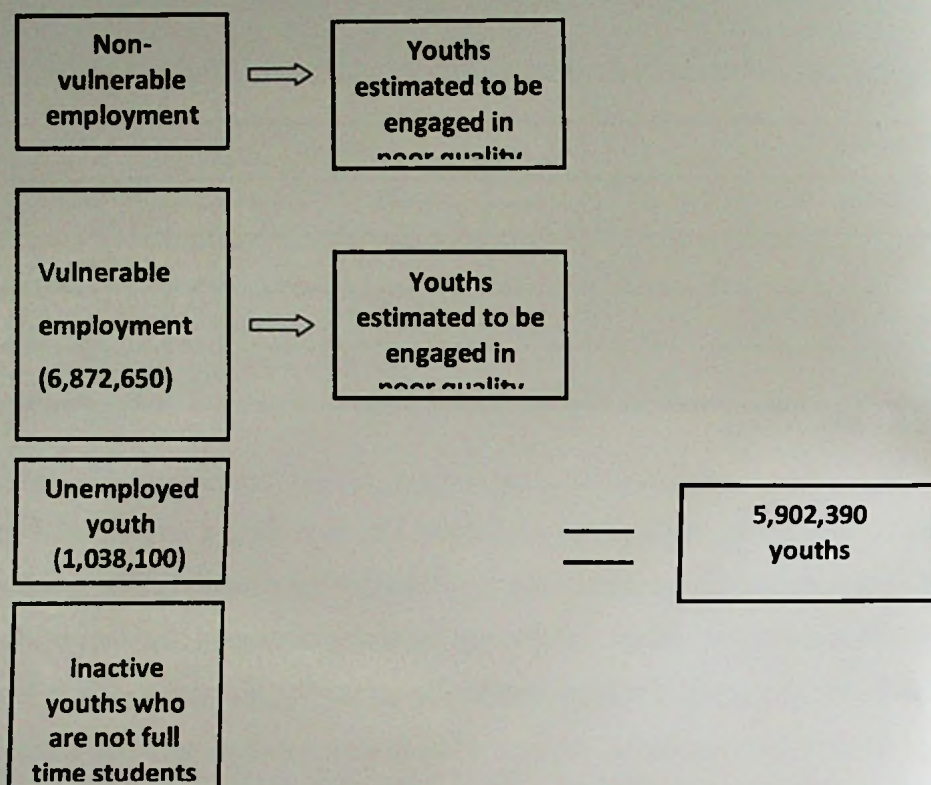
Source: 2009 Census.

Figure 3.9 continues the analysis of Figure 3.8, providing a more global view of the state of employment and joblessness in Kenya. It illustrates the extent of open unemployment, inactivity, and numbers of employed youths who are in poor quality jobs based on the time criterion. Based on this figure, the youth labour market challenge may be summarised as follows:

- (i) Approximately 38 % of youth are engaged in vulnerable jobs that take either less than 29 hours weekly or more than 65 hours weekly. These are about 2.8 million youths.
- (ii) Nearly 11 % of all youth or about 1.5 million youths are inactive, that is, those who were not searching for jobs, the incapacitated and home makers.
- (iii) About one million youths are openly unemployed, accounting for about 7 % of the total youth population (note that this is not the unemployment rate).
- (iv) An additional over half a million youths are engaged in non-vulnerable, yet poor quality jobs – i.e. jobs that take up either less than 29 hours or more than 65 hours weekly. These youths account for nearly 4 % of the total youth population.



**Figure 3.9: Youth Employment Status: Unemployed, Inactive and Poor quality jobs**



Data Source: 2009 Census.

In addition to these four groups, policy attention should be paid to the youth engaged in vulnerable jobs although their jobs are not classified as being of “poor quality” – with respect to total work hours per week – numbering about 4.1 million. However, they could also be in poor quality work because of the earning rate. The overriding message is that although the openly unemployed youth may number just about a million, their relatively small number hides a much more complex labour market challenge. The preceding analysis, as illustrated in Figures 3.8 and 3.9, implies that a focus on open unemployment would have limited impact in remedying the labour market challenge. Apart from addressing open unemployment, labour market interventions will also need to focus on: (i) vulnerable employment (ii) inactive youth (iii) non-vulnerable yet poor quality jobs, (iv) “working children” among whom the majority could be out of school, and (v) those in vulnerable jobs that are not classified as poor quality on account of time spent working.



## Characteristics of the Various Groups of the Youth

To inform policy prescriptions, Table 3.8 outlines some key characteristics of the various groups of youth isolated above i.e. (i) youths engaged in vulnerable jobs that are of poor quality; (ii) inactive youths (excluding full time students); (iii) the openly unemployed youths; (iv) youths in non-vulnerable yet poor quality jobs; and (v) the youths engaged in vulnerable jobs that are not of poor quality. Key information from the table is the extent to which the youth of various categories have not been to school, meaning they have a low stock of skills.

**Table 3.8: Various groups of youths and their characteristics**

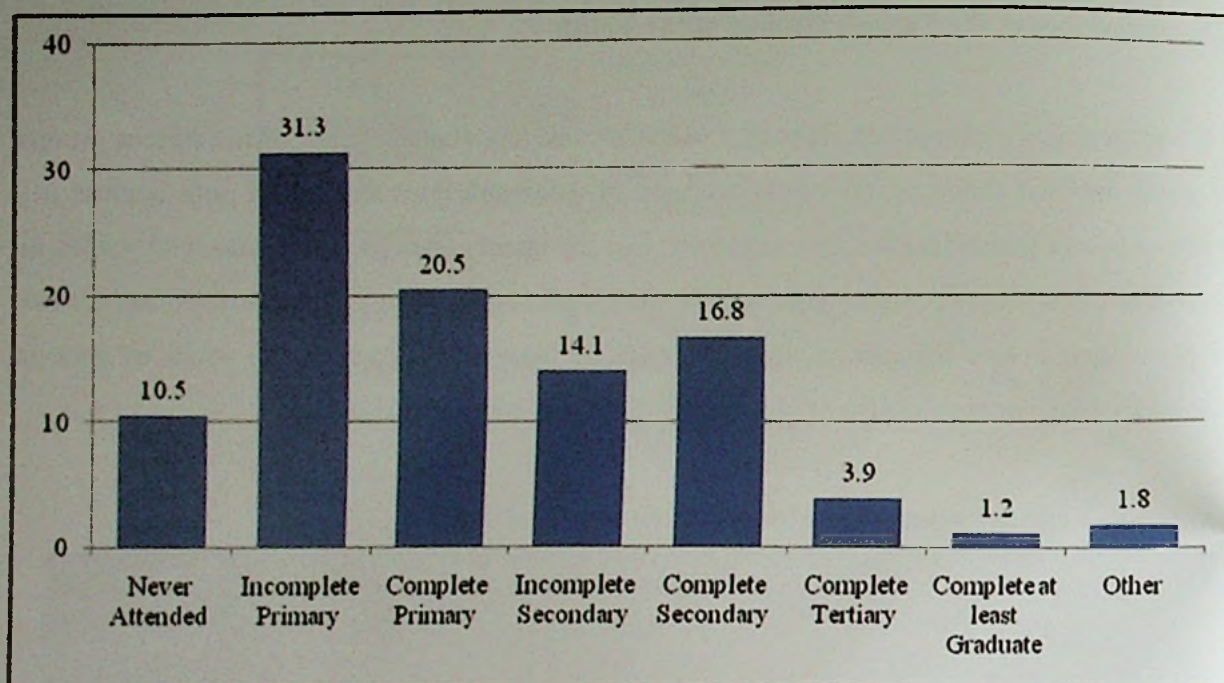
Selected Categories	Percentage of youths who never attended school	Mean age	Percentage of females	Percentage residing in rural areas
All youth	10.6%	24 years	51.3%	62.2%
Employed youth	11.2%	26 years	48.5%	63.4%
Vulnerable Jobs (neither underemployed nor working more than 65 hours)	12%	26 years	51.3%	74.9%
Vulnerable Jobs (either underemployed or working more than 65 hours)	16.9%	24 years	52.5%	68.2%
Inactive youth	17.6%	24 years	81.6%	57.5%
Openly unemployed youth	21.2%	23 years	47.2%	51.5%

Data Source: 2009 Census.

The concern with low educational attainment is further highlighted in Figure 3.9 which shows that 62 % of the youth have below secondary level education, 34 % have secondary education and only 1 % has university education. Other data show that those with low education attainments are predominantly female. The level of educational attainment of the working population provides a good measure of the stock of human capital and skills in a country. According to this measure, Kenya's skill level is still low.



**Figure 3.10: Highest Level of Education Attainment by Youths, 15 to 34 years, and 2009**



Data source: Census 2009.

The findings illustrate that the worst off groups, that is, the openly unemployed and inactive youths, have a higher ratio of individuals who “never went to school.” This is supported by the evidence of Table 3.8 in which educational attainment seems to influence whether an individual falls in the vulnerable category of the employed or not. About 90 % of all employed individuals whose highest level of education is primary schooling are engaged in vulnerable jobs, compared to 61 % and 21 % for those with at least secondary and university qualifications respectively. On average, the youths with some form of employment tend to be older, and females tend to be more inactive. Although about 62 % of all youth reside in rural areas, a lower proportion of these rural youth are openly unemployed; but a larger proportion is engaged in vulnerable jobs.

