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# Discussion Paper

## Kenya's Youth Employment Challenge

January 2013

United Nations Development Programme

POVERTY REDUCTION







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# Kenya's Youth Employment Challenge

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**Cover Image**

UN Photo/Milton Grant. Harvesting leaves, two tea-pickers make their way through a field of tea, Limuru, Kenya.

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# List of Acronyms and Abbreviations

GDP	Gross Domestic Product
KACE	Kenya Advanced Certificate of Education
KCSE	Kenya Certificate of Secondary Education
KES	Kenya Economic Survey
KSh	Kenyan Shillings
KIHBS	Kenya Integrated Household Budget Survey
KKV	Kazi Kwa Vijana
KNFJKA	Kenya National Federation of Jua Kali Associations
KYEP	Kenya Youth Empowerment Project
MOYAS	Ministry of Youth Affairs and Sports
MTP	Medium-Term Plan
NGO	Non-governmental Organization
NYS	National Youth Service
SACCOS	Savings and Credit Cooperative Societies
TSC	Teachers Service Commission
UNDP	United Nations Development Programme
YEDF	Youth Enterprise Development Fund

## Foreword

After decades of economic lull, Kenya manifested strong recovery in the period of the Economic Recovery Strategy (ERS) between 2003 and 2007. During the implementation of the first Medium Term Plan (MTP 2008–2012), the operational plan to achieve Vision 2030, economic growth plummeted in 2008, but Kenya's economy rebounded to growth rates of around 5 percent per year. Today, Kenya belongs to the group of countries that has exhibited fast growth since the onset of the global financial and economic crisis, contributing to Africa's rapid Gross Domestic Product (GDP) growth, despite the world's grim economic outlook.

Although the country's population is growing by about 1 million persons each year, its population growth rate has decreased over time: it has dropped from 3.8 percent in 1979 to 3.3 percent in 1989 to 2.9 percent in 2009. The high population growth rate of the past results in today's youth bulge. Young people (aged between 18 and 34 years old) constitute more than a third of the entire population, while nearly 80 percent of Kenyans are less than 35 years old. This represents great economic and social opportunities, but also enormous challenges.

The rapid economic growth has benefited parts of the population but left out others, as the fast demographic shifts have not been fully taken into account. Moreover, the economic rise has not been matched by the creation of decent jobs for all. At the forefront of challenges lies the high unemployment rate among young people, which is estimated to be double the national level of unemployment of 12.7 percent. Those young people who have a job are often engaged in low-paying work. Hence, most of the unemployed people disproportionately stem from the youth segment of the population and belong to the bottom 40 percent of the income distribution.

The government has already undertaken substantial efforts to address youth unemployment and foster the creation of decent jobs. In addition to implementing the long-term development strategy Vision 2030 along with its operational plan, the MTP, it initiated the Youth Enterprise Fund to improve youth entrepreneurial skills and employment and made important improvements to the education system, such as offering free universal primary education. Several challenges remain though. Economic and social policies need to be more efficient and take advantage of the opportunities a large youth population offers while adequately tackling its challenges. To decrease the high youth unemployment rate, it is crucial to understand the specific dimensions that lie behind it. Limited labour data make it difficult to assess whether (un)employment rates have changed favourably in Kenya so far. Nevertheless, it can be assumed that the country will greatly benefit from reducing the unemployment rate to a mid single-digit figure by creating more decent jobs and making growth more inclusive.

This study is important as well as timely, as it fosters a better understanding of the nature and patterns of employment in Kenya in general, and the engagement of different youth cohorts in the labour market in particular. It provides an innovative perspective on youth employment in formal and informal activities and their links with gender, age, educational attainment, geographical distribution, household income and type of employer or job.

The study builds on previous UNDP reports at the interface of employment and youth in general, and the *Kenya National Human Development Report 2009* in particular. It is not prescriptive in its recommendations, yet it provides insights into the dynamics and trends of Kenya's labour market by exploring interesting scenarios on employment creation given different GDP growth rates. Key observations highlight the importance of (higher) education for both males and females for them to obtain formal employment and increased income, which supports the government's emphasis on learning. Kenya needs an inclusive framework for sustainable development, and a well-educated and guided youth population will be instrumental to the country's emergence as a middle-income country.

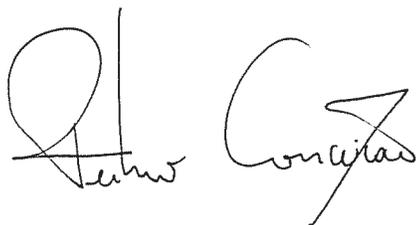
The study provides insights for policy makers in the Kenyan government, its partners and other relevant actors who are interested in understanding the nature of unemployment in Kenya and in creating sustainable employment opportunities, particularly for young people. As Kenya is in the process of formulating its second Medium Term Plan (MTP 2013–2017), the study will be of special

## Foreword

relevance for policy makers and youth activists that mainstream youth employment in the MTP II. It will also be useful to academic institutions and youth groups who share an interest in learning more about the dynamics and patterns of Kenya's unemployment challenge and shaping the labour world of tomorrow.



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## 1. Introduction

Kenya faces a significant unemployment problem that affects young people especially hard. Youth unemployment rates are several times higher than the rates among adults and particularly high in cities and among females. As young people grow up, they stop depending on other people's income and become independent. During their transition from childhood to adulthood, access to good jobs of acceptable quality is essential for youth to acquire independence from their parents, brighten their prospects in the job market and enhance their prospects of forming a family.

Because growing up is a transition period that implies complex changes and choices, it does not come as a surprise that there is no universal definition of the term 'youth'. Rather, the various definitions depend heavily on the context and purpose in which they are used. The United Nations, for example, defines youth as individuals between 15 and 24 years of age, signalling maturity and the nurturing and building of skills and knowledge in readiness for integration into the economic, social and political spheres of life. The World Bank, on the other hand, focuses on the age range of 12–24 as the time when important foundations are laid for learning and building skills. In Kenya, policy definitions include several age groups within the 15–35 years age range.

Various Kenyan laws define rights and responsibilities in accordance with the age of a person. The National Youth Council Act of 2009 and the National Constitution of Kenya 2010 define youth as people aged between 18 and 34 years. The Age of Majority Act (Cap 33) states that "a person shall be of full age and cease to be under any disability by reason of age after attaining the age of 18 years." The Employment Act (2007) that outlines the laws governing employment and protection of employees specifies that no person shall employ a child below 13 years whether gainfully or otherwise, while those between the ages of 13 and 16 may only be employed in non-labour intensive functions.

During the last four decades, and in recognition of Kenya's unemployment and underemployment difficulties, successive government administrations have assumed and prioritized employment creation as a core policy (Republic of Kenya, 1969; 1983; 2008b; 2008c). In more recent times, policies aiming at employment creation have also focused on the youth. Important initiatives in this regard are *The Sector Plan for Labour, Youth and Human Resource Development Sector (2008–2012)* and the *Kazi Kwa Vijana (KKV)* programme. Launched in April 2009, the KKV aims at annually employing between 200,000 and 300,000 young people in rural and urban areas in labour-intensive public works projects that are implemented by different government ministries (Office of the Prime Minister, 2011).

The focus of this study is to dig in the Kenya Integrated Household Budget Survey (KIHBS) 2005/2006 in search of evidence to delineate the main characteristics of Kenya's youth employment challenge and inform the relevant employment policies. The study adopts a working definition of youth as those aged from 15 to 34 years. Also, an attempt is made to be as detailed as possible in examining different youth age subgroups.

The study builds on at least two important United Nations Development Programme (UNDP) reports: the *Employment-Based Economic Strategy for Kenya 2007* and the *Youth Report 2010*. Analysed evidence refers to data gathered by the KIHBS 2005/2006, complemented with UN Population Statistics of 2011.

The study is organized as follows: the first section looks at historical trends of population, employment and economic growth. The second section considers the main dimensions of unemployment and the conditioning factors influencing labour market participation. The third section discusses youth employment and unemployment in the context of young people's choice of activity by gender, education, income and type of area of residence. In the fourth section, youth labour earnings are examined, concentrating the attention on people reporting wage income. The fifth section discusses household enterprises, focusing on those headed by young people. The sixth section looks at unemployment and activity choice by province. The seventh section offers a brief review of Kenya's employment and youth employment policies, touching on some international experiences of youth employment programmes. The eighth section offers final remarks, highlighting policy implications from the review of statistical evidence.

## 2. The Long Term Perspective

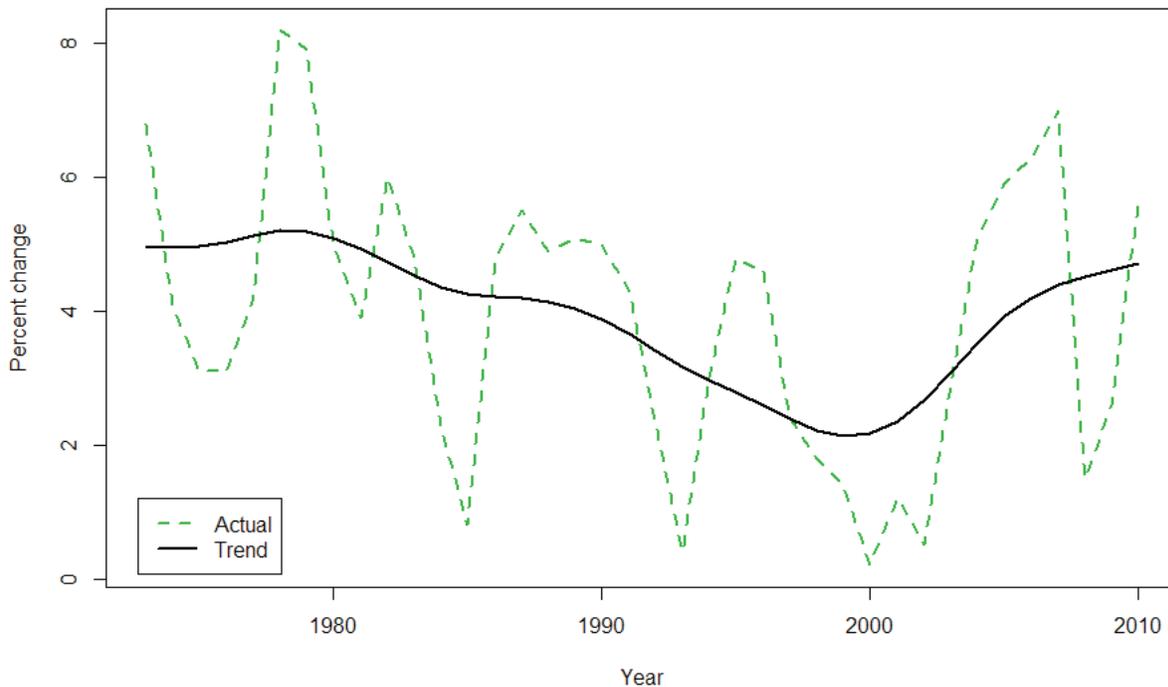
This section seeks to provide a historical context for the analysis of today's Kenyan youth employment challenge. We first look briefly at the historical record of economic growth. Then we look at the demographic trends in Kenya since 1950 and population projections to 2100. We then discuss trends in gross domestic product (GDP) and its links with formal and informal employment. Finally, we present a simple exercise linking demographic projections with various hypothetical scenarios of GDP growth and employment creation to draw a picture of the formal/informal employment mix up to 2030.

### 2.1 Long-term economic and population trends

Kenya's economic performance over the last 40 years shows two broad patterns: a long period of declining growth that ended in the early 2000s and then a period of rising growth rates (Figure 2.1). A constant over these years is significant growth volatility. Between 1980 and 2002, yearly growth rates ranged between 0 and 8 percent, while the recent period experienced rates between 1.5 percent and 7.0 percent. The volatility of the last two years is due to several factors: the global crisis, high fuel prices, 2007 and 2009 drought and the effects of Kenya's post-election violence in 2008. The growth perspective for Kenya looks promising, as economic growth recovered quickly from the last two shocks. However, any expectation that the country might reach the double-digit rates experienced by China and India or the 10 percent economic growth projected for attaining Vision 2030 would be optimistic, for it will mean a significant improvement over the historical record and will run counter to the current slowdown in emerging economies.