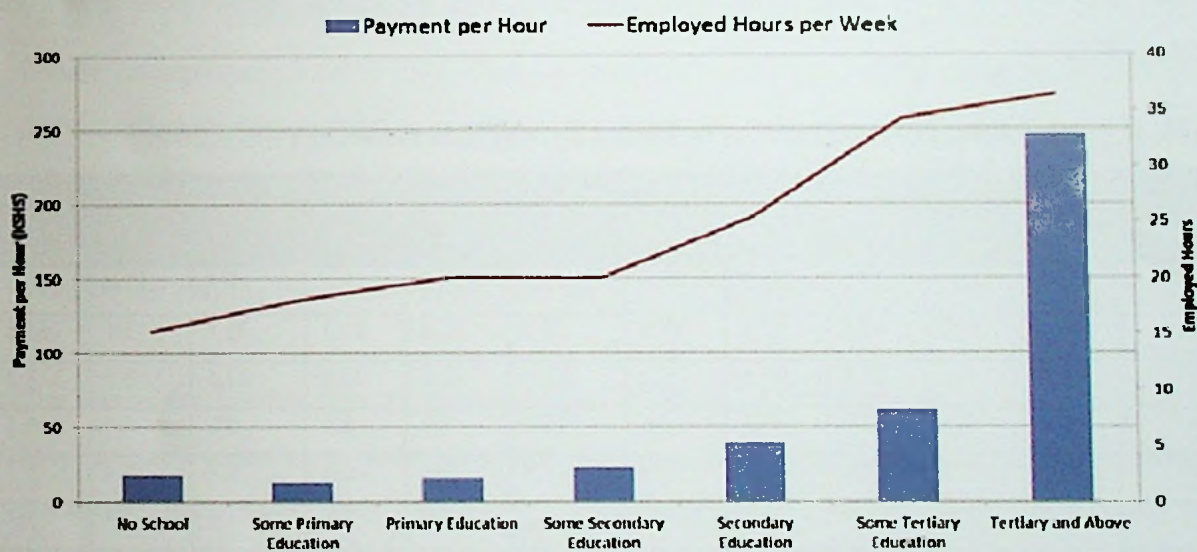
The majority of the youth (64 %) reside in rural areas where they are employed in the agriculture sector, which is expected since the bulk of them have low education attainments. In terms of marital status, about 55 % of the Kenyan youth population is single. As found elsewhere (see Van *et al*, 2005), we hypothesize that perhaps the desire for higher education and employment have encouraged young people in Kenya to delay marriage. On average, each household has



about six members, two of whom are employed. The average monthly total household consumption expenditure per capita is Kshs. 3,121 (approximately US \$36).<sup>11</sup>

There exists an insidious gap between levels of education, numbers of hours worked and the earning rate per hour, as illustrated by KIBHS 2005/06 data in Figure 3.11. The data show that youths with no schooling work about 15 hours per week and earn an average Kshs 20 (US\$ 0.24) per hour, resulting in a weekly income of about Kshs 300 (US\$ 3.5). Conversely, youths with secondary education work an average 25 hours a week at an average Kshs 45 (US\$ 0.53) per hour, amounting to about Kshs 1,125 (US\$ 13.2) weekly. The few youths with tertiary education and above, work 37 hours a week at Kshs 250 (US\$ 2.9) per hour, earning a weekly Kshs 9,250 (US\$ 108.8). This education-driven transformation in earnings and hours worked probably explains Kenya's growing demand for university degrees, reflected in the explosion of rural-based constituent campuses of existing universities.<sup>12</sup>

**Figure 3.11: Weekly Hours Worked and Earnings by Level of Education**



Source: KIHBS 2005/06

<sup>11</sup> The exchange rate at the time of writing is Kshs 85 to the US\$

<sup>12</sup> Originally, it was the public universities 'swallowing' public middle-level institutions such as polytechnics and teacher training colleges. More recently, the private universities have also spread their tentacles to the country-side.



#### 4. Youth unemployment, under-employment and the working poor

##### Incidence of unemployment

The unemployed are defined to include: (i) those who have taken action in seeking work and have not found work; and (ii) those for whom no work is available. This definition is akin to the narrow definition of unemployment. The 'wide definition' of unemployment includes those who have taken action in seeking work, plus those who have not taken any action to seek work.

Kenyan unemployment rates estimated in various studies and surveys over time are presented in Table 4.1. Earlier studies, in the 1970s and 1980s, show modest unemployment rates with Vandermoortele (1991) reporting urban rates below 10 % compared to an urban rate of 25.1 % from the 1998/99 labour force survey. The 1998/99 labour force survey also reflected an aggregate (rural plus urban) unemployment rate of 14.6 %, after which the rate declined by the time of KIHBS 2005/06 and the 2009 population census, standing at 12.7 % and 8.3 %, respectively. By 2009, the urban rate had fallen to 11 %, hence the lowering of the aggregated rate. That the inclusion of rural unemployment reduces the national rate is consistent with the dominance in rural areas of the *household* enterprise over individual employment (Ranis and Gollin, 2012).

**Table 4.1: Unemployment Rates (%) in Kenya by Age and Gender, 1978 – 2009**

Age brackets	1978	1986	1998/	1998/99			2005/06			2009		
	*	*	99*	Total	Male	Female	Total	Male	Female	Total	Male	Fema
15-19	26.6	36.2	47.0	24.3	21.8	26.4	19.0	19.2	18.8	15.8	16.5	
20-24	18.5	29.2	47.3	27.1	19.0	33.9	32.6	31.1	33.8	13.1	13.6	
25-29	4.8	8.6	25.1	15.5	8.2	21.6	20.9	20.2	21.5	8.5	8.7	
30-34	2.0	2.7	14.3	10.8	4.8	16.8	8.3	8.1	8.5	6.4	6.5	
35-39	1.8	2.1	12.0	8.4	5.0	11.8	6.6	6.6	6.6	5.4	5.7	
40-44	0.7	0.7	11.2	9.1	7.8	10.6	5.0	5.6	4.5	5.3	5.7	
45-49	1.1	2.0	14.7	8.2	4.9	12.5	3.5	3.5	3.5	4.8	5.1	
50-54	1.4	0.9	18.9	8.7	6.3	11.1	2.1	2.6	1.7	5.4	5.8	
55-59	1.5	4.1	40.6	13.5	14.2	12.7	1.4	2.0	0.9	5.4	5.7	
60-64	3.2	---	45.2	11.7	7.5	15.7	0.6	1.1	0.2	6.4	6.4	
<b>Total</b>	<b>6.7</b>	<b>9.7</b>	<b>25.1</b>	<b>14.6</b>	<b>9.8</b>	<b>19.3</b>	<b>12.7</b>	<b>11.2</b>	<b>14.3</b>	<b>8.6</b>	<b>8.8</b>	

Source: Vandermoortele (1991), Republic of Kenya (2003; 2008); Census 2009.

Notes: \* is urban unemployment; the rest reflect total unemployment rates (urban plus rural).



Unemployment in 1998/99 was characterized by relatively higher rates among the youngest and oldest individuals. Thus, the respective rates in the age categories from the 35-39 to 50-54 were about one-third of those among the lowest age categories, and just under a half of those of the higher age categories. A remarkable transformation occurred between the 1998/99 and 2005/06 survey periods: while unemployment among urban youths and the middle-aged more or less mapped the 1998/99 levels, that among the older members of the labour force (age 50 and above) dropped drastically – from an average 35 % to an average 6 % in the later period (Wambugu et al, 2011: 76). The same transformation is discernible in the aggregate data for the older people – from an unemployment rate of 11 % for 1998/99 to about 3 % for 2005/06. The unemployment decline reflected in the latter surveys, especially among the older age groups, is likely a factor of the various reforms under the National Alliance Rainbow Coalition (NARC) government's *Economic Recovery Strategy for Wealth and Employment Creation 2003-07* (ERS), which for example, launched the Women's Enterprise Fund..

Table 4.1 also captures the gender dimension of unemployment. According to ILO (2005), female unemployment rates may often be underestimated for various reasons, including their disproportionate engagement in unpaid home production which means they are excluded from the labour force, and the greater likelihood of their being discouraged workers. However, while the Kenyan open unemployment rate for females was nearly twice that for males during the 1998/99 survey, the gap narrowed in 2005/06 and was lower than that for males in 2009.

The educational dimension of unemployment in Kenya shows that relative to the attainment of only primary education, unemployment rate generally decreases with level of education. However, individuals with secondary education exhibit a higher chance of being openly unemployed which could be interpreted as a reflection of preference for wage employment among the more educated individuals in an environment characterised by restricted expansion of formal sector jobs (KIHBS, 2005/06; Kabubo-Mariara, 2003).



## Spatial distribution of unemployment

Regional unemployment for the working age population is further reflected in Table 4.2, which introduces a 'peri-urban' category in 2009, besides the 'traditional' rural/urban divide of Table 4.1. The peri-urban category's 11 % rate for 2009 likely reflects a transition between the individual and household nature of urban and rural employment.

There was a substantial variation in unemployment rates across regions. Urban areas recorded higher levels of unemployment (19.9 %) compared to rural areas (9.8 %) in 1998/99. In 2009, unemployment for urban and rural areas was 11.0 % and 5.6 % respectively. Nairobi province had one of the highest unemployment rates across the three periods which is consistent with Ranis and Gollin's (2012) distinction between rural and urban employment. The unemployment rates across the provinces were rather erratic, an example being North Eastern province's rate of 6.0 % in 2005/06 having declined from 34.7 % in 1998/99. The four-fold gap between Nairobi and neighbouring Central and Eastern provinces suggests the latter were exporting unemployment into a constrained Nairobi market. North Eastern province's pre-eminent rate across the provinces is surprising since its dominant pastoralist livelihoods should engage all members in the household.

**Table 4.2: Regional Unemployment Rates for Ages 15-64, 1998/99, 2005/06 and 2009**

<b>Rural</b>	9.4	9.8	5.6
<b>Urban</b>	25.1	199.9	11.0
<b>Peri-urban</b>	-		8.1
<b>Province</b>			
Nairobi	23.9	16.0	11.1
Central	6.2	12.1	5.1
Coast	23.4	11.7	9.7
Eastern	6.8	12.3	5.4
North Eastern	34.7	6.0	16.5
Nyanza	12.2	8.3	4.7
Rift Valley	12.1	23.9	6.3
Western	27.5	9.6	4.8
<b>Total</b>	<b>14.6</b>	<b>12.7</b>	<b>8.6</b>

*Source:* CBS (2003); Republic of Kenya (2008); and Census 2009.



## Underemployment

Underutilization of human resources manifests itself in 'under-employment' or the 'working poor', who UNECA (2005) defines as individuals working full-time in agriculture or informal sector and having very low earnings. However, a more nuanced attention to underemployment should move beyond hours worked and wages earned to work in relation to existing capacity. Such a consideration is important in highlighting the efficiency of public and private spending on education and human capital formation. This is especially important for a country like Kenya where the informal sector has increasingly dominated employment (see Figure 3.2): it is conceivable for example, that the peers of graduate middle-level managers are operating informal sector enterprises. These concerns could be addressed in the wake of the government's recent labour mapping survey.

Meanwhile, Table 4.3 summarises the numbers and rates in total and by gender of underemployment defined as persons working for less than 29 hours a week. According to the data, slightly over half a million Kenyan workers were classified as under-employed by the 1998/99 labour force survey, rising to 2.7 million by the time of the 2005/6 household budget survey. By the time of the 2009 census, the absolute numbers of the under-employed had increased to over 3.3 million. In relative terms, the ratio of the underemployed to the total employed persons was about 5 % in 1998/99, 21 % in 2005/06 and 18 % in 2009.

Most of the underemployed worked for between 18 to 21 hours and 22 to 25 hours per week across the three periods. Based on the 2005/2006 household budget survey, Pollin *et al.* (2007) indicate that a large proportion of the underemployed are poor (70 %) compared to a poverty rate of 46 per cent for the overall population. An interesting transformation in the character of under-employment is the shift from the extensive male dominance for all time categories in the 1998/99 surveys to female dominance in the later surveys.



**Table 4.3: Under-employment by Gender and Average Weekly Hours Worked, Age 15-64**

Hours of Work	1998/99				2005/06				2009			
	M	F	Total	%	M	F	Total	%	M	F	Total	%
	(%)	(%)			(%)	(%)			(%)	(%)		
Less than 6	63.4	36.6	21,420	4	52.3	47.7	258,407	9	45.9	54.1	170,440	5.1
6-9	52.1	47.9	51,076	10	44.5	55.5	265,306	10	48.7	51.3	278,180	8.3
10-13	56.2	43.8	70,771	14	43.9	56.1	336,758	12	47.5	52.5	344,670	10.2
14-17	67.7	32.3	60,943	12	38.5	61.5	284,014	10	45.2	54.8	379,300	11.3
18-21	65.5	34.5	115,983	23	43.3	56.7	589,588	22	42.6	57.4	874,640	26.0
22-25	69.2	30.8	139,194	28	43.2	56.8	721,243	27	42.9	57.1	658,680	19.6
26-28	76.7	23.3	46,631	9	50.9	49.1	265,932	10	44.0	56.0	622,130	19.7
<b>Total</b>	<b>65.1</b>	<b>34.9</b>	<b>506,017</b>	<b>100</b>	<b>44.6</b>	<b>55.4</b>	<b>2,721,248</b>	<b>100</b>	<b>44.4</b>	<b>55.6</b>	<b>3,368,040</b>	<b>100</b>

Source: CBS (2003); Republic of Kenya (2008); Census 2009.

The other remarkable characteristic of the unemployment landscape is the comparatively high rates of inactivity – 30 % for the country, and between 27 % and 36 % across the provinces. Inactive labour includes full time students, home makers and the incapacitated.

## 5. Employment Interventions, Programmes and Policies

Employment – and the labour market in general – has a significant place in Kenya’s history. The economy of colonial Kenya depended extensively on the steady supply of adequate labour to European settler farms (van Zwaneneberg, 1975). Investment in education during the colonial era (mainly by the Christian missionaries) was designed to create a small cadre of clerical officers for the colonial service (Mwiria, 1991). A majority of the remaining working age population of Kenyans constituted a labour reserve that was induced to avail itself to settler farms through a variety of taxes payable in cash (which could only be earned as wages) (Gardner, 2009). Beyond the settler farms, the railway corporation and other agencies of the East African Common



Services Organisation also became major employers. The colonial labour context was characterized by forms of racial discrimination, which carried over into early independence. In 1964 for example, there was a simultaneous army mutiny across the three newly independent East African states over racially prescribed working conditions.

Into the early independence decade, the government grossly undermined the trade unions to stifle their political potential. Meanwhile the failure to undertake extensive land reforms meant that the bulk of a Kenyan population experiencing among the highest growth rates globally – 4.8 % in the early 1970s – would be confined to crowded former Native Reserves, even as expanded freedoms of movement and access to education created the urge for alternative livelihoods, notably in urban destinations. While economic growth averaged an impressive 6.5 % between independence and the mid-1970s, the growth was driven by smallholder agriculture rather than Kenya's import-substituting manufacturing and industry sectors. Mwega and Ndung'u, (2008: 236) argue that despite its coastal location, cheap labour and market friendly policies, Kenya never took advantage of globalization to expand manufacturing and industry. Consequently, the government was averse to the trickle of youthful labour into underemployment in the emerging urban informal sector. It was not until 1972 that the recommendations of an ILO Mission caused the government to acknowledge the emerging informal sector as a potential solution to the actual and anticipated unemployment problem (Ranis and Gollins, 2012).

However, the government did not subsequently undertake any substantive policy measures to integrate the Kenyan informal sector into the national economy. On the contrary, the existence of minimum wage guidelines that favoured urban over rural/agriculture areas over the years (see Table 5.1), and the persisting comparative marginalization of rural areas, has meant there has been a sustained flow of youthful labour in search of urban employment. Further, owing partly to governance challenges into the 1980s, there seemed to be a conscious informalisation of key areas of the economy: for example, there appeared to be a systematic displacement of formal urban public transport by the unregulated *matatu* industry; and the failure to expand low cost housing pushed peripheral households into urban informal accommodation.



**Table 5.1: Trends in Minimum Monthly Wage Differentials (Ksh), 1995–2010**

	1995	1996	1997	1998	1999	2000	2001	2002
Nairobi, Mombasa & Kisumu	2,993	3,293	3,722	4,241	4,538	4,809	5,122	5,534
Municipalities	2,776	3,054	3,420	3,934	4,209	4,462	4,796	5,132
Other towns	2,366	2,599	2,911	3,347	3,582	3,797	4,081	4,367
Agriculture	1,168	1,238	1,362	1,567	1,676	1,777	1,910	2,199
Nairobi to Agriculture ratio	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.5
	2003	2004	2005	2006	2007	2008	2009	2010
Nairobi, Mombasa & Kisumu	6,142	6,818	7,295	8,171	8,171	8,171	9,641	10,606
Municipalities	5,697	6,323	6,766	5,578	5,578	5,578	8,942	9,836
Other towns	4,818	5,381	5,756	6,447	6,447	6,447	7,607	8,368
Agriculture	2,529	2,870	3,060	3,396	3,396	3,396	4,076	4,483
Nairobi to Agriculture ratio	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4

Source: Republic of Kenya, *Economic Survey*, various issues

The recent significance of the informal sector – which is no longer an exclusively urban phenomenon – is best illustrated by its role in employment creation during the implementation of the NARC government’s economic recovery strategy of 2003-07 (ERS). While the strategy aimed to create 500,000 new jobs per year, most of these were created in the informal sector, the period 2004-08 seeing employment rise by 1,763,800 persons with only 10 % of this number being waged (Wambugu et al., 2011). Yet, the informal sector has never received due attention. For example, not much came from a 1992 sessional paper proposal of facilitating the sector’s entry into the public procurement domain (Moyi *et al.*, 2006). That sessional paper’s concerns were repeated in a 2005 sessional paper “on Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction”; yet, nothing substantive has been done to integrate the sector into the formal national economy into which it could offer linkages, as was done for small and medium enterprises (SMEs) in Malaysia.

Since independence, the Government has been part of three Tripartite Agreements also involving the Federation of Kenyan Employers and the Central Organisation of Trade Unions (COTU).



The agreement secured periodic pro-rata increases in employment across the private and public sector. While this created employment, it was essentially a strategy to rein in labour activism during a period in which the government often strived to influence the choice of COTU office holders. However, the period also saw a disproportionate growth in public sector employment – in the civil service and state corporations – as jobs were created through political patronage. While the beneficiaries of these measures earned wages, the underlying inefficiencies meant such wages were unrepresentative of the labour's marginal product. Kenya's mid-1980s adoption of structural adjustment programmes ended the Tripartite Agreement, imposed a moratorium on public sector employment even as it pruned existing employees through retrenchment and early retirement schemes, and liberalised the labour market so that private sector employers could declare redundancies that were unacceptable under the Tripartite Agreement era. Heintz and Pollin (2003) have argued that one effect of liberalisation was the informalisation of the economy, which in turn lowered the quality of jobs.

Kenya is only now developing an employment policy and strategy. Over the years, however, there have been many interventions that have sought to influence employment. Wambugu et al (2011) distinguish between policies that prevent formal education graduates from falling into unemployment from causes of unemployment, such as market failure and the lack of investment capital. They use Godfrey's (2003) framework incorporating six intervention areas to analyse Kenya's history of employment interventions.

**(i) Making labour markets work better for the poor**

Under this heading, Wambugu et al (2011) identify public works programmes (PWP) and improvements to the job search infrastructure. Kenya has a long history of PWPs, the pre-independence ones involving forced labour. Into independence, however, PWPs have been used to manage potential crises related to food shortages and famine, as well as to provide low cost infrastructure, such as through the Dutch-sponsored, labour-intensive Rural Access Roads Programme of the 1970s. Under the latter scheme, household members maintained road portions adjacent to their homesteads for a fee. More recent programmes have included the Kenya Youth Empowerment Programme and the Trees for Jobs Initiative. The National Accord (2008)



mandated interventions to provide youth employment, resulting in a number of initiatives including the World Bank-sponsored *Kazi kwa Vijana* scheme. A similar initiative includes the Youth Employment for Sustainable Development Project (launched in 2012) in which youths will be trained in road maintenance skills and thereafter engaged in road rehabilitation and maintenance across the country.

The Ministry of Labour, through its labour offices, historically offered registration and placement services for job seekers. However, the efficiency within which this was done was undermined by the mismatch between economic and population growth, and the resulting influx of job seekers into the towns. More recently the ministry's range of services was expanded to include registration of employment agencies. One of the remaining challenges is that job placement services are relatively well established in urban areas while rural areas remain under-served. In addition, survey evidence indicates that most job seekers search for work through friends and relatives, a factor that may undermine equity in employment among other labour market outcomes.<sup>13</sup>

#### **(ii) Improving environment for entrepreneurship**

After independence, Kenya instituted various measures to empower and enhance opportunities for the hitherto disadvantaged racial groups. As an example, the Kenyanisation of Personnel Bureau prioritized the accession of indigenous Kenyans to key public positions.<sup>14</sup> However, the government also championed various other employment-generating opportunities through state corporations in various sectors. The agriculture initiatives included credit and technical services from Agriculture Finance Corporation and Agriculture Development Corporation. This occurred hand in hand with land re-settlement schemes and a network of village-based extension workers. In industry, the Industrial and Commercial Development Corporation and the Kenya National Trading Company were designed to facilitate the entry of Africans into commerce and industry.