Kenya has confronted strong demographic pressures (Njonjo, 2010; Republic of Kenya 2011a). According to UN estimates, the rate of population growth in Kenya peaked in the 1970s at a rate close to 5 percent. Since then, rates have been declining, but currently

**Figure 2.1: Economic growth — annual percent change in GDP 1972–2010**



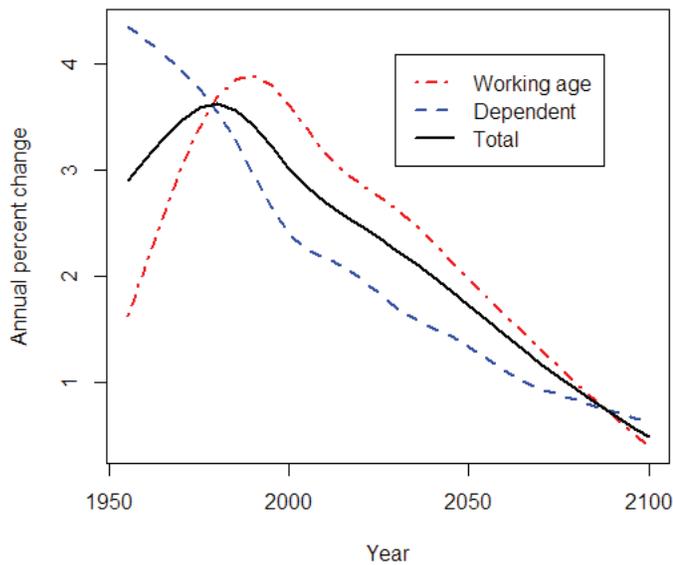
**Source:** author's construction from data in KES, Kenya National Bureau of Statistics (KNBS).

## The Long Term Perspective

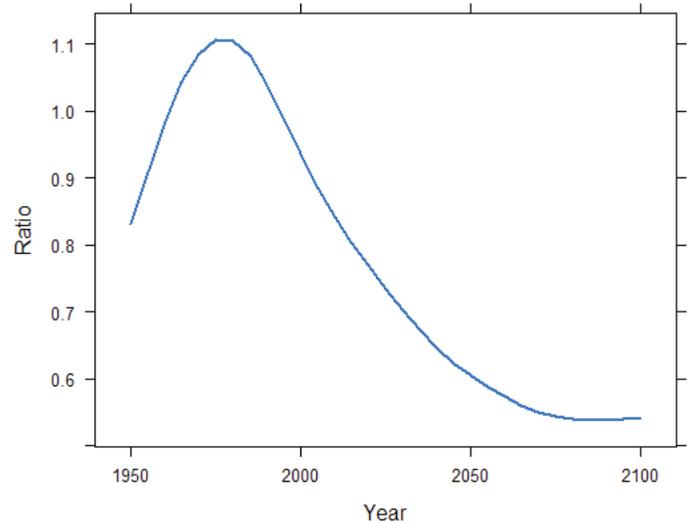
Kenya's population growth is still close to 3 percent. According to estimates (Figure 2.2), it will not be until the 2050s and 2070s that rates will be below 2 percent and 1 percent, respectively. Such rapid population growth has meant that the balance between those of working age and those that cannot or should not work for age reasons is not the most favourable. The dependency ratio reached a peak in the 1990s, and, although it has decreased since then, it registered the rather high mark of 0.8 in 2010.<sup>1</sup> It will only be towards the end of this century that the dependency ratio should be expected to reach its lowest point.

**Figure 2.2: Working age and dependent population change and dependency ratio 1950–2100 (percent)**

(a) Population change: 1955–2100



(b) Dependency ratio: 1950–2100



**Source:** author's construction based on UN Population estimates.

**Note:** Unless otherwise indicated, all figures in this section will be presented in smoothed form.<sup>2</sup>

Strong population dynamics imply a fast-growing youth population. After a steep rise, the growth rate of the youth population, i.e. those aged 15 to 34 years, peaked at about 4 percent per year between 1985 and 1990 (Figure 2.3). Since then, it has slowed down significantly, so that in 2010 the youth growth rate was lower than the growth rate of the adult population of working age—those aged 35 to 64 years. Accordingly, the proportion of young people within the working-age population stopped growing around 2000 and has been declining since then (Figure 2.4).

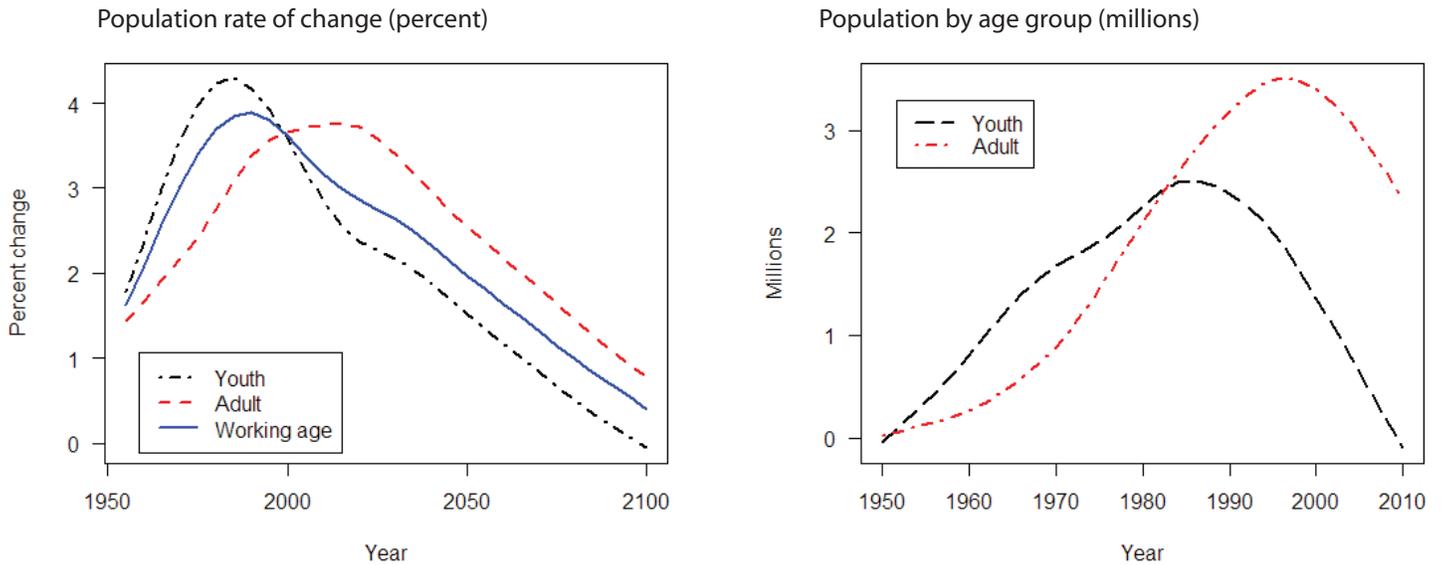
This does not mean, of course, that young people have ceased to exert strong pressures on labour markets. The number of people in the age cohort of 15 to 64 years will continue to grow until about 2040 (Figure 2.5).<sup>3</sup>

1 The dependency ratio is the result of dividing the non-working aged population over the working population (15–64 years of age).

2 Throughout this work, various data are presented in smoothed form to enable adequate interpretations. Please note that the entire Appendix to this study can be found online under the following link: [www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Appendix\\_Kenya.pdf](http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Appendix_Kenya.pdf).

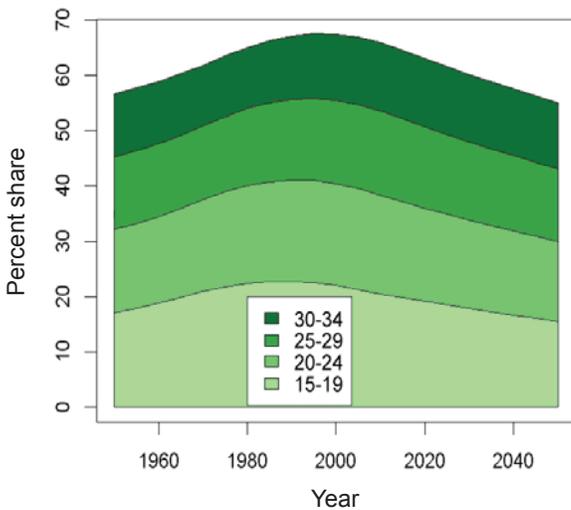
3 This is of course the path from a society where children and the very young first dominate the demographic structure, followed by one where the youth dominate and finally one in which older people are the predominate group. By age group, the proportion of young people ages 15–19 years started to decline around 1990, while that of young people ages 30–34 years will start to decline until past 2020.

**Figure 2.3: Annual change in 'youth' and 'adult' working-age population, 1955–2100**



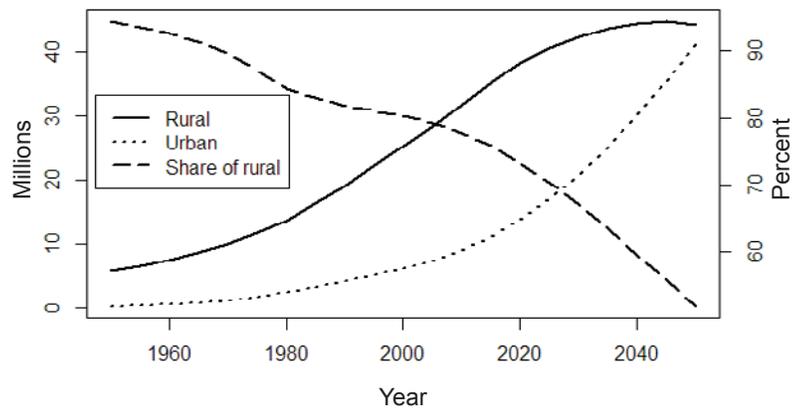
**Source:** author's construction based on UN Population estimates.

**Figure 2.4: Youth's share in total working-age population (percent)**



**Source:** author's construction based on UN population estimates.

**Figure 2.5: Population trends in rural and urban areas (millions of people and percent)**



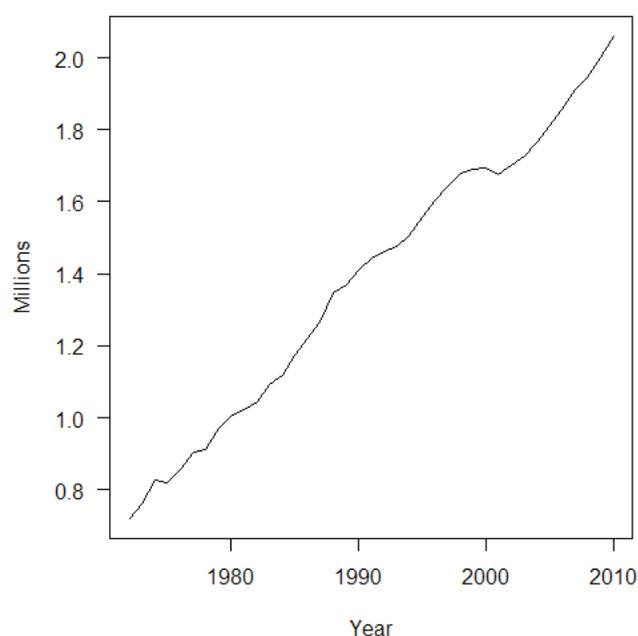
**Source:** author's construction based on UN population estimates.

Over this period the geographical location of the population has also changed. While the number of people in both rural and urban areas has grown continuously since the first year covered by the data, the share of the rural population has declined from above 90 percent in 1950 to around 70 percent in 2010, and is expected to continue falling to about 50 percent in 2050.

## 2.2 The long-term performance of employment

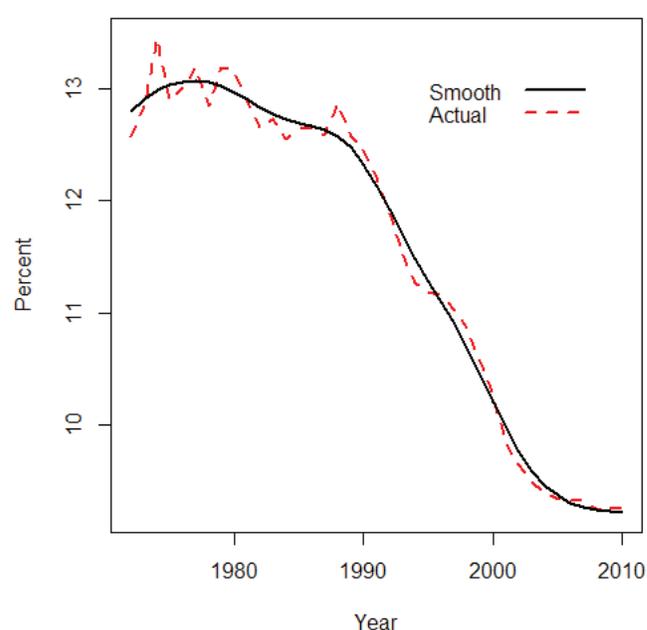
The employment landscape of the last 40 years has been marked by three processes: the almost continuous increase in the number of formal jobs; the persistence of large numbers of people working in traditional agricultural/farming activities; and the emergence of informal activities, mainly in urban areas. Historical data from official sources suggest that the number of people in formal jobs has increased almost continuously since the early 1970s (Figure 2.6). However, despite the continuous growth in mainly urban formal job creation, it has not kept up with the increasing number of Kenyans of working age. Thus, the proportion of workers with a formal job decreased from about 13 percent in the early 1970s to 9 percent in 2010 (Figure 2.7). As such, informal activities have filled the gap in urban labour markets, while the rapidly growing number of people living in rural areas has mainly continued to work in traditional activities.