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<sup>13</sup> For example, research by the National Cohesion and Integration Commission [NCIC] has revealed extensive ethnicisation of employment in public institutions: see NCIC (2011)

<sup>14</sup> This was a controversial policy in that 'Kenyanness' was constitutionally defined by citizenship rather than race; see Himabara (1994), for example.



These initiatives may have had limited efficiency and national outreach since they were undermined by governance challenges related to nepotism and ethnic parochialism.

One important area of improved chances for entrepreneurs over the years has been micro-credit and related activities. The co-operative movement has spawned savings and credit facilities whose low cost borrowing might have alleviated the capital constraint for grassroots investments. It is necessary to determine the extent to which these initiatives have been successful in alleviating unemployment and generating or augmenting incomes. Even so, the absence of a favorable policy framework undermined exploitation of the potential of the SME sector – such as in terms of backward and forward linkages to the formal sector. However, there have been various short-term initiatives which have apparently not been evaluated to enable policy formulation (Wambugu et al., 2011). Among these initiatives are the government-sponsored, 2006 Youth Enterprise Development Fund (YEDF), the IFC-sponsored Grassroots Business Initiative, and UNDP's Growing Sustainable Business Initiative of 2005-08. Others include K-Rep's Youth Saving and Credit Project and Micro-Leasing Project and the government's SME Solutions Centre. Information on the impacts of these government and non-government initiatives is necessary to inform policy formulation.

A key theme in the Kenyan context would be to support individuals involved in entrepreneurship activities to escape informality. A key intervention would be to transform the motivation for entrepreneurship from being necessity driven to being opportunity driven. Wambugu et al (2011: 46) report that global studies conclude that high-growth and high-expectation entrepreneurship is positively correlated with among others: government regulations, education support for entrepreneurs, physical infrastructure, intellectual property rights protection, and market openness. The macro-level instability may dampen the role of entrepreneurship.

### **(iii) Skills development and training programmes**

The mismatch between skills needs and supply continues to be perceived as a problem bedeviling the labour market. The education system is often viewed as having an academic bias. This explains why successive commissions of enquiry into Kenyan educational needs –



Gachathi; Ominde; Mackay; and most recently, Odhiambo – have made recommendations for reforms. The country has expanded all levels of education, including the university level. Yet, this latter has partially been achieved through the transformation of medium level colleges into constituent colleges or regional campuses of public universities.

The mismatch between skill needs and supply is attributable to the lack of a coherent policy on technical educations and skills development, leading to an initiative to develop a National Training Strategy (Wambugu et al, 2011). One means by which to close the gap would be to get private sector participation in developing curricula for Technical and Vocational Education and Training and university education, and in financing the same since public education funding already focuses on formal (academic) education. There is also a very urgent need to regulate the numerous private institutions that currently offer skills development, which will improve intra-sector mobility for their graduates. There is a further need for on-going learning and re-learning among trainers, as the contexts within which they teach respond to technological changes.

#### **(iv) Making training systems work better for young people**

Training systems would work well if a number of factors are present including the recipients' ability to pay. This is seldom the case in a relatively poor country like Kenya. Those in need of training may not be able to pay for it. In addition, more so in the informal sector, training is usually neither assessed nor certified. Such training is likely to limit the benefits to the trainee. Other challenges that may undermine the training systems include: (i) absence of or outdated curriculum, (ii) no framework for identifying training needs, (iii) lack of neither an industrial training and policy framework nor a national qualification framework, (iv) poor coordination of activities between or among industry, training and research institutions, and (v) inadequate, dilapidated or obsolete training facilities.

One of the initiatives by the government to make training systems work better was the *Kenya Jua Kali Voucher Programme*. Launched as a 1997 pilot scheme under the Micro and Small Enterprise Training and Technology Project, the initiative focused primarily on disadvantaged youths whose training costs were subsidized through vouchers with which to pay for training



under a provider of own choice. The programme also connected demand for, and supply of training where this was necessary. During the five-year period to 2001, the programme issued about 37,606 vouchers. Access to a training provider of choice seemed to have two advantages, the first being that mutual self-selection meant the trainees and mentors were likely to be more suited to each other than if they were imposed on each other. The second advantage was that trainers found themselves in a competitive market in which they had to perform. While the scheme was adjudged to increase employment and assets – compared to a control group, there were indications that its design could be complex and costly (Johanson and Adams, 2004). Secondly, the subsidy created a dependence that was difficult to phase out. These design problems were seen to reflect government involvement, leading to a perception they could be overcome through a strategy nurturing willingness to pay, managed by the private sector.

**(v) Improving linkage between education and labour market including revitalizing job search infrastructure in the country**

Strong and effective job search infrastructure and labour market information system is critical in addressing the youth unemployment challenge in the country. However, in Kenya informal social networks potentially play an important role in matching workers to employers in labor market. According to data presented in Table 5.2, the most frequently used method of job search in the country is informal method (friends and relatives).

**Table 5.2: Job Search Method in the week before the survey, 1998/99**

Job search method	Frequency	Percent
Formal	93	5.91 (6.73)
Informal	1,308	83.15 (80.52)
Direct contact	172	10.93 (12.74)
Total	1,573	100.00

Source: Wambugu, Onsomu and Munga (Forthcoming).

Note: Weighted percentage in parentheses.



About 81 % of job seekers relied on friends and relatives in their search for work; 12 % of job seekers contacted employers directly while less than 8 % used formal channels to search for work. However, informal channels have various weaknesses. They promote inequalities and those without, or with weak social networks are likely to remain continually disadvantaged in accessing decent employment; especially in the formal sector (Wambugu et al, forthcoming). It is therefore important for the country to revitalise the formal job search infrastructure in the country. Labour market information systems should also be strengthened while ensuring effective linkage between education and training and the labour market.

**(vi) Improving labour market laws and regulations**

The relatively stiffer regulations that governed hiring and firing in Kenya into the 1980s were slackened considerably with the adoption of structural adjustment programmes, with consequent positive impacts on market rigidity and the scope for market clearing. Along these lines, Kenya ranked 40<sup>th</sup> out of 132 countries in the Global Competitiveness Report 2009/10, an improvement of 20 places on the 2007 status.<sup>15</sup> The country ranked 20<sup>th</sup> out of 133 with an index of 17 in rigidity of employment measures, and an index of 4.6 out of 7 – rank 23 over 133 – for hiring and firing practices. These scores suggest the Kenyan labour market is attractive, its hiring and firing costs being lower than Korea and Malaysia, for example. However, the legal framework (including continuing minimum wage legislation) and trade union activity remain significant determinants of sector competitiveness status.

The legal frameworks for the sector were reviewed recently. The legislations covered included the Labour Institutions Act (2007), Employment Act (2007), Labour Relations Act (2007), Work Injury Benefits Act (2007) and the Occupational Safety and Health Act (2007). Implementation has been constrained by inadequate budgetary and human resources available to the Ministry of Labour. Its share of public spending was only 0.26 % – which is a likely reflection of its weak bargaining position in a Medium Term Expenditure Framework sector working group which also

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<sup>15</sup> The labour market efficiency index monitor the following: cooperation in labour-employer relations; flexibility of wage determination; rigidity in employment; hiring and firing practices; firing costs; pay and productivity; reliance on professional management; brain drain; and female participation in the labour force.



includes the Ministry of Youth Affairs and Sports. On staffing, the ministry's inspectorate staff to labour ratio has moved from 1: 37,284 in 1996 to 1: 121,752 in 2010, resulting in ad hoc, unintegrated, rather than programmatic interventions. Consequently, it is premature to evaluate the impact of the new laws.

On minimum wage legislation, the Kenya Wage Guidelines and its Labour Institutions Act follow ILO guidelines and the Universal Declaration of Human Rights, in principle. Yet, for the two decades to 2010, minimum wage increases have lagged behind inflation by between 6 % and 20 %. Labour ministry resource constraints undermine the strict enforcement of wage guidelines even in the formal sector. The Productivity Centre of Kenya has been mandated with linking labour productivity to the wage setting process.

With respect to trade unions, these have been important agencies in Kenyan history, even outside the narrow labour domain. The Global Competitiveness Report 2009/10 ranked Kenya at 80 out of 133 for a flexibility of wage determination index of 5 out of 7, implying some degree of flexibility in the arena. The literature suggests that unions have been most effective in raising wages in the manufacturing sector; but their effect in other sectors is unclear. Kingdon et al (2005) have reported a strong correlation between unionization and alternative explanations for market distortions, such as regulations, monopoly rents and market size. Thus, further empirical evidence is necessary to affirm the effect of unions on wages and employment.

Table 5.3 presents a summary of issues and strategies in the Kenyan labour sector's Strategic Plan for 2008-2012, which are pertinent to youth unemployment.