**Figure 2.6: Trends in formal jobs (millions of people)**



Source: KES, various issues.

**Figure 2.7: Formal jobs (percent share of working-age population)**

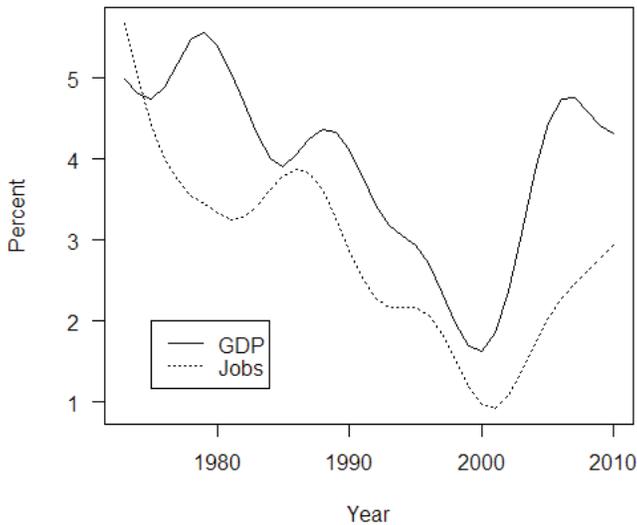


Source: KES, various issues.

Formal job creation has been closely linked to the pace of growth of the economy. The capacity to create formal jobs has fluctuated over time; declining growth rates have also implied decreasing rates of formal job creation (Figure 2.8). This can be seen by looking at the ratio of the percentage change in employment over the percentage change in GDP (Figure 2.9).<sup>4</sup> Three main periods can be distinguished: an initial period in which the ratio of employment creation to change in GDP fluctuated widely, trending downwards; a second period in which the ratio tends to increase and fluctuations are usually moderate; and a third period where the ratio tends to decrease rapidly. Falling ratios of job creation to economic growth are not necessarily a negative outcome, as they might be a sign of rising labour productivity. In the context of job shortages, however, falling ratios suggest that the growth rate ought to be higher and that close attention must be paid to employment creation policies.

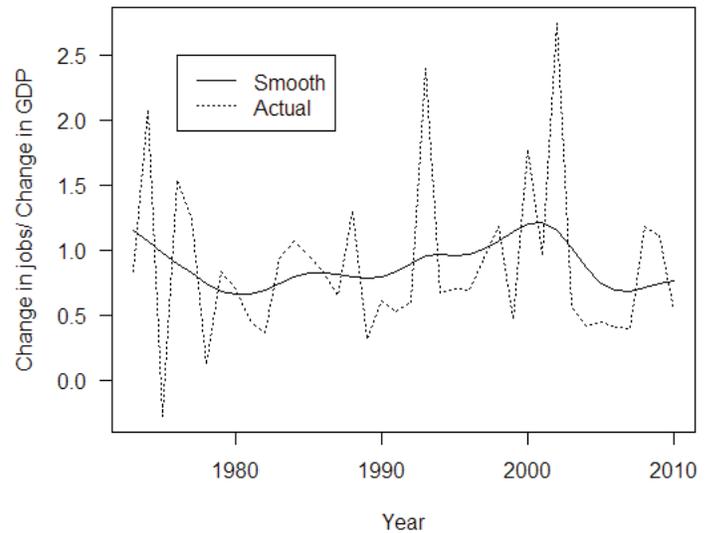
<sup>4</sup> This ratio is known as the employment elasticity of growth; it is a summary indicator that captures the end result of changes in labour markets, technology, the capital intensity of investment and production and in the sector composition of the economy, among others.

**Figure 2.8: Change in GDP and formal jobs, 1972–2010 (percent)**



*Source: KES, and various issues.*

**Figure 2.9: Ratio of percent job change/percent GDP growth, 1972–2010**



*Source: authors' calculations based on KES, and various issues.*

Readily available data do not allow us to infer anything about how a significantly large proportion of the working-age population that is not engaged in formal employment has fared over the last 40 years. Nonetheless, it should be expected that the proportion of the population working in traditional agricultural/farming activities has been declining and that the proportion of people in informal jobs, mostly in urban areas, has been rising.

## 2.3 The link between employment and growth in the near future

Economic growth is a key factor for increasing formal employment. However, as previously noted, employment creation due to growth can vary widely. Between 2002 and 2007, for each percentage point of GDP growth, formal employment increased by a bit more than 0.4 percentage points; compared to this, employment increased by more than 1.0 percentage points between 2007 and 2010. Despite this, however, it is difficult to argue that the capacity of the Kenyan economy to create jobs has increased in the same proportion. When the economy contracted in 2007 and 2008, businesses did not reduce the number of their workers in a proportionate manner to the fall in economic activity, perhaps perceiving that the crisis was temporary. That response pushed the measured employment elasticity of GDP up. However, the increase in employment elasticity of growth does not necessarily imply that the capacity of the economy to create jobs increased; it mainly shows that the number of workers was not reduced at the same rate at which the economy was contracting. For that reason, it can be said that as the Kenyan economy reaches higher growth rates, the rate of increase in the number of formal jobs will still not be enough to radically change the formal/informal employment landscape.

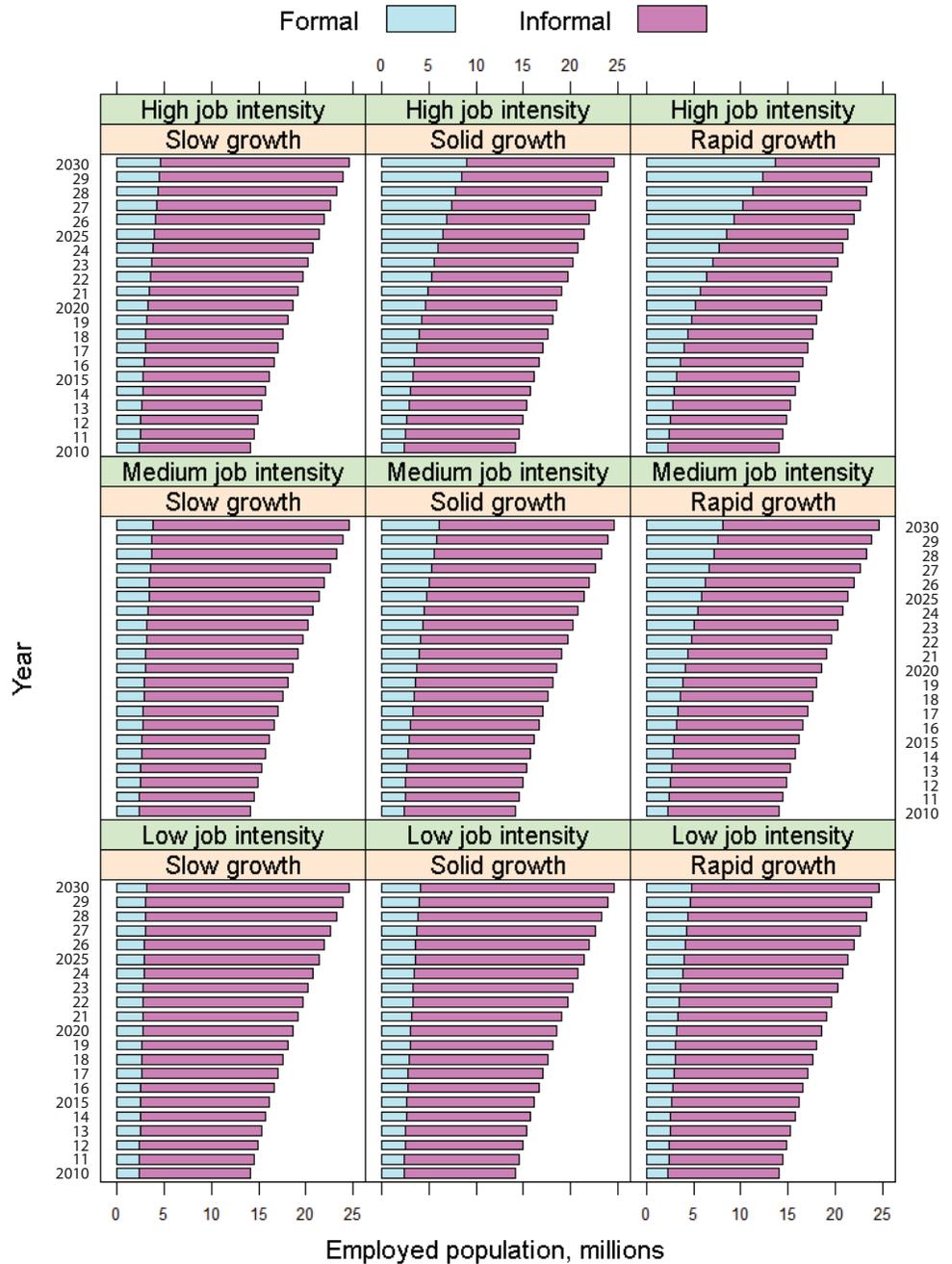
## 2.4 Assessing the employment challenge

When considering the challenges imposed by the lack of employment creation, there are two important variables that should be taken into account: the number of jobs created and the quality of those jobs. A first approximation of the quality of jobs might distinguish between formal, informal and traditional—agricultural/farming—jobs. A formal job might have a larger probability of providing full-time, year-round employment and better earnings than an informal or traditional job. In some instances, a formal

job might also provide employment benefits such as health care and paid holidays, which is not the case with informal jobs. Thus, one first broad employment objective is to increase the number and share of formal jobs in the economy.

How much formal employment will the Kenyan economy create? What impact will this have on the employment landscape in terms of the mix of formal and informal occupations (including traditional) over the next 20 years? To get a sense of what might be expected, recent trends in GDP growth and formal employment were analysed. In estimating growth in formal and informal employment to 2030, three rates of GDP growth and three values for employment elasticity in the formal sector were considered. The lowest and highest (3.5 percent and 7.0 percent) observed GDP growth rates registered since 2003—excluding the 1.6 percent growth rate of 2008—were assumed, along with a 10 percent growth rate (which might represent the highest rate that developing economies can achieve and sustain over several years). Three employment elasticity figures were also chosen: 0.4, 0.7 and 1.0, which correspond, respectively, to Kenya’s lowest employment elasticity registered over the last 10 years, the mean elasticity of the last five years, and the hypothetical situation in which each percentage point of GDP growth increases formal employment by one full percentage point.<sup>5</sup>

**Figure 2.10: Projected formal and informal/traditional employment, 2010–2030**



**Source:** author's construction based on population trends (plotted data corresponds to predicted values under the assumptions explained in the text).

**Note:** the labels for growth (i.e. slow, strong, and rapid) correspond to annual GDP growth rates of 4, 7, and 10 percent, respectively; labels for employment elasticity (i.e. low, mid, and high) correspond to ratios of 0.4, 0.7, and 1.0, respectively.

5 To place these in the context of Kenya’s demographic changes, we assume that the working-age population will grow as estimated by the UN and that the employment rate will continue to be 73 percent. The difference between formal and total employment will be, of course, informal employment.

## The Long Term Perspective

Using these parameters, nine estimates of yearly formal employment growth were produced. Total employment was then derived using UN estimates of the working-age population from 2010 to 2030, considering a constant participation rate of 63 percent and also a constant unemployment rate of 12 percent, which correspond to the estimates of the 2005/06 KIHBS. Thus, the calculations assume that total employment growth rates will follow the growth path of the working-age population. The difference between total employment derived from population estimates and formal employment derived from assumed GDP growth and employment elasticity represents informal employment and employment in traditional occupations.

The exercise predicts employment increases from around 15 million to 25 million jobs between 2010 and 2030. The worst scenario in this extrapolation exercise results in an employment mix of about 10 percent formal and 90 percent informal employment by 2030 (Figure 2.10, bottom left). In this scenario, informality gains terrain: it starts at 86 percent in 2010 and rises to 89 percent by 2030. An intermediate scenario, assuming a GDP growth rate of 7 percent and formal employment elasticity of 0.7, shows an increase in the share of formal employment from 14 percent in 2010 to 22 percent in 2030, which is a modest but not bad increase (Figure 2.10, centre). The brightest, but unrealistic, scenario of rapid GDP growth and high employment creation assumes a vigorous creation of formal jobs such that, by 2030, the employment mix is split in half between formal and informal/traditional jobs (Figure 2.10, top right).<sup>6</sup>

### 2.5 Concluding Remarks

The review of Kenya's population dynamics provides a context that helps the understanding of today's youth employment challenges. While population growth has been receding and pressures on the working age population have been declining, the population as whole is still growing at a fast pace and the number of people ages 15–34 years has been and is still growing faster than the adult working age population. Kenya's population dynamics underscores the importance of further reducing fertility rates and recur to measures such as family planning as suggested by Kenya's Human Development Report 2010. The quick review of population trends of this section also suggests that youth pressures on labour markets has begun to lessen, as the growth rate of this population cohort is now smaller than the adult working-age cohort. This trend might make it easier for youth employment programmes to accomplish the goal of reducing youth stress in labour markets.

Population trends and long-term economic under-performance resulted in a large informal sector, strong pressures on urban labour markets. But population pressures have begun to lessen and economic performance has improved over the recent years. This section presented the results of a simple exercise to illustrate how much the employment picture could change under alternative growth and employment creation scenarios given the UN population projections for Kenya. The exercise suggests that even under reasonably optimistic expectations, regarding growth and employment creation, the mix of jobs will not dramatically shift towards formal jobs by year 2030. Only if unrealistic assumptions about growth and employment creation are made, the employment picture will be one in which half of the jobs are formal and half are informal.

The above confirms that Kenya needs to intensify its employment promotion efforts with a focus on formal jobs but it cannot overlook the strategic importance of promoting informal activities. Since the youth population will continue to grow fast, employment promotion policies should attend the factors that can improve the prospects of the youth in securing a job.

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<sup>6</sup> This is an unrealistic scenario. It is difficult to see how an economy can sustain a 10 percent growth rate over several years while labour productivity stagnates.

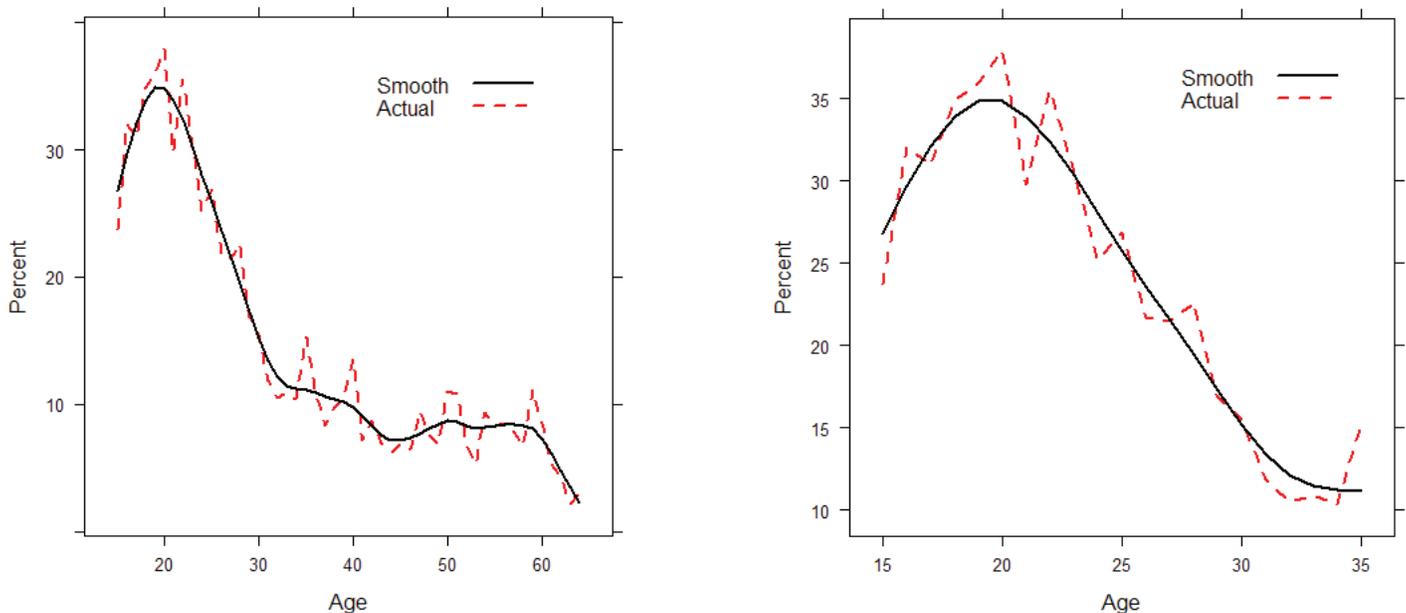
## 3. The Youth Employment-Unemployment Challenge

This section begins our discussion of youth unemployment. While there are differences in unemployment and youth unemployment rates based on, for example, area of residence and gender, this section will look at unemployment figures for Kenya as a whole, leaving the discussion of the main unemployment threads to the next section. This and the next section discuss unemployment in the context of the array of choices young people face.

### 3.1 The unemployment challenge

Youth, as understood by the Kenyan policy milieu, comprises a large group of people that represents two thirds of the population of working age, and many of them face the hardships of unemployment. While the national unemployment rate is about 10 percent, which is high for a country with large informal and traditional sectors, youth unemployment rates are usually much higher (Figure 3.1). The highest unemployment rates are for people around 20 years old, at 35 percent. Young people joining the labour market early—say, between 15 and 16 years of age—start with high unemployment rates of above 20 percent, but rates are even higher for older age groups and are highest for young people aged 18 to 20 years. After that age, unemployment rates decrease rapidly. Young people aged around 25 and 30 years old show an unemployment rate of 25 percent and 15 percent, respectively, and as young people approach adulthood, rates get closer to 10 percent. According to this, not only is Kenya’s employment challenge a youth issue, it is a more pronounced issue among those younger than 25 years of age.

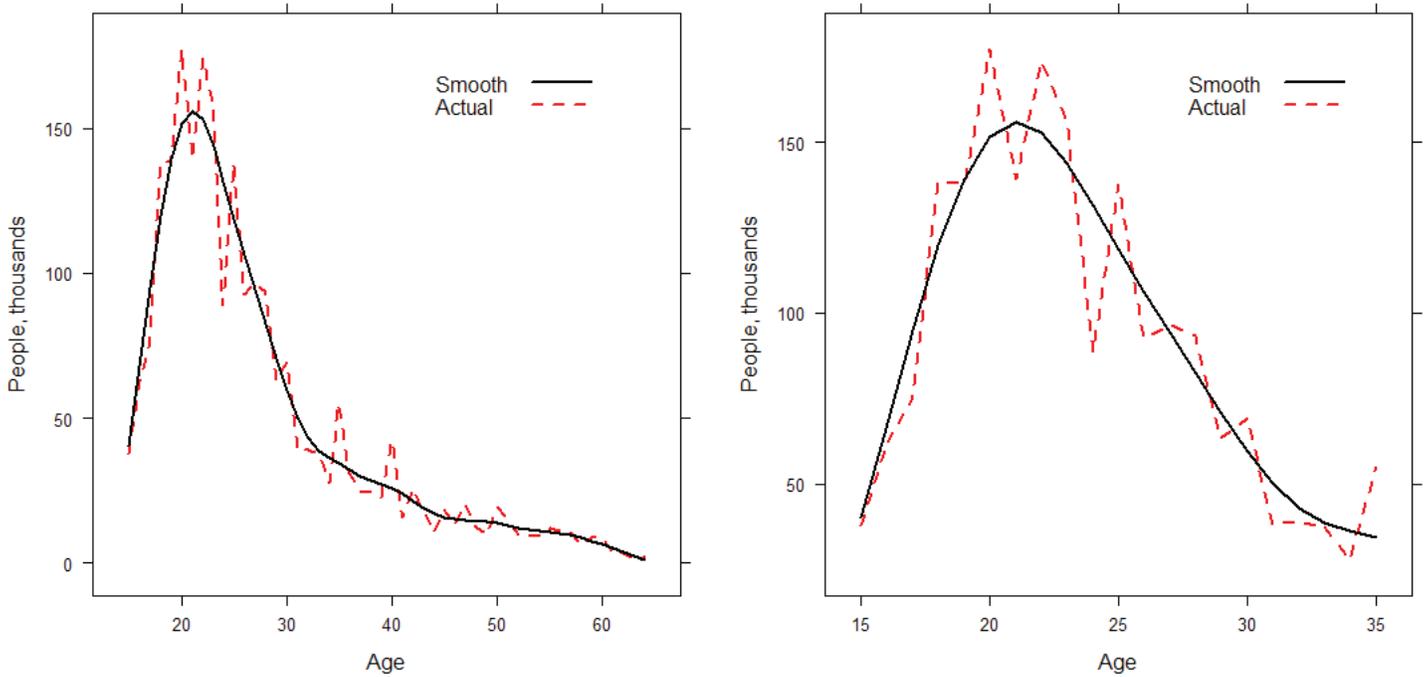
**Figure 3.1: Youth and adult unemployment rates (percent)**



**Source:** authors’ calculations based on KIHBS 2005/06 micro records.

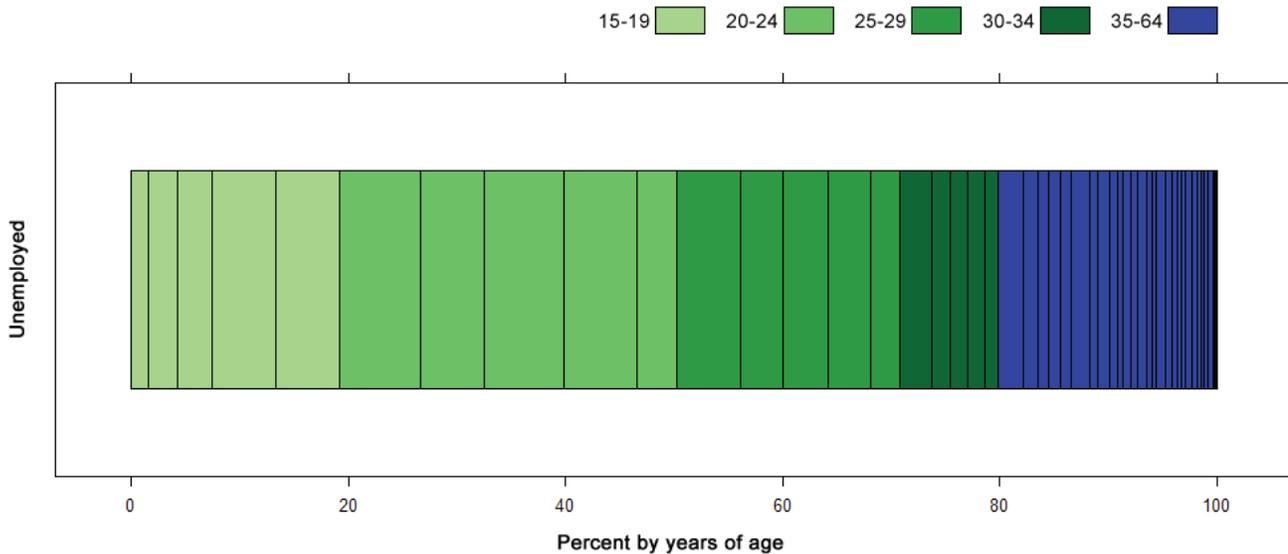
The largest number of unemployed youth are between 18 and 25 years; there are more than 125,000 unemployed people in each one-year age cohort (Figure 3.2). Only the youngest and oldest of the youth have less than 50,000 unemployed in each one-year age cohort. Again, this number is higher than that of any age in adulthood.

**Figure 3.2: Number of unemployed by age**



*Source: authors' calculations based on KIHBS 2005/06 micro records.*

**Figure 3.3: The distribution of the unemployed by age**



*Source: authors' calculations based on KIHBS 2005/06 micro records.*

In proportional terms, 80 percent of Kenya's 2.3 million unemployed are young people between 15 and 34 years of age (Figure 3.3). About 19 percent of the young unemployed are between 15 and 19 years of age; 30 percent are aged between 20 and 24 years; 21 percent are aged between 25 and 29; and 9 percent are aged between 30 and 34 years. Working-age adults, aged between 35

# The Youth Employment-Unemployment Challenge

and 64 years, represent 20 percent of all unemployed people. The largest proportion of unemployed people occurs, thus, among youth aged between 20 and 24 years.