**Table 5.3: Youth Unemployment Issues and Potential Response Strategies**

The Issues	Response Strategies
Inadequate capacity to facilitate the provision of quality services to the public, stakeholders and to respond to the emerging issues.	Build adequate capacity to provide quality, efficient and effective services to the public, stakeholders and to respond to emerging issues. (Amongst other interventions....) <ul style="list-style-type: none"> <li>• Mainstream HIV /AIDS in the ministry</li> </ul>



	<ul style="list-style-type: none"> <li>• Mainstream gender and youth issues within the Ministry</li> </ul>
<p>Lack of policy and legal framework to facilitate effective implementation of the framework for the new labour laws and for Micro and small enterprise (MSE) development</p>	<p>Undertake legal, policy and institutional reforms to facilitate implementation of the Ministry's mandate and functions</p> <ul style="list-style-type: none"> <li>• Develop the relevant Policies and Legislation</li> <li>• Fast-track the enactment of pending Bills and policies</li> <li>• Operationalize the labour institutions under the new labour laws</li> <li>• Mainstream public sector reforms into the Ministry's programmes and activities</li> </ul>
<p>Ineffective public employment services, high levels of youth unemployment, underutilization of the capacity of the MSEs to generate employment, disjointed co-ordination of MSEs and Uncoordinated labour exportation</p>	<p>To enhance public employment services and streamline labour export</p> <ul style="list-style-type: none"> <li>• Establish modern regional employment offices and upgrade the existing ones</li> <li>• Promote and regulate labour export</li> <li>• Facilitate job creation for the youth</li> <li>• Establish an institutional framework to tap Kenyan expertise in the diaspora</li> <li>• Develop a Website for employment interaction</li> </ul>
	<p>Develop MSEs</p> <ul style="list-style-type: none"> <li>• Enhance the capacity of MSEs to promote employment creation</li> <li>• Enhance MSEs' access to markets and marketing information</li> <li>• Enhance coordination of policies, strategies and programmes for support of the MSE sector</li> </ul>



	<ul style="list-style-type: none"> <li>• Enactment of MSE Act and establishment National Council for Small Enterprise Development</li> <li>• Develop and up-grade infrastructure for MSE</li> <li>• Acquire and secure parcels of land for MSE</li> <li>• Establish Centres of Excellence for MSE to facilitate technology transfer</li> <li>• Undertake MSE baseline and informal sector development</li> <li>• Develop and implement entrepreneurship promotion programmes</li> </ul>
<p>Lack of National Human Resource Data-Base and an integrated Human Resource Development Policy and Strategy</p>	<p>Establish a comprehensive National Human Resource Database and formulate and implement an integrated human resource development policy and strategy</p> <ul style="list-style-type: none"> <li>• Develop and maintain a Human Resource Databank</li> <li>• Manage and coordinate National human resource development</li> </ul>
<p>Inadequate supplies of skilled manpower at all levels of industry</p>	<p>Ensure adequate supply of skilled manpower at all levels in the industry</p> <ul style="list-style-type: none"> <li>• Strengthen linkages between industry, education training and research institutions</li> <li>• Enhance capacity of existing industrial training institutions</li> <li>• Establish regional industrial training centres</li> <li>• Develop national training and testing standards</li> <li>• Transform the Directorate of Industrial Training into a Semi Autonomous Government Agency</li> <li>• Industrial Training, trade testing and skills up-grading</li> <li>• Sponsorship of female training in engineering</li> </ul>



	courses
Lack of a national productivity policy and legal framework, lack of awareness on productivity and productivity culture, low national expertise capacity, lack of national productivity statistics, low national productivity levels and inadequate capacity to champion productivity practices.	<p>Develop and implement a National Strategy on productivity improvement and management</p> <ul style="list-style-type: none"> <li>• Give Strategic direction on productivity management in the country</li> <li>• Strengthen institutional capacity of the Productivity Centre of Kenya to champion and</li> <li>• change productivity interventions</li> <li>• Facilitate adoption of productivity culture and practices</li> <li>• Facilitate assessment of productivity levels and provision of guidelines for wage</li> <li>• Determination</li> </ul>

Source: Ministry of Labour, National Strategic Plan 2008-2012.



## PART II: Determinants of Youth Unemployment and Underemployment

### 6. Employment and Unemployment

#### 6.1 Work situation in modern, transitional, and traditional economies

The unemployment literature distinguishes open or 'classical' unemployment from disguised unemployment, also termed *underemployment*. Ranis and Gollin (2012) underscore the importance of this distinction in discussing employment in Africa, a continent where poverty forces people to find employment of some kind or other for survival. Such desperation is not as common in the western world where comparatively higher incomes enable workers to save for the future, and various benefits might be available to the unemployed, including unemployment pay, council housing, medical insurance, and free education, amongst other welfare benefits. Whereas unemployment trends in developed economies follow business cycles, Ranis and Gollin argue that unemployment in poor countries is a factor of the structure of their economies which undermines the ability of the labour market to clear. Yet, this position should not disregard the cyclicity of agriculture-based employment in poor countries which is controlled by crop seasonality.

In analyzing unemployment, Ranis and Gollin (2012) refer to the famous Ranis-Fei model (Ranis and Fei, 1961), which recognizes the economic dualism inherent in developing countries, pitting a traditional low productivity sector against a modern sector that includes the government.<sup>16</sup> Individuals in the traditional sector survive on an average product below which if it falls, disease and death would restore the equilibrium. Consequently, *underemployment* is a characteristic of this sector causing out-migration to the urban sector whose lure is the higher *expected* earnings. In the urban sector, however, unemployment and underemployment call for structural changes to enhance modern sector growth, creating new employment opportunities.

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<sup>16</sup> While this dichotomy includes the government in the higher productivity modern sector, government productivity is characteristically low.



Wambugu et al. (2011) recognize the multi-sectoral labour model underlying Ranis and Gollin's (2012) framework. They note the non-classical, segmented nature of the labour market in developing countries. Harris and Todaro's (1970) two labour sector model explains the migration of labour from the low productivity rural sector to the higher productivity urban sector. The model posits that labour escapes the low returns of rural under-employment, or open unemployment, in anticipation that any employment in the urban sector will realize greater returns. The model bases (urban) unemployment on formal sector wage rigidity above the market clearing level. Thus, employers do not hire new workers, and retrench in response to wage increases. Whereas some retrenchment victims enter the low productivity informal sector, others prefer unemployment in anticipation of a job in future.

Ranis and Gollin (2012) report a further variant to the multi-sectoral labour market, the Jamal-Weeks model which calls for inequality reduction. This model recognizes that in both rural and urban areas, there are poor and rich people, inducing straddling for the disadvantaged.

Ranis and Gollin (2012) distinguish four broad employment sectors in a typical sub-Saharan Africa (SSA) economy, viz. agriculture, rural household enterprise, urban household enterprise, and the urban formal sector. This formulation is based on a conceptualization of returns to labour: whereas in the modern economy, wages reflect the *marginal* product of labour, this is not the case with the traditional economy where production is based on the household rather than the individual. Given the contexts of self-employment, self-provisioning, and unpaid family work, the various members contribute to a household's aggregate resources, enabling ascription of the household's *average* product to each member, including those that did not contribute. It is therefore easy to see that in the modern economy, one is either employed or unemployed, whereas the shared responsibilities (and benefits) of the traditional economy means that individuals will often not exploit their full potential, hence their *underemployment*, invariably. The foregoing reality leads Ranis and Gollin to define underemployment as the 'inability to work as many hours as (one) would like'. Yet, this definition is problematic: it would classify as underemployed formal sector workers wishing to go beyond the regular (eight-hour) day.



Of the labour market typology offered above, *agriculture* is the main employer, often accounting in regions such as SSA, for more than three-fifths of all employment. Indeed, World Bank data show that out of the 18 countries under consideration, agriculture accounted for over 60 percent of employment in at least 13 countries. Contrary to Ranis and Gollin's (2012) generalization, however, the agriculture sector is not homogenous – as implied by the recognition of Jamal-Weeks that the rich and poor are found in both rural and urban sectors. Agriculture's commercial component has the trappings of the (urban) modern sector, with a high technology component in production, and wages based on the marginal product. However, the dominant character of SSA agriculture – including the pastoralist component – is the household-based, self-employed, self-provisioning production unit. While migration to urban areas deprives the rural areas of youthful labour, the youth remain the dominant suppliers of labour to agriculture. Culturally prescribed gender biases that for example, favour education of the male child over female siblings, mean that migrant labour is likely to be male, so that rural agriculture labour is dominated by female youths.<sup>17</sup>

Population pressure impinges on often fixed or diminishing land holdings where largely rudimentary farming methods are applied, to constrain output.<sup>18</sup> Coupled with the expectations developed through education and exposure, constrained agriculture livelihoods cause diversification into the *rural household enterprise*, whose sustainability depends ironically, on agriculture-based incomes (or products, where barter is a mode of exchange). The livelihood activities of the rural household enterprise are as diverse as the agriculture contexts in which they are carried out, but are characteristically service based with fledgling manufacturing (primarily of household items). Amongst the activities undertaken, are food processing, the making of furniture, garments, and handicrafts, barbershops and hairdressers, repair shops, retailing, private security and transport.

The activities of the rural household enterprise are quite similar to those of Ranis and Gollin's (2012) third employment cluster, the *urban household enterprise*, which they estimate to have accounted for four-fifths of all new entrants into the SSA urban labour force in recent years.

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<sup>17</sup> This is heightened by practices, such as husbands migrating for work while spouses take care of the home and elderly parents.

<sup>18</sup> In many traditional SSA tenure systems, land is subdivided for allocation to male heirs.



These household enterprises primarily target each other as customers. Their operations are unregistered and unlicensed, but often pay unofficial levies to local authority inspectors. They often operate from temporary structures which are shifted as the need arises, providing informal apprenticeships to individuals who soon move to set up their own operations. Thus, the urban household enterprise sector is always in flux, absorbing new entrants with varied qualifications – or none at all, undermining the scope for full employment while also retaining (a semblance of) extensive structural and frictional unemployment. In rare instances, it loses members to the formal sector.

However, the urban household enterprise has a more lucrative market based on the comparatively wider money economy it serves. This has enabled the emergence of a sub-sector that is neither characteristically informal nor characteristically formal: notably, formal outlets develop backward linkages to non-formal suppliers whose technological capacities are everything except formal, operating without business licenses and unregistered by the tax authorities, but supplying (finished) goods and services to the formal sector.<sup>19</sup> Indeed, entrepreneurs that otherwise qualify for the formal sector take refuge in the informal sector to evade the high costs of formalization (King, 1996).<sup>20</sup> Operating from established premises with employees on regular payrolls, they defy categorization alongside the basic urban household enterprise. In effect, their staff can neither be described as underemployed, nor be said to produce an average (household) product. Their marginal product and consequently, their wages can be calculated as in the urban formal sector.

The final employment sector is the *urban formal sector* which is reported to be small even if it is growing. This is the sector that attracts educated – and uneducated – youth from the rural areas, in anticipation of its comparatively higher, formal wages, secured not just by the value addition of output, but also by legislated minimum wages. The urban formal sector also suffers from structural and frictional unemployment. However, the likely response to sustained formal sector unemployment is to straddle into the informal sector. Ranis and Gollins cite World Bank

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<sup>19</sup> In Kenya, for instance, high street furniture is manufactured in *jua kali* (open air) settings.