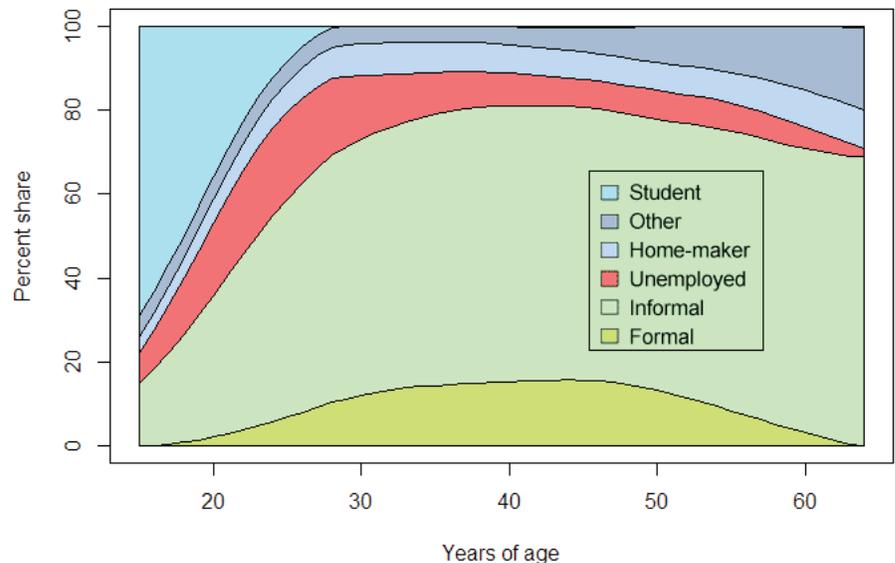
## 3.2 The dynamics of school, labour markets, and home

The unemployment rate is a widely used and very useful indicator linking the number of unemployed people to the economically active population—i.e. unemployed people within the pool of those employed and unemployed. By definition, it does not consider the economically inactive population. For this reason, while being an adequate measure for the population as a whole, the unemployment rate has some shortcomings when applied to youth. Mainly, by excluding the economically inactive population, it blurs the importance of the transition from school to work or from school to home-making for understanding the youth employment challenge. The decision to move between the economically active and inactive population is particularly important for young people, as it might imply choosing between full-time studies and joining the labour market. It is, thus, useful to look at the whole range of activities available for youth, to search for insights that may be useful in guiding employment policies. The following approximation of Kenya's youth employment challenge considers the entire range of youth activities.

The KIHBS 2005/06 provides good information about the population's main activities. For our purposes, we consider a handful of activities that people perform as their main occupation: work in what we call a formal job; work in the informal sector; searching for a job (the unemployed); home-maker; full-time student; and other economically inactive chores. For this study, we loosely use the terms formal and informal employment and make no attempt to attach any elaborate conceptual framework of formal or informal jobs. We refer to formal workers as people working as paid employees in private companies, the public sector or non-governmental or international organizations.<sup>7</sup> Informal employment refers to working employers, own-account workers, unpaid family members, apprentices, and paid employees working for an individual or an undefined (other) employer.<sup>8</sup>

**Figure 3.4: Distribution of the working-age population across activities (percent)**

*Source: authors' calculations based on KIHBS 2005/06 micro records.*



**Note:** In all remaining figures showing patterns by single years of age and unless otherwise indicated, data will be plotted using a spline local regressor to smooth the line patterns. Accordingly, plots can be read as predicted means or frequencies. See online support materials at [www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Appendix\\_Kenya.pdf](http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Appendix_Kenya.pdf).

<sup>7</sup> Public-sector employment includes workers in the central and local government, in the Teachers Service Commission (TSC) and in state-owned and government-controlled enterprises.

<sup>8</sup> Arguably, some groups of workers might be better placed in other categories. For example, we place working owners of a registered business and self-employed professionals in the informal category even though these workers might be better classified as formal. Knowingly, thus, we decided to include them in the informal category to simplify estimates and stay closer to the official working definitions that give priority to the type of work than to conformity with this or that literature on the concept of informality.

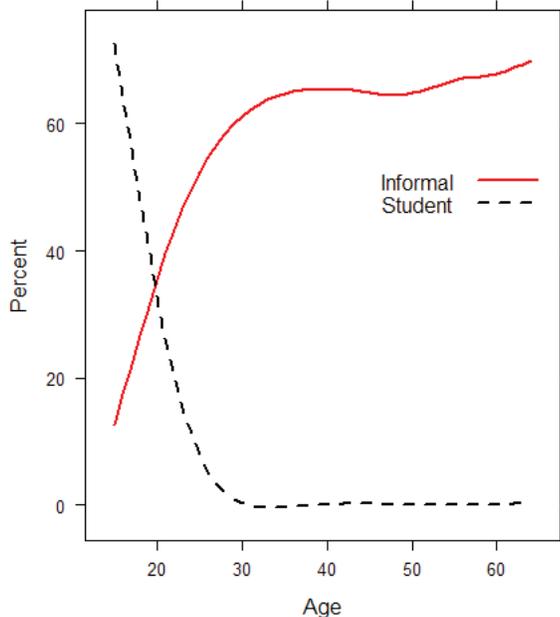
## The Youth Employment-Unemployment Challenge

At the age of 15 years, practically no one works in a formal job, 15 percent work in informal/traditional activities, about 7 percent are unemployed, 10 percent are home-makers or are inactive, and the majority attend school on a full-time basis (70 percent). By the age of 20, the proportion of those in school drops to about 35 percent, and at 25 years to 7 percent. During the first five years of working age, the majority of youth attend school, and the largest number of those who do not attend school either work (in informal/traditional activities) or are searching for jobs. Other than school, non-economically active tasks are not very important: few youth dedicate themselves to making a home, while others keep busy in miscellaneous activities or simply do nothing. As age increases, the proportion of young people at school decreases, while the proportion of those in labour markets continues to increase. The proportion of young people engaged in home-making or other activities also increases to reach a maximum of about 12 percent at the age of 26 years.

As young people grow older, two trends stand out in their choices: a steep reduction in full-time studies and the rise of work in the informal labour market. These trends are remarkable for two reasons. First, the proportion represented by each of these two activities is large. Second, trends start promptly in the young people's lives, and, as school attendance drops for those aged between 15 and 20 years, strong pressures are put on the labour market, with many youth joining the informal labour market (Figure 3.5).<sup>9</sup>

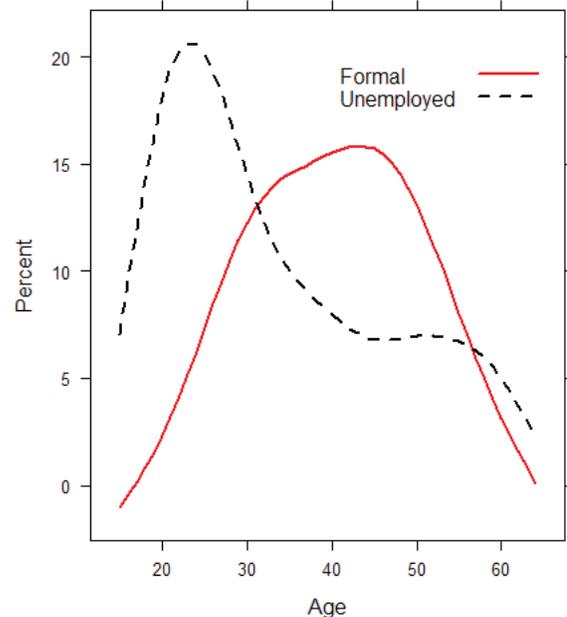
The transition from school to a job is not automatic; people struggle to get a job. Despite the rising number of young people finding informal jobs, the proportion of young people searching for a job also rises rapidly. The proportion of unemployed people rises steadily from 3 percent to 23 percent between 15 and 20 years of age (Figure 3.6). After that, the proportion of unemployed people decreases continuously to about 10 percent at the age of 35 (and further later in adulthood). Formal employment is not an option

**Figure 3.5: Informal work and full-time student**



**Source:** authors' calculations based on KIHBS 2005/06 micro records.

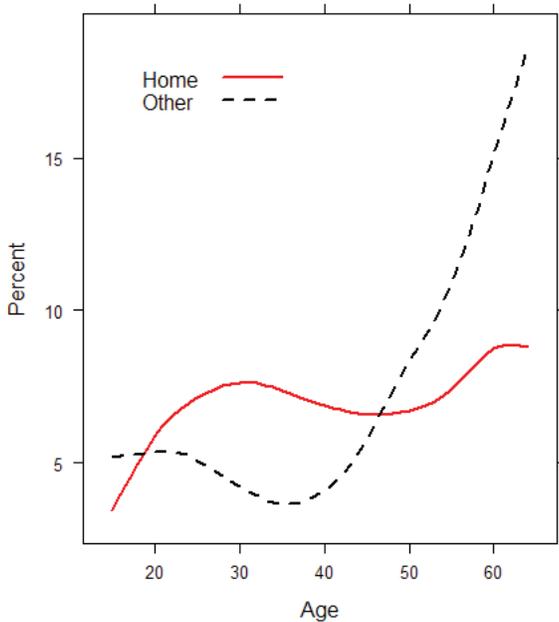
**Figure 3.6: Formal work and unemployment**



**Source:** authors' calculations based on KIHBS 2005/06 micro records.

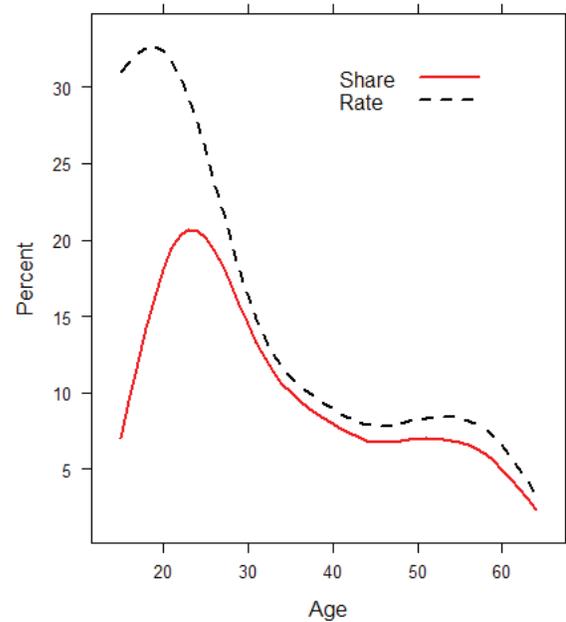
<sup>9</sup> To a certain degree, the two trends mirror each other. The share of full-time students drops from 70 percent to 10 percent between the ages of 15 and 23 years, while the share of young people working in informal activities rises from 12 percent to 58 percent at the age of 23. Later on, the drop in the share of full-time students bottoms out at around 30 years of age, while the proportion of people in informal activities continues rising until about the age of 35, when it peaks at 70 percent.

**Figure 3.7: Home-makers and other (inactive)**



**Source:** authors' calculations based on KIHBS 2005/06 micro records.

**Figure 3.8: The share and rate of unemployment**



**Source:** authors' calculations based on KIHBS 2005/06 micro records.

for the youngest of the young. The proportion of young people in formal jobs begins to become visible around the age of 25. From that point onwards, it rises rapidly to about 15 percent at 34 years. The highest proportion of people in formal employment are those aged between 43 and 45 years.

Not all young people who drop out of school join the labour force. Many become home-makers, and others dedicate themselves to miscellaneous tasks. Two trends stand out: first, the proportion of teenagers fully engaged in home-making activities increases rapidly from practically 0 at 15 years of age to 7 percent in the early 20s; after this, the proportion dedicated to home-making activities stabilizes. Second, the proportion of young people devoted to 'other' economically inactive activities is consistently low, finally rising for those over 40 years of age (Figure 3.7).

The rates of unemployment and the share of unemployed youth in the total youth population show a rapidly rising trend for the very young and a rapid decline when they reach 28 years of age (Figure 3.8). The unemployment rate and the share of unemployed youth reach a peak between the ages of 19 and 23. This suggests that the age range of 18 to 25 years represents a critical phase: it is during these years that unemployment is highest.<sup>10</sup>

### 3.3 Population trends and youth unemployment

As the Kenyan economy and society evolve, youth employment and unemployment will change. To get a sense of the youth unemployment challenge in the future, we present the results of a simple exercise. If we assume that unemployment conditions depicted in the KIHBS continue to prevail (that is, 2005/06 unemployment and participation rates by age group remain fixed) and

<sup>10</sup> This is in part due to the fact that at earlier years more young people are still at work. For the same reason, the figure resulting from the calculation of the rate of unemployment is higher than the figure obtained by taking the share of the unemployed in the reference population.

# The Youth Employment-Unemployment Challenge

the population trends from the previous section hold,<sup>11</sup> we obtain the increase in the number of unemployed people by age group caused solely by demographic trends. These projections suggest that the number of young unemployed people aged 15–18 years was less than half a million in 2010 but will rise to close to 1 million by 2050 (Figure 3.9). The number of those aged 20–24, in turn, might increase from the estimated 800,000 in 2010 to almost 2 million by 2050. However, the most rapid increase will take place among older age groups. The number of unemployed youth of all ages will double between 2010 and 2035.

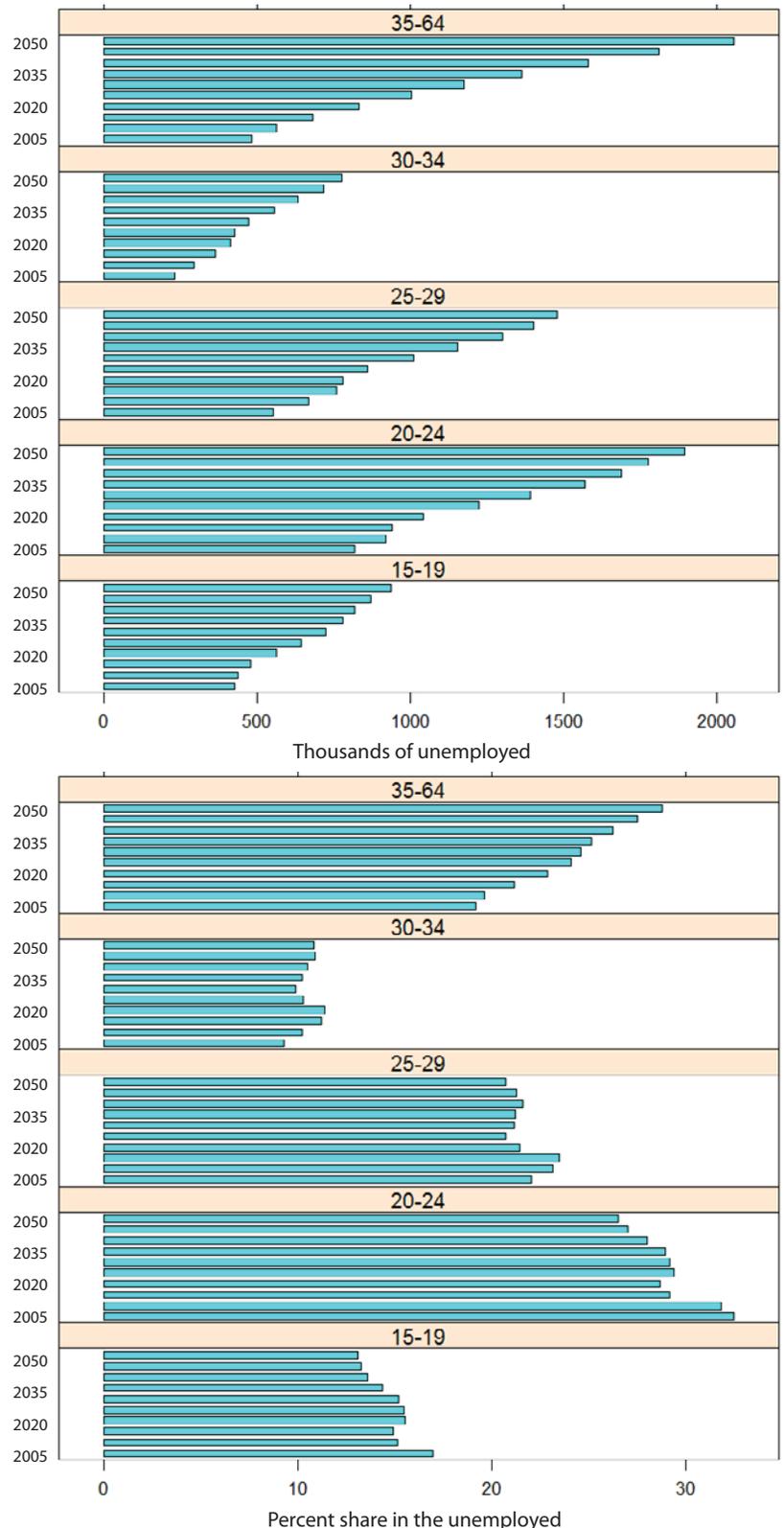
In relative terms, however, youth unemployment pressures might decline. For example, the doubling in the number of unemployed youth will come earlier for older youth groups. While the number of unemployed youth aged between 30 and 34 years might double by 2030, the number of unemployed youth aged 15–19 years will double by 2045, both relative to 2010. The age composition of unemployment will thus change significantly. The most dramatic of these changes will be the increase in the share of adults in total unemployment. Between 2010 and 2050, adults will go from representing 20 percent to 30 percent of all unemployed people.

### 3.4 Concluding remarks

In this section we confirm that youth unemployment in Kenya is a pressing problem. Youth unemployment rates are high, and youth represent, by far, the bulk of unemployed people. The unemployment problem in Kenya is to a large degree, thus, a youth problem. The most pressing challenge is to provide jobs for young people aged between 18 and 25 years.

<sup>11</sup> The UN population figures, the published KIHBS figures and the figures we derived from the KIHBS CD are not exactly the same but similar enough to combine them to produce the figures needed for this subsection.

**Figure 3.9: Youth unemployment for 2010–2050**



**Source:** author's construction based on UN population estimates and KIHBS 2005/06 micro records.

## The Youth Employment-Unemployment Challenge

A close second priority is finding productive jobs for people between 15 and 18 years and for those between 25 and 29 years of age. A perhaps less pressing issue is promoting jobs for people between the ages of 30 and 34 years.

The large numbers of young people that are unemployed reflect the age composition of the population as determined by the rapid growth this segment has experienced in the past years. The well-known dictum that growth is all you need to create jobs will partially fail to provide jobs for young people. Since the change in GDP is primarily linked to formal employment, and young people have very limited access to these types of jobs, promoting youth employment requires specific policies to increase the capacity of the informal sector to incorporate young people, particularly for those in their teens and early 20s.

In the short term, pressures on labour markets would be reduced if young people stayed longer in school. Over the medium term, this would also endow young people with more education to join the labour market in both formal and informal activities. An intermediate solution may include part-time apprenticeship programmes covering formal and informal jobs. This would allow young people to continue to attend school and enhance their opportunity to enter the labour market later.

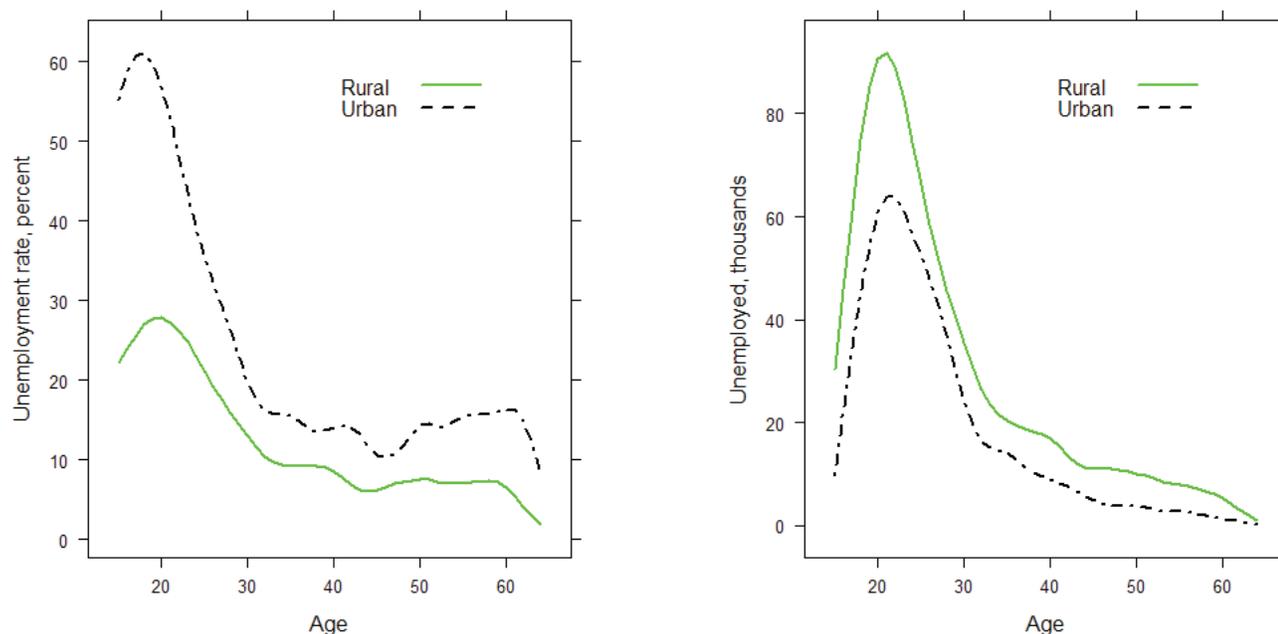
## 4. The Determinants of Unemployment and Choice of Activity

In this section we deepen our review of the KIHBS evidence on youth unemployment by looking into youth choices of activity by area of residence (rural or urban), gender, education and income.

### 4.1 Choices in rural and urban areas

Youth unemployment is a significant problem in both urban and rural areas. If judged by the unemployment rate, urban areas represent a greater unemployment challenge, particularly among the youngest of the young. While in rural areas unemployment rates range between 20 percent and 25 percent for youth aged 15 to 25 years, in urban areas rates range between 35 percent and 60 percent (Figure 4.1). Importantly, the difference between rural and urban unemployment rates decreases as age increases.

**Figure 4.1: Youth unemployment by area of residence (percent and number)**



**Source:** authors' calculations based on KIHBS 2005/06.

If judged instead by the number of unemployed people, then the largest unemployment challenge is in rural areas: there are more unemployed people in rural than urban areas. At the peak, around 21 years of age, there are 85,000 unemployed people in rural areas and 60,000 in urban areas (Figure 4.2). The sheer size of the rural population, of course, helps explain this, but there is also rural-to-urban migration. For example, the proportion of the population aged 15–18 years that lives in rural areas is close to 90 percent, while that of those aged 30 to 34 years is only about 70 percent. Thus, to some extent, the lack of opportunities in rural areas surfaces as urban youth unemployment problems.<sup>12</sup>

The urban setting is known for the variety of opportunities it offers. In cities, young people can work in informal activities but also in formal jobs (the proportion of young people with formal jobs in urban areas is systematically higher than in rural areas; see Figure

<sup>12</sup> The cost of seeking a job in urban areas must be lower than the 'cost' of staying or migrating to rural areas where unemployment is low. This is an issue that is beyond the scope of this study, so we do not attempt to provide any evidence.

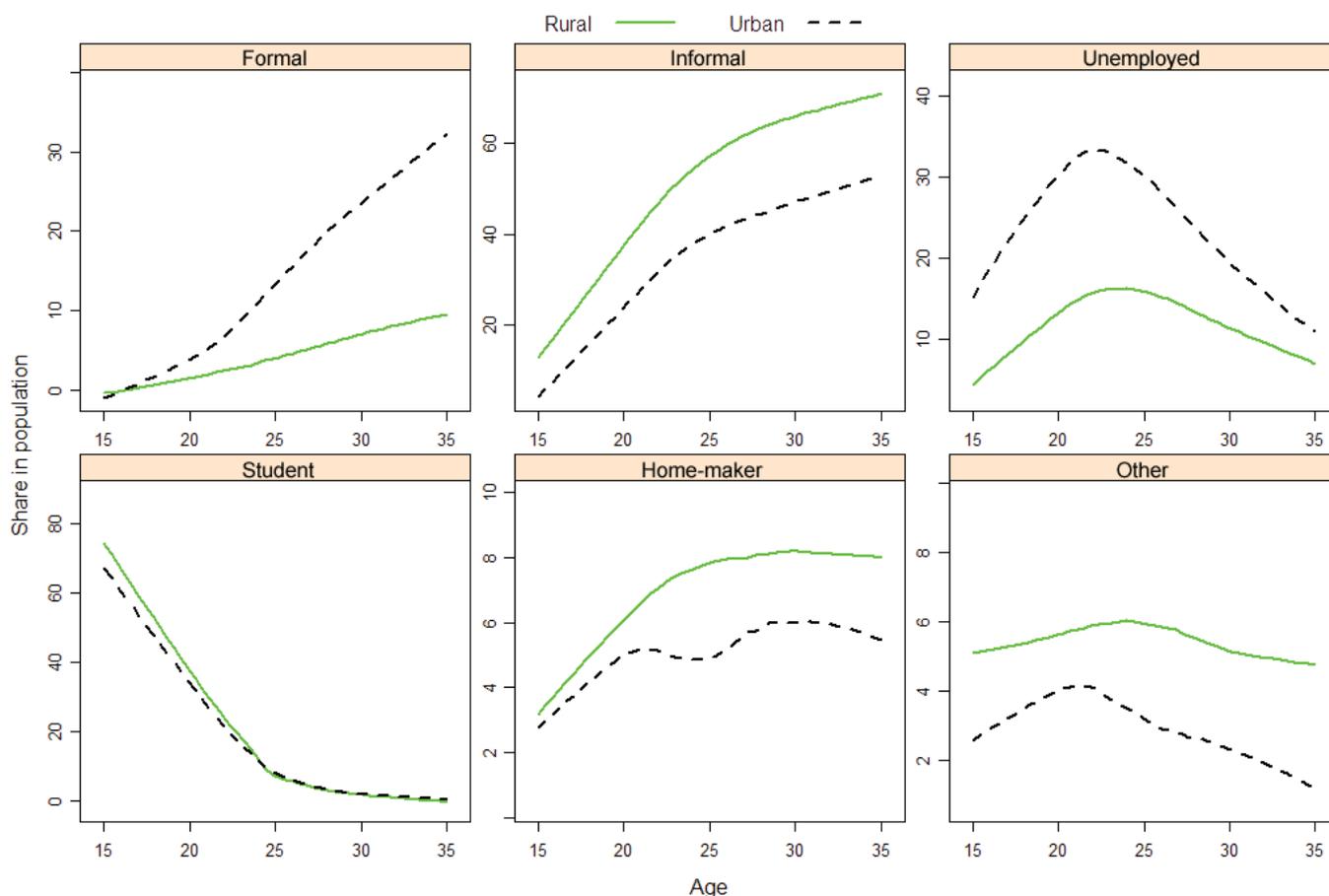
## The Determinants of Unemployment and Choice of Activity

4.3, upper left-hand panels). But the ample array of job opportunities of urban areas is not enough to accommodate the number of young people searching for a job. There is a large number of unemployed people in rural areas, but in relative terms its importance is not as great, since a large proportion of people engage in traditional activities and in non-economically active tasks. At the peak, the proportion of youth that are unemployed is between 30 percent and 35 percent in urban areas, compared to about 15 percent in rural areas (Figure 4.2, upper right-hand panel).