<sup>20</sup> Among the SMEs reported on by King were professionals, such as accountants, doctors and engineers.



evidence that youth underemployment is more serious in urban than in rural areas; but the returns to any urban employment will be more rewarding than that in rural areas.

Ranis and Gollins (2012) offer a county typology of the nature of labour markets distinguishing *coastal* from *landlocked* and *resource rich* countries. Coastal countries outdo the other two categories in terms of wage employment, with land-locked countries offering the least scope for the same. Conversely, resource rich countries have the greatest scope for informal employment, with land-locked countries performing averagely in both contexts. While they use country data to illustrate their typology, there are many country instances that challenge the typology. For one, there are many countries that typically fall under more than one of their categories, some because they are so large. For example, the greater Sudan is both resource rich and coastal; Botswana and expansive Congo DRC are both resource rich and landlocked; and informal employment dominates coastal Kenya (Table 4.1).

## 6.2 Unemployment models

Keynes (1936) attributes unemployment to deficiencies in aggregate demand over certain periods in the business cycle such that jobs created are not enough for everyone who wants to work. Unemployment of this nature is involuntary since the unemployed are constrained from workplaces by limited job availability. Related to demand deficiency idea is unemployment created by predictable seasonal variation in demand often corresponding with climatic seasons. From the perspective of Marxism, unemployment is inherent within the unstable capitalist system. Periodic crisis of mass unemployment are to be expected (see McLellan, 2009), because a deliberate attempt by the capitalists to keep wages low creates an environment of surplus labour.

A mismatch between demand in the labour market and the skills and location of jobseekers tend to cause structural unemployment. This situation is related to unemployment created by technological advancement that makes skills of some workers obsolete (see Martin, 2009). The time it takes the individual to find and move into a new job or the time and resources it takes an



employer to identify and recruit suitable workers to fill vacancies create frictional search unemployment which is of short duration. The insider-outsider labour market model (see Linbeck and Snower, 1988), efficiency wage theory (see Shapiro and Stiglitz, 1984) and implicit contract model are some of the theories that explain unemployment.

The underlying theoretical models of studies on unemployment in Africa often focus on the supply side. Empirical studies using household level data for most developing country studies do not find the expected inverse relationship between unemployment and education. Examples include, (i) Kuepie, Norman and Roubaud (2006) who find that unemployment levels generally increase with the level of education, at least until the end of the secondary level in the West African Economic and Monetary Union countries; (ii) Rama (1998) finds that unemployment in Tunisia is concentrated among the young and relatively well educated, (iii) Cling et al, 2007; World Bank, 2006; and Serneels, 2004 reported related findings for Ethiopia, Rwanda, Senegal, and Tanzania.

Studies on unemployment have generally focused on the impact of personal characteristics, unemployment insurance and local labour market characteristics on the probability of leaving unemployment. In addition to supply side factors, demand side factors such as local unemployment rates and place of residence are typically found to be significant determinants of individual unemployment duration. Other potentially significant determinants of an individual's employability include demographic characteristics such as age, ethnicity, education, health conditions, own and parental education levels, previous working experience. Other significant factors are spouse employment status and family background. Many of these covariates are available in our datasets and were used in the analyses.

### **6.3 Determinants of unemployment**

This section analyses the determinants of the incidence of open and other forms of unemployment among the youth in Kenya, mainly relying on a quantitative approach. The analysis focuses on both youth unemployment and quality of employment considering the dichotomy between unemployment and informality. The section investigates the determinants of



an individual's incidence of unemployment and looks at the role of education in reducing unemployment.

The question of why young people remain unemployed can, to some extent, be addressed empirically. The extant empirical literature has concentrated heavily on supply-side explanations of unemployment as a function of unemployment incentives and personal characteristics. One reason for this approach may be that most data sources are not suitable for investigating demand-side influences at the level of the individual worker. Demand-side explanations of individual unemployment (usually based on profit maximising decisions of firms) have been, therefore, ignored, in favour of supply-side discussions of utility maximizing labour/leisure choices.

The empirical approach uses a multinomial probit model to identify how labour supply factors affect employment status of the youth. This model (see Wooldridge, 2002) can be specified as:

$$y^*_i = \beta'_i X_{i1} + \varepsilon_{i1} \text{ where, } \varepsilon_i \approx N(0,1) \dots\dots\dots(1)$$

Where:  $y^*_i$  is a discrete variable that takes on a value of 1 if the individual aged 15-35 years is underemployed, a value of 2 if fully employed and a value of 3 if openly unemployed.  $\beta_i$  is a vector of parameters for the various explanatory variables including age, gender, household size, and education;  $X_{i1}$  is a vector of exogenous factors; and  $\varepsilon_{i1}$  is the error term which is assumed to be normally distributed with the mean of zero and constant variance.

Individual level data is used to estimate the determinants of states of youth unemployment. The census 2009 data collected by the Kenya National Bureau of Statistics is used for the analysis. The data covers both wage-earners and the self-employed. The sample of youths aged between 15 and 35 is made up of all workers in the formal and informal sectors, public and private employees, the self-employed, and the unemployed and so on.



#### 6.4 Correlates of youth employment status

Equation 1 is estimated using a multinomial probit model. The marginal effects estimates are presented in Table 6.1. The estimation results reported for youth unemployment and full employment should be interpreted using the underemployed youth as the reference category.

The results show that age is negatively related to the probability of being unemployed compared to being underemployed, but its coefficient is not statistically significant in the full employment category. The negative relationship between age and unemployment is seen in some literature to underscore the obligation that an individual has to work to provide for oneself or a family as one grows older (Wamalwa, 2009). An increase in household size raises the probability of unemployment by 5.3% while lowering that of full employment by 2.1% relative to underemployment probability. In other words, relative to youths from small families, youths from large families are more likely to be unemployed, and more likely *not* to find a full-time job.

Female youths are more likely to be unemployed but more likely to be fully employed (conditional on having work) relative to their male counterparts. Moreover, relative to male youths, female youths are more likely to be unemployed rather than underemployed. This finding suggests that female youths do not benefit from the casual employment arrangements that male youths are exposed to. Being married relative to being single is associated with a lower likelihood of being unemployed, but is also negatively correlated with the likelihood of being fully employed. That is, marriage is associated with a higher probability of underemployment. A possible explanation is that married youths are under great pressure to take up any available employment opportunities to support their dependants, raising their susceptibility to underemployment.

Results associated with area of residence indicate that the probability of being employed is higher for the rural youth. The rural youths are likely to be engaged in own account and unpaid family work in agricultural activities. In addition, urban areas in Kenya receive more migrants relative to rural areas and the growing numbers of urban youth would be competing for limited



employment opportunities. Although the rural youth are likely to be employed they are also more likely to be underemployed, whenever they are working.

In the same vein, in comparison with Nairobi region, youths from all other provinces with the exception of North Eastern, are more likely to be employed. However, the youths from other provinces are less likely to be fully employed compared to the youths in Nairobi. A plausible explanation is that the regions outside Nairobi are less urbanised, with predominantly agriculture-based livelihoods which require all members of the household to work. It is unclear why being a youth in arid and semi arid North Eastern region raises the probability of unemployment relative to Nairobi. This finding is in contrast to the expectation that pastoralist livelihoods entail activities that are particularly suited to the youth, such as herding, fencing, and fetching water.

The positive, statistically significant coefficients on education indicate that schooling is associated with risk of unemployment but also with a higher probability of full employment when a job is found. Literacy also raises the probability of unemployment compared to under employment; but the coefficient for the full employment category is not statistically significant. This means that besides enabling them to read or write in any language, it is important to develop employable skills among the youth to improve their employability.

The results in Table 6.1 show the effect of household income on youth employment status. Relative to youths from the lowest income quintile, belonging to any of the other income quintiles lowers the probability of unemployment below that of underemployment. However, with respect to full employment, only youths from households in income quintiles 4 and 5 have higher probabilities of being fully employed than being underemployed.



**Table 6.1: A multinomial probit model of youth employment status (under-employment is the comparison category), 2009**

Variables	Unemployment (Standard Errors in Parentheses) (Marginal Effects Estimates)	Full employment (Standard Errors in Parentheses) (Marginal Effects Estimates)
Age (years)	-0.182*** [0.0672]	0.0181 [0.0590]
Age <sup>2</sup> (years)	0.00183 [0.00124]	-0.000322 [0.00107]
Gender (1 = female)	0.415*** [0.0469]	0.688*** [0.0416]
Marital status (1 = married)	-0.503*** [0.0988]	-0.240*** [0.0903]
Residence (1 = rural)	-0.750*** [0.0573]	-0.825*** [0.0492]
Household size	0.0533*** [0.00787]	-0.0210*** [0.00761]
Income Quintile_2	-0.255*** [0.0759]	-0.0321 [0.0751]
Income Quintile_3	-0.454*** [0.0773]	-0.0748 [0.0741]
Income Quintile_4	-0.462*** [0.0802]	0.145* [0.0744]
Income Quintile_5	-0.422*** [0.0890]	0.437*** [0.0810]
Years of education (years)	0.0546*** [0.00869]	0.0307*** [0.00757]
Basic literacy (reading or writing)	0.198* [0.115]	0.0447 [0.106]
Central province (Reference = Nairobi province)	-0.671*** [0.119]	-0.519*** [0.103]
Coast province	-0.260** [0.124]	-0.357*** [0.111]
Eastern province	-0.632*** [0.115]	-0.586*** [0.101]
North Eastern province	0.750*** [0.216]	-0.510** [0.232]
Nyanza province	-1.000*** [0.116]	-0.870*** [0.101]
Rift Valley province	-0.682*** [0.110]	-0.474*** [0.0958]
Western province	-0.876*** [0.121]	-0.879*** [0.107]
Constant	3.259*** [0.921]	-0.138 [0.825]
Observations	9,785	9,785



## **PART III: Employment Creation and Employment-oriented Development Strategies**

### **7. Employment creation and employment-oriented development strategies**

This section focuses on employment creation interventions in Kenya; contribution of livestock and small-scale agriculture to employment creation; employment creation in the formal and informal sectors, among other related issues. The section also provides options on: i) initiatives to improve employability of labour force; ii) interventions towards addressing youth unemployment; and iii) identify programmes and projects towards addressing unemployment and under employment; and improving quality of jobs in the country.

The section assesses the effectiveness of the current strategies on job creation and provides a synthesis of new ideas for improving labour market outcomes. It includes projections of labour demand and supply; and links job creation to education and training; and draws policy recommendations. These include innovative strategies that can be adopted both in the short-term and long-term to create employment opportunities.

#### **7.1 Simulating Employment Creation using a Social Accounting Matrix**

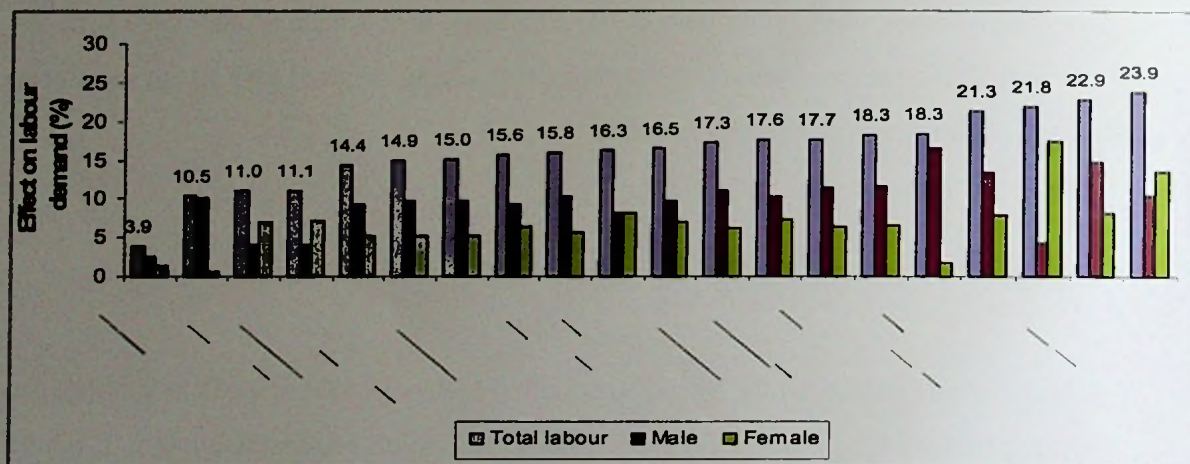
A KIPPRA-NESC study employed the Social Accounting Matrix [SAM] of 2003 to simulate the impacts on categories of employment of exogenous interventions (financed by Ksh 1 billion injection) across Kenya's three sectors of the economy: agriculture, manufacturing and services, which respectively account for 26.4%, 13.3% and 60% of GDP (Wambugu et al. 2011: 49-64). Using structural path analysis, the simulations found agriculture most favourably disposed to employment creation, a 100% increase in maize production leading to 15.8% increase in labour demand, with 26,000 jobs of Ksh. 6,000 being created. Figures 7.1a-c (below) summarise the impacts on labour demand of sub-sectors across Kenya's three key production sectors, showing



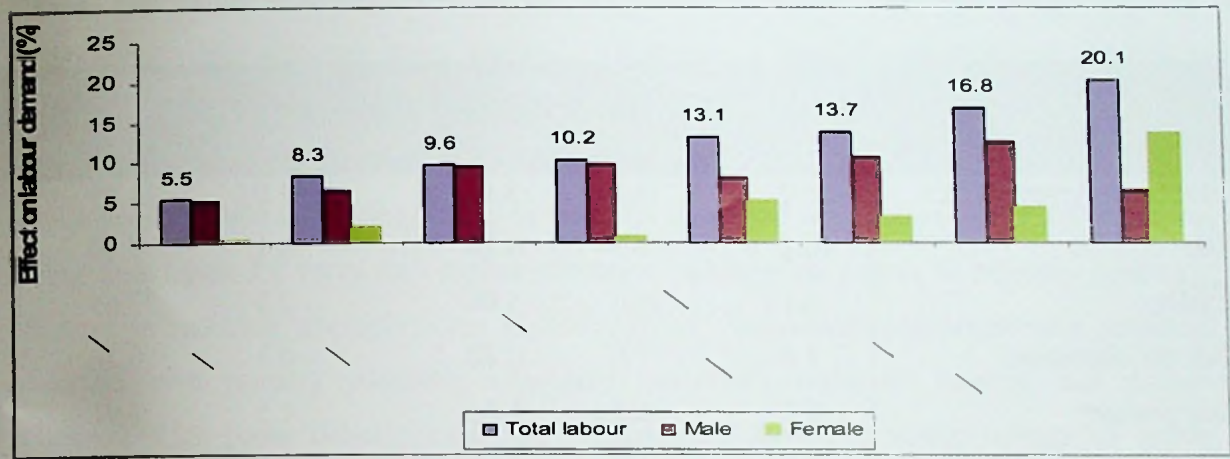
that the change in agriculture labour demand ranged between 10% and 24%, compared to a range of 2% to 12% for manufacturing and 6% to 20% for services.

In agriculture, the greatest labour demand would be generated by the livestock-based sub-sectors, ranging between 21% for 'other livestock' to 24% for cattle/goats. The gender differentials in labour demand are important for the design of interventions. The highest change in labour demand for men would be in rice production (17%) compared to the highest for women in other livestock (18%). Besides other livestock and cattle/goats, demand for women's labour exceeded that for men in the wheat and barley sub-sectors. In manufacturing, men had the highest labour demand in the mining sub-sector (9%), but women dominated in the wood and paper (8%), textiles and footwear and petroleum and chemicals. Finally, under services, women had the greatest impact in the hotels and restaurants sub-sector (13%), but were dominated by men in all the other sub-sectors.

Figure 7.1 (a), (b) & (c): Simulations of Sector Employment Generation







Source: NES (2012: 56-8).

The simulations also enabled an evaluation of the impacts of the labour status on value addition. In agriculture, rural formal skilled labour only dominated value addition for barley (more than 80%), with rural informal skilled labour accounting for more than 60% of value addition for all the other activities. While the roles of the urban unskilled labour and urban formal skilled labour were marginal across the activities, the latter contributed under 10% value addition to forestry. The pictures in industry (manufacturing) and the services and social sectors were more mixed with urban unskilled and urban formal skilled labour dominating the other categories. The broad conclusion is that the urban employment sub-sectors require skills, which is not the case with the agriculture sub-sectors.

Building on the concern with skills, a further simulation presented in Table 7.1 considered the impact of education status on employment creation across the broad areas of activity, this time



including the public service which had been excluded from the previous simulations. For aggregate employment, the latter category generated the greatest demand for employment at 25%, compared to an average 17% for agriculture. Two important insights arise: that the public service whose growth in employment is always constrained by policy should be dominant; and that in spite of wishes to expand employment in the formal sector, it is not a major employment growth area. On the gender differential, livestock remains the key expansion area for women who now lose the dominance they previously had in services.

**Table 7.1: Employment Effects of Ksh 1 billion by Labour Category and by Enterprise**

	Crop	Livestock	Food industry	Other Manufactures	Services	Public services
Total employment effect	16.2	18.8	5.34	7.0	11.59	2
Male	10.1	8.5	4.26	4.1	7.90	1
Female	6.1	10.3	1.08	2.9	3.69	1
Male no education	1.8	1.0	0.20	0.1	0.26	
Male primary	6.7	6.3	1.41	1.5	1.91	
Male secondary and above	1.5	1.2	2.69	2.6	5.79	1
Female no education	1.3	2.1	0.24	0.1	0.11	
Female primary	3.8	6.4	0.50	0.6	0.85	
Female secondary and above	1.1	1.9	0.34	2.3	2.74	1

Source: Wambugu et al (2011: 73)

The simulations offer a bleak employment outlook for males and females with no education, with women in livestock alone attaining a demand level above 2%. Prospects for individuals with primary education and secondary education were better for males than females, the secondary graduates' prospects in public service employment being the greatest across the sectors. These realities surrounding education attainment underscore the need to strengthen school enrolment, retention and school-to-work transition.



## 7.2 Multiplier effects of education on labour income and employment

The multiplier effects computed from the Kenyan SAM show that services sub-sectors seem to have better distribution of impact on employment creation, with exception of the unskilled rural labour. Education has the second highest impact on employment creation among the urban unskilled (0.27) after health (0.64). It also has the largest impact on employment of rural unskilled labour (0.23). The effect of an exogenous stimulus to education on labour income is 0.82 and is the third highest after health (1.14) and poultry (0.88) (Wambugu et al, 2011). This implies that targeted interventions in the education sub-sector can have large impacts on employment while ensuring better earning. University education and technical training play critical role in human development while reducing the risk of being poor and either openly unemployment or underemployed through its effect in increasing individual earnings. Consequently, while increasing access to basic (primary and secondary) education is critical in laying foundation for entry into higher education, stimulating access to primary education is effective in reducing unemployment if, and only if, individuals concerned take initiative to undertake post primary education especially secondary, technical training and university education. This poses delicate challenge in managing flow of children across all levels of education until attainment of higher education and associated higher returns.

Number of highly skilled unable to find jobs in formal sector (which has high returns) is associated with low and unsustainable growth; urban migration; implementation of structural adjustment programmes starting early 1990s; and reduced public investment to create required jobs in the modern economy. Although informal sector provides substantial jobs especially in urban areas, the sector is associated with low returns and may not assist majority of the underemployed youth. Coupled with continued support to increase access to basic education, there is need to increase investment and growth for effective creation of high quality jobs; absorption of skilled and educated labour force and increased productivity.



## **PART IV: CONCLUSIONS AND RECOMMENDATIONS**

### **8. Summary of key findings, conclusions and recommendations**

Finally, this section provides a summary of key findings, main conclusions and policy recommendations. It also identifies research-based projects that this study recommends to be funded by government, multilateral and bilateral agencies.

#### **8.1 Summary and Conclusions**

Kenya's population of nearly 40 million individuals is dominated by young persons under the age of 35 years, with those between 15 and 35 – the youth – accounting for 35.3%. Total employment and the number of employed individuals in the labour force, has grown steadily over the years from 2.3 million in 1990 to about 6.0 million and 11 million in 2000 and 2010, respectively. The employment to population ratio, which shows the minimum rate at which jobs should be created, to achieve full employment, has inched upwards from 0.24 in 2003 to 0.28 in 2010. Although total employment has increased, most of the jobs created have been in the informal sector – with very minimal expansion of formal sector jobs. This resulted in the consistent decline of the share of formal sector jobs to about 19 % in 2010 from 58 % and 30 % in 1990 and 2000, respectively. This trend was also true for the 2003-07 period of remarkable economic recovery.