Unemployment rates are higher in urban areas because relatively fewer people take on informal activities, and formal employment is not enough to compensate for the slack, particularly at younger ages (Figure 4.2, upper left-hand panel). Rural labour markets are clearly dominated by the early insertion of the youth in informal employment activities which include traditional farming (Figure 4.2, upper centre panel). That the proportion of unemployed people and the unemployment rate in rural areas are lower than the corresponding urban figures is also due to the more intensive engagement of young people in rural areas in home-making and other miscellaneous activities (Figure 4.2, lower centre and right-hand panels).

Youth employment promotion policies should look at both rural and urban areas. Although the proportion of unemployed youth and the youth unemployment rate is higher in cities than in rural areas (suggesting that the urban unemployment problem is more acute than in rural areas), the number of unemployed youth is actually larger in rural areas. The focus of job promotion

**Figure 4.2: Youth activities by age and area of residence (percent share of the population)**



**Source:** authors' calculations based on KIHBS 2005/06.

# The Determinants of Unemployment and Choice of Activity

should take into account that the most difficult youth unemployment problems are those affecting young people between 15 and 24 years, in both rural and urban areas. Finally, since the lower relative employment of rural areas partly originates in traditional economic organization and a higher engagement in inactive tasks, an increase in the availability of jobs prompted perhaps by rural employment promotion policies, might attract the inactive population and those employed in traditional tasks more intensively than in urban areas. In other words, open unemployment figures might greatly underestimate the potential number of people willing to take a newly created job in rural than in urban areas, as the more frequent choice of economically inactive occupations in rural areas might reflect their lack of employment opportunities.

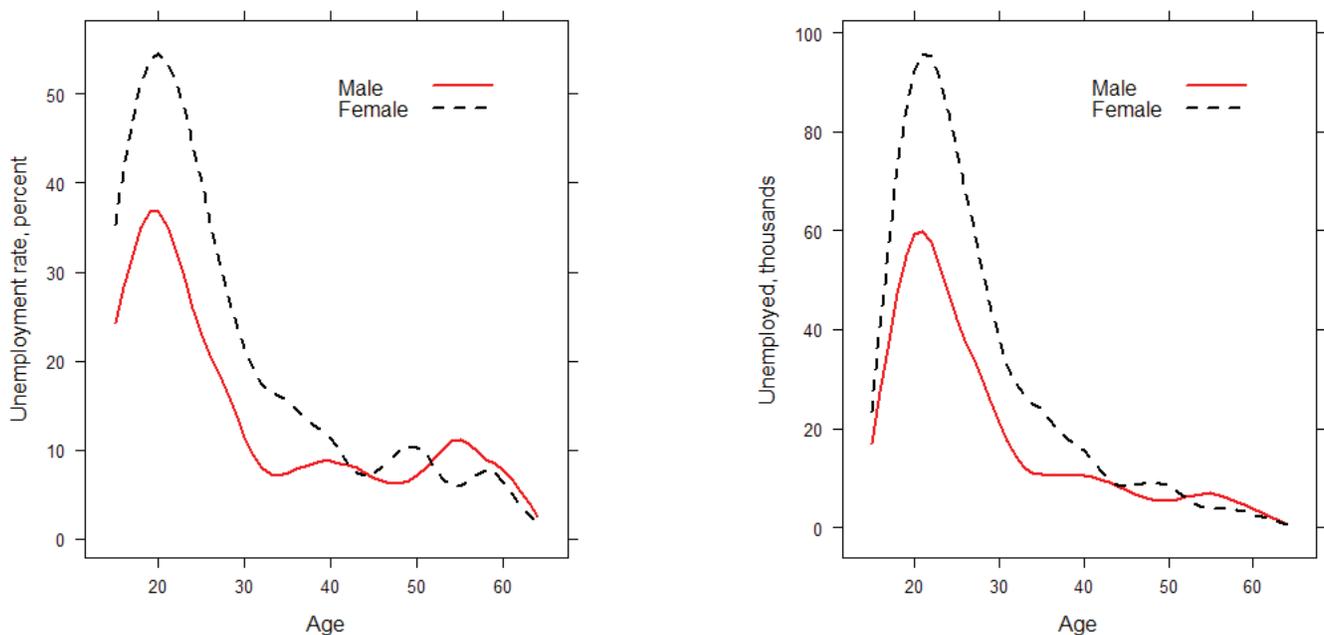
## 4.2 Female and male unemployment

Unemployment is significantly higher among young females than among young males. The female rate of unemployment is more than 10 percentage points higher than the male rate for young people aged 15 to 25 years. The gap is larger at younger ages than at older ages. At its highest point, the female unemployment rate is almost 50 percent, compared to a male rate slightly above 30 percent. In contrast, at around 34 years of age, the female unemployment rate is above 15 percent, while the male rate is above 5 percent.

Unemployed females largely outnumber unemployed males. For example, between ages 20 and 25, there are anywhere from 20,000 to 30,000 more unemployed females than males. It should also be noted that the highest unemployment hits females at an older age than males.

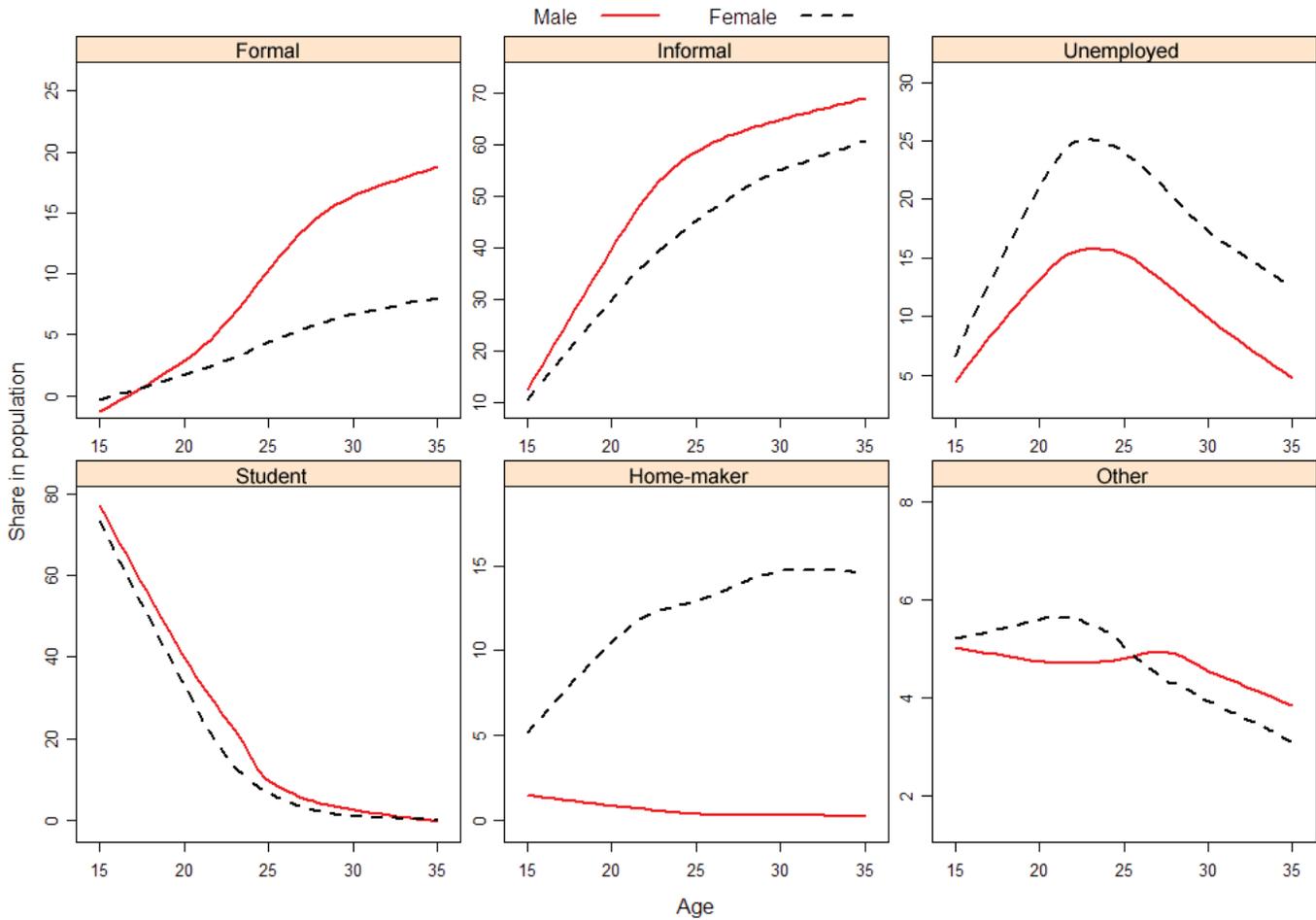
Unemployment is high among females simply because there are few employment opportunities for them. The proportion of females with a job, formal or informal, is lower than that of males for all ages (Figure 4.4, upper left-hand panels). The females' relative disadvantage in accessing informal jobs is worst at around 25 years of age. In the case of access to formal jobs, the disadvantage simply widens throughout the entire youth period. This reinforces the need to design employment promotion policies with a gender focus.

**Figure 4.3: Youth unemployment by gender (percent and number)**



Source: authors' calculations based on KIHBS 2005/06.

**Figure 4.4: Youth activities by age and gender (percent of the population)**



**Source:** authors' calculations based on KIHBS 2005/06.

Female youth unemployment is high even though young females tend to engage in home-making activities and other miscellaneous chores more than males. These engagements, of course, reduce the pressure females exert on labour markets. The role of female home-making activities in reducing pressures on the labour market can hardly be exaggerated. The proportion of young females who are home-makers ranges from 6 percent in the early years to 14 percent at around 30 years of age (Figure 4.4, lower centre panel). In contrast, the percentage of young males who are home-makers ranges between 1 percent and 2 percent. If the females' interest to participate in labour markets continues to increase, one should expect more female pressures on labour markets. The difference between the proportion of females and males who do other miscellaneous chores as their main activity is not large, but there is still a slightly larger proportion of females than males aged between 15 and 25 years who do so (Figure 4.4, lower right-hand panel).

Part of the stronger pressure exerted by young females on labour markets originates in the lower proportion of females that attend school on a full-time basis compared to males (Figure 4.4, lower left-hand panel). The difference is of 10 percentage points throughout most of their youth. Lower female educational attainment is a matter of serious concern. The confluence of high unemployment and low school attendance calls for careful consideration in employment promotion policies: poorly designed policies might induce increases in female employment at the expense of postponing, perhaps indefinitely, their education.