The open unemployment rate, which is the ratio of the unemployed to the total labour force, was 8.6% in 2009, which is not as high as would be reasonably expected. A low open unemployment rate is a characteristic of many developing countries where the majority of individuals become “entrepreneurs by necessity” and are thus likely to be engaged in some form of survival activity, rather than being openly unemployed. Consequently, apart from measuring open unemployment, the nature of employment available should also be analyzed..



Even though the majority of the youth (about 63%) fall in the category of the employed, about 77 % of all employed youth, and 79 % of those aged above 35 years, are engaged in vulnerable employment. People in vulnerable jobs comprise own account and unpaid family workers.

The youth employment and joblessness challenge can be summarized as follows:

- (i) About 24 % of youths (or about 3.4 million youth) have “poor quality jobs” if poor quality jobs are defined to include those jobs that entail either over 65 hours per week or under 29 hours per week.
- (ii) About 11 % of all youth or 1.5 million youth are inactive making youth inactivity a greater challenge than open unemployment.
- (iii) About 1 million youths, or 7 % of the total youth population, are openly unemployed.

In a related vein, an estimated 3.8 million children (aged 5-14 years) (were) reported working in the last one week to the 2009 census. About half of these children (or 51%) worked for over 65 hours during those last seven days. This implies that Kenya has a large group of children who are likely to graduate into youths without meaningful labour market skills since their current labour participation is at the expense of being in school.

The problem of youth unemployment is worsened by the weak job search infrastructure in the country. According to the recent study on job search methods in Kenya, informal job search channels are more prevalent than formal job search methods. However, informal channels promote inequalities and those with weak or non-existent social networks are likely to remain continually disadvantaged in accessing decent employment.

Education attainment seems to be a good predictor of labour market activity. As an example, while about 90 % of the employed primary school graduates were engaged in vulnerable jobs, only 21 % of university graduates had vulnerable jobs. In addition, the ratio of the youth who never attended school among the inactive and openly unemployed youth was 18 % and 21 % respectively – and about 11 % for all the youth.



## **8.2 Recommendations**

A useful approach to summarise the policy implications is to adopt the World Bank's MILES framework (see below) which identifies five broad factors that are key in affecting job creation (World Bank, 2012). These broad factors are: (i) Macroeconomic environment; (ii) Investment; (iii) Labour institutions and aspects of labour policies; (iv) Education and skills; and (v) Social protection. In providing the policy implications of this study, this sub-section also illuminates on how the government can improve the ongoing policy interventions. These factors must be viewed in the context of existing youth employment policies, as well employment implications of devolution of government activities to the counties.

### **Macroeconomic environment and investment**

To a large extent, an unwavering implementation of Constitution (2010) and the Kenya Vision 2030 have a huge potential to spur growth. The two documents contain far reaching reforms that can effectively address the political and governance obstacles that have hindered economic growth and transformation in the past, thereby expanding employment opportunities.

Addressing the factors that impact on the investment climate will be decisive in creating jobs especially in the formal sector. In Kenya's case, these factors include the management of the perceived high political risk and measures to reduce the current political risk. There is also need to address those factors that may hinder the creation of formal jobs which have hitherto stifled growth. These factors include perceived high taxation rates, large numbers of procedures required for starting a business, and high burden of customs procedures (GCI, 2010/2011). Other factors include: the challenge posed by corruption, and business costs of crime and violence. Significantly, the design of these measures should be beyond the general context to opening up specific opportunities for the youth.

One of the key lessons from the middle income countries Kenya aspires to emulate is the need to transform the economy from an agriculturally based one to one based on value addition in areas of comparative advantage. In this endeavour, Kenya needs to implement a coherent approach to industrialisation which has been identified as one of the key challenges in the country (KIPPRA,



2009). Some of the policies that are yet to be implemented include the Master Plan for Kenya's Industrial Development (2007) and the National Export Strategy. The former included recommendations for the development of the agro-processing and information and communications technology sectors. The more successful countries in Asia, such as China, can offer key lessons on industrial policy directions. A key lesson is that these countries benefited from government intervention in industry and technology. These included efforts to help the firms avoid coordination failures by providing early investments in areas such as training, education and infrastructure.

Whereas the government and private sector have initiated various programmes aimed at creating employment, most of the jobs have been created in the informal sector. It is imperative that all sectors of the economy are stimulated to grow at a higher and sustainable rate so as to ensure creation of quality and productive jobs in the modern economy. Further, measures must be taken to enable formal sector investments to decentralise away from the major urban centres, Nairobi and Mombasa, especially in the context of devolution to the 47 counties.

Ongoing youth-focused interventions decentralized to the counties include YEDF and the Women Enterprise Development Fund. Apart from offering finance a key intervention is training of the beneficiaries. Information on the impacts of these government and non-government initiatives is necessary to inform policy formulation. Education is significantly associated with high-expectation and high growth entrepreneurs who are more highly represented in the manufacturing and service sectors. A society's view of entrepreneurship also seems to matter – implying the important role that can be played by education (Autio, 2007)

### **Labour institutions and aspects of labour policies**

It is generally accepted that sustainable employment creation requires that macroeconomic policies be supported by employment policies. A key area for employment policy is the area of labour institutions (ILO-IMF, 2010). The three broad issues identified by the ILO-IMF report, that are also clearly relevant for Kenya encompass: wage determination mechanisms, productivity growth, and addressing income inequalities.



To a large extent, the operation of minimum wages in Kenya seems to satisfy most of what would be expected of a minimum wage policy. For examples, the adjustments are done periodically and are devoid of large abrupt movements. The wage setting process can be improved by: ensuring compliance to the legally binding minimum wages and providing more information and research to the wage setting bodies.

One of the findings from the study and reviewed literature is that some of the unemployed youth are inactive and are not searching for work (Wambugu et al., forthcoming). Perhaps searching for work for a long time might be discouraged and left the labour force to work as unpaid family workers and low paying informal employment. To address this problem, various policy interventions can be explored:

- a) Improvement in job search infrastructure and labour market information. This can be in form of strengthening public employment services under the Ministry in charge of Labour, the public service commission, private sector employment services and among others. It can also provide incentives to private employment service providers to extend services to underserved areas.
- b) Investing in education and training should be coupled with investment in alternative job search channels, particularly the public and private sector employment services.
- c) Sustainable entrepreneurship and apprenticeship programmes should be designed and implemented.
- d) Increase employment opportunities in both rural and urban economies. In the rural areas, improving the investment climate for rural non-farm enterprises and markets provides an opportunity to expand non-agricultural employment.

The Kenya National Bureau of Statistics in collaboration with the Ministries of Education and Labour should capture information on the incidence of job search and use of job search methods. The information should be collected by region and profession for regular updating of the labour market information systems



## **Education and skills development**

Education attainment seems to be a good predictor of labour market activity at least based on the 2009 census data. As an example, while about 90 % of the employed primary school graduates were engaged in vulnerable jobs relative to 21 % for university graduates. In addition, the ratio of the youth who never attended school was 11 % for all youth while for the inactive and openly unemployed youth this ratio was 18 % and 21 % respectively.

Given the importance of education, investment in human capital presents a key intervention. At the basic level of education, enrolment could be improved by reducing child labour which appears to be a significant problem. The child labour problem is likely to be a manifestation of poverty and suggests that the FPE and the free day secondary education policies should be enhanced by additional interventions. Enhancement of well-targeted social transfer programmes – some already at pilot stages – could ameliorate part of the challenge. Given that out of pocket expenditures related to education such as books, transportation, and school uniforms rose sharply within the last two years to 2011 (based on Consumer Price Index values) there is need to reduce out of pocket expenditures especially for the poor. In other countries, reduction of costs has been achieved by distributing vouchers for school uniforms. Access can be improved further by increasing provision of bursaries in public schools and extending the provision to private schools. School feeding programmes have been successful in enhancing enrolment and retention among Kenya's pastoralists in the arid and semi-arid lands of the country. The expansion of these programmes, and their modulation to include food and micronutrient supplementation, would have the additional benefit of improving the nutritional status and learning capacities of the beneficiaries.

Given that about 20 % of the openly unemployed youth and inactive youths never attended school, training in basic numeracy and literacy through “second chance education programmes”, would be instrumental in tackling the problem related to the quality of labour supply. For the older youths, support can be through building strong public-private-partnerships in offering “adult education” initiatives. In some countries, free tuition is provided to individuals eligible for these second chance education programmes who meet certain criteria. For the younger youths, it



is possible to roll out programmes in partnership with existing public and private sector institutions (such as village polytechnics) that offer subsidized basic numeracy and literacy education in a flexible manner.

Making post primary education more accessible – including secondary and university education and technical training – is an important step for developing employable and skilled labour force. Kenya is also one of the few African countries that has developed private-public partnerships to train the youth in the essential skills required to function in an information-technology intensive economy (Africa Progress Panel (2012). Such partnerships should be seen as important features of a broad social protection system that protects people from joblessness and from self-unemployment due to skill deficits. According to the SAM multiplier effects, education related interventions that target unskilled labour-force both in rural and urban areas will have highest impact. This would greatly contribute towards reducing unemployment among the educated graduates from higher learning institutions and technical education graduates.

### **Social protection**

Employment creation and unemployment interventions should be coupled with targeted social protection initiatives for the poor and vulnerable groups. Already, Kenya has launched various initiatives in these respects, which however, focused on orphans and vulnerable children, and the elderly. The value of that to the youth is that it reduces the dependence burden in a country where extended family responsibilities are considerable, which undermine the capacities of the working youth for sustainable business planning. However, the precarious context of the business environment is such that some protection should also be afforded to the youth: in agriculture, for example, irregular rains can reduce considerable investment effort to nothing, with little scope for recovery. The enhancement of social medical insurance can also release the youth from the need to cover catastrophic medical bills. However, social protection also needs to be extended to the business environment, such as through the development of affordable insurance packages for informal activities.



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