## The Determinants of Unemployment and Choice of Activity

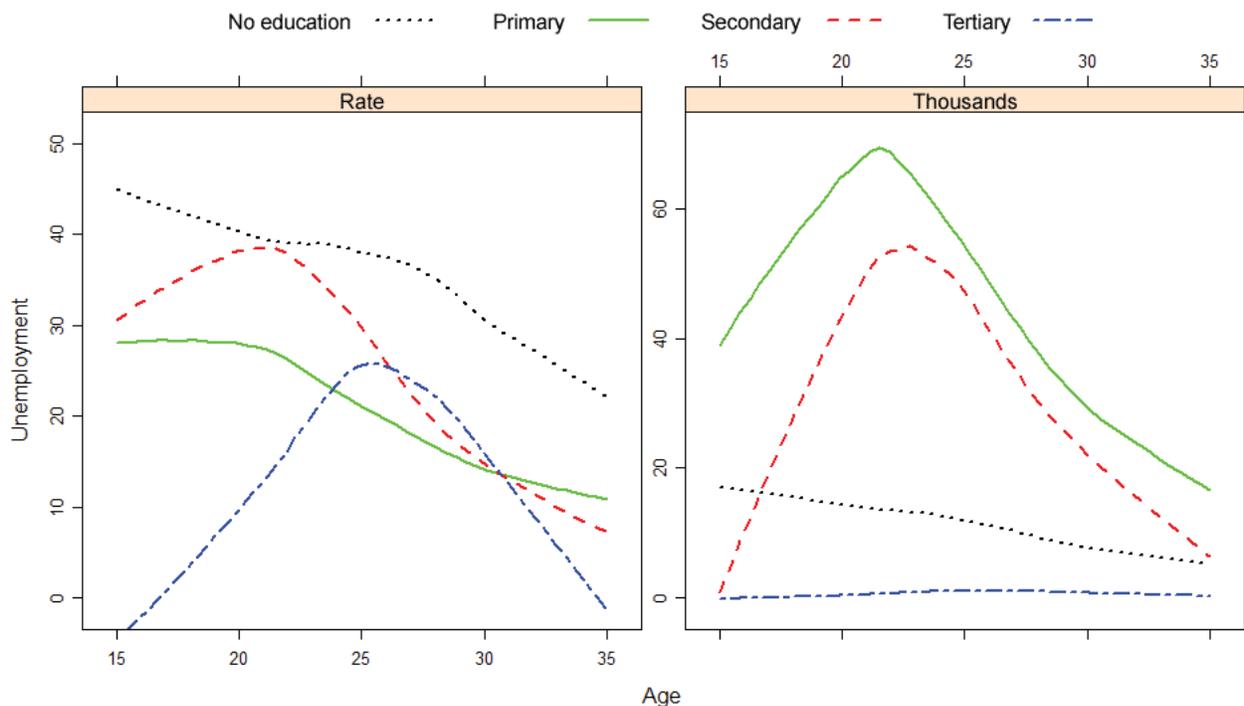
Overall, limited employment opportunities for females are at the root of high female unemployment. The relatively intense participation of females as home-makers softens the female pressure on labour markets; conversely, females' lower propensity to engage as full-time students potentially increases pressures on labour markets. Youth employment programmes should aim to attract a significant number of females. In doing so, however, careful consideration should be given to ensure that young females can adequately fulfil the tasks that they undertake as home-makers, also considering the potential of adverse effects such as encouraging women to opt out of school (or postpone their return). It is equally important to reduce the cost of working for females. An example of this can be seen in India's rural employment creation programme which seeks to provide day-care facilities in rural work sites so that women can effectively participate in the programme.

### 4.3 The relevance of formal education

The most challenging unemployment problems are posed by the unemployment of youth with primary and secondary education, particularly for those with primary education who are around 18 years old and for those with secondary education who are around 21 years of age (Figure 4.5). The unemployment rate of those with no formal education is high, but they do not represent a large number of people. Finally, a smaller problem is unemployment of those with tertiary education. While the unemployment rate is relatively high for certain age groups, particularly for those aged 20 to 26 years, their numbers are consistently low.

The patterns of unemployment according to age and education are similar to that of the unemployment rate. Access to a formal job increases with education; the unemployment rate by level of education echoes the access young people have to jobs. Only a small proportion of young people with no or only primary education have a formal job (Figure 4.6, top left-hand panel). In fact, the real possibility of having a formal job only comes with secondary or tertiary education, but neither of them grants access to a formal job. The proportion of youth with a formal job only reaches a high level for those around 30 years of age.

**Figure 4.5: Youth unemployment by educational attainment (percent and number)**

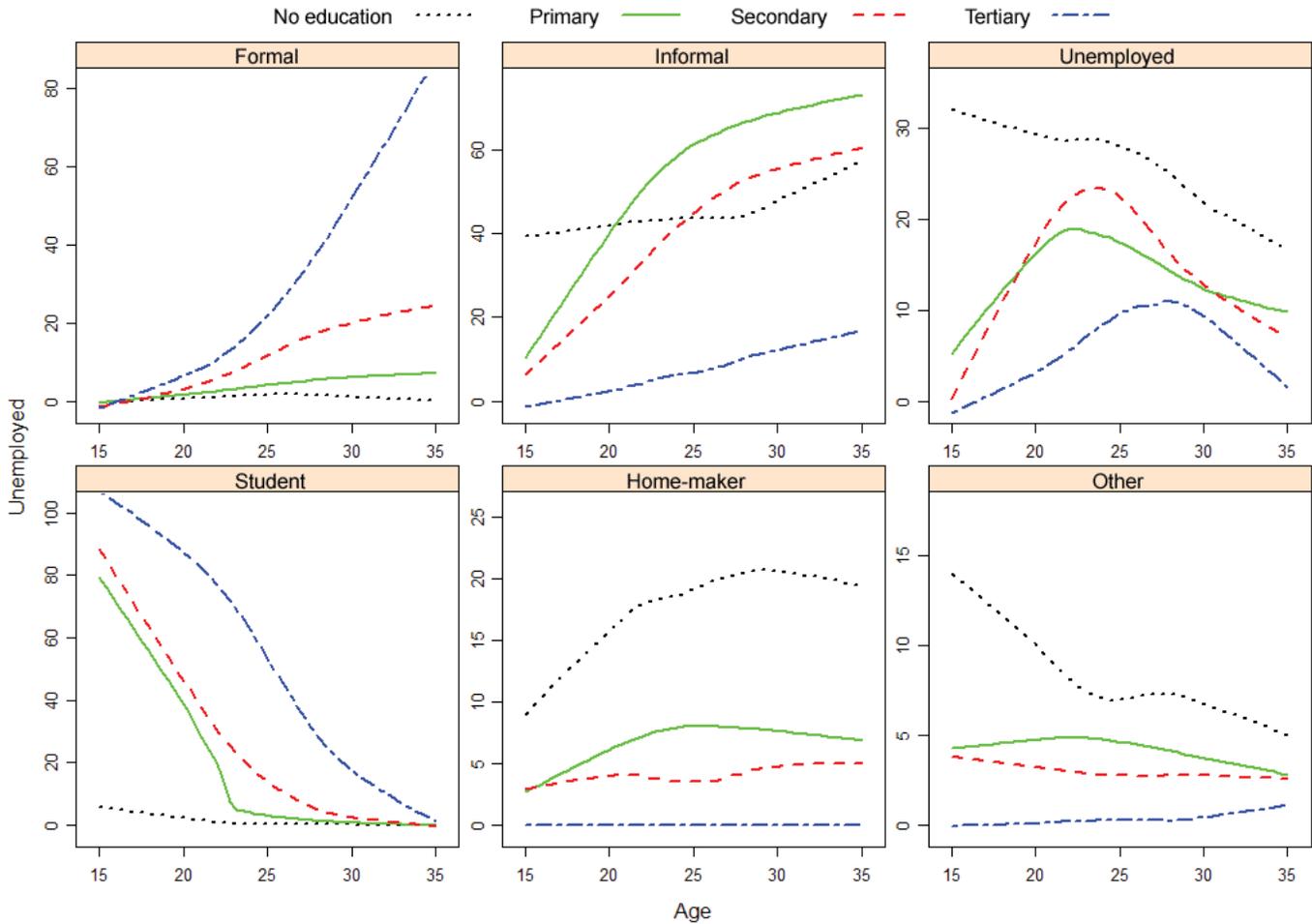


**Source:** Authors' calculations based on KIHBS 2005/06.

**Note:** Primary, secondary and tertiary education refers to people with at least one year completed in the corresponding education cycle.

# The Determinants of Unemployment and Choice of Activity

**Figure 4.6: Youth activities by age and educational attainment (percent of the population)**



**Source:** authors' calculations based on KIHBS 2005/06.

The link between education and access to an informal job has an inverse relationship: the less education, the higher the proportion of young people in informal activities (Figure 4.6, top centre panel). At their highest points, the proportions are: uneducated: 30 percent; primary: 60 percent; secondary: 50 percent; and tertiary: 15 percent. The interaction of education and age is important. The proportion of young people in informal jobs increases with age—rapidly for those with primary and secondary education and slowly for uneducated youth. This suggests that many uneducated youth join the informal market at an early age and remain there continuously.

Youth with secondary education are proportionately less devoted to home-making and other miscellaneous activities than those with primary education. Nonetheless, despite significantly better access to formal jobs (than youth with only a primary education), their unemployment figures are relatively high (Figure 4.6). This high unemployment rate might be associated with the relatively low acceptance of informal jobs. Perhaps young people with secondary education at this age spend more time searching for a job.

Four trends can be observed in youth unemployment with respect to education. First, the bulk of youth unemployment is among those with primary and secondary education. Second, within each youth education group, the difficulty of unemployment problems is inversely related to education: more acute for the uneducated and least for those with tertiary education. Third, unemployment among those with tertiary education is a problem only for a narrow range of ages and only if measured by the unemployment rate;

## The Determinants of Unemployment and Choice of Activity

nevertheless, this is a highly vocal group that might call for particular attention. Fourth, once the most difficult unemployment situation is reached, unemployment decreases faster the more education young people have.

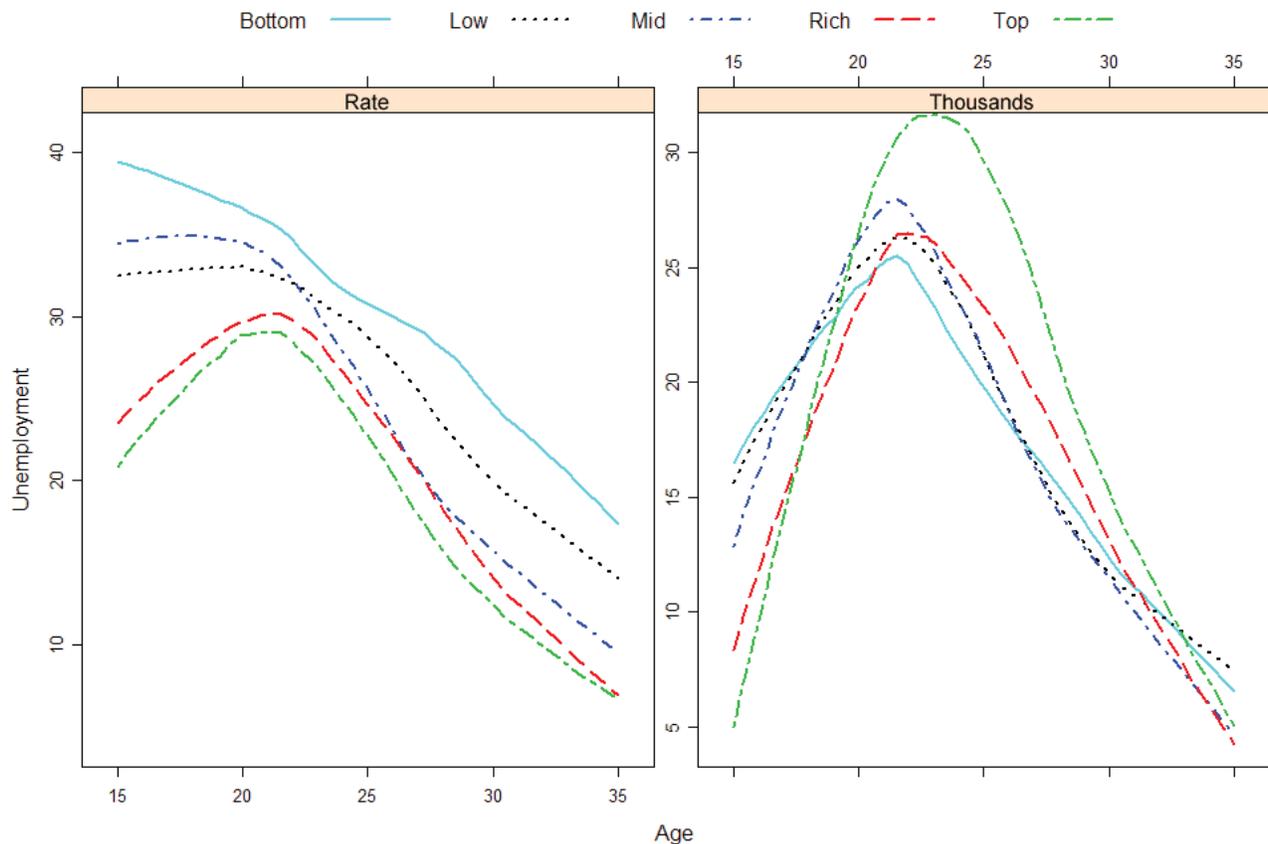
### 4.4 The interaction between youth choices and household income

Unemployment and household income have an evident bi-directional relation. Unemployment rates are lower the higher household income is and vice-versa. This pattern holds for almost all age cohorts; the only exception refers to the relatively high unemployment rates of youth aged 15–19 years of middle-income households.

The income-based differences in unemployment rates are not constant across ages. The gap is wider at younger ages, narrows when people are in their 20s and widens again in their 30s. These changes are due to peculiar age patterns of employment that relate to income. For high-income households, unemployment rates start low, increase up to the early 20s and decrease afterwards. For low-income households, the pattern is the inverse, i.e. rates in early years are high, but they either increase mildly or decrease continuously, confirming the well-known aphorism that poor people cannot afford to remain unemployed.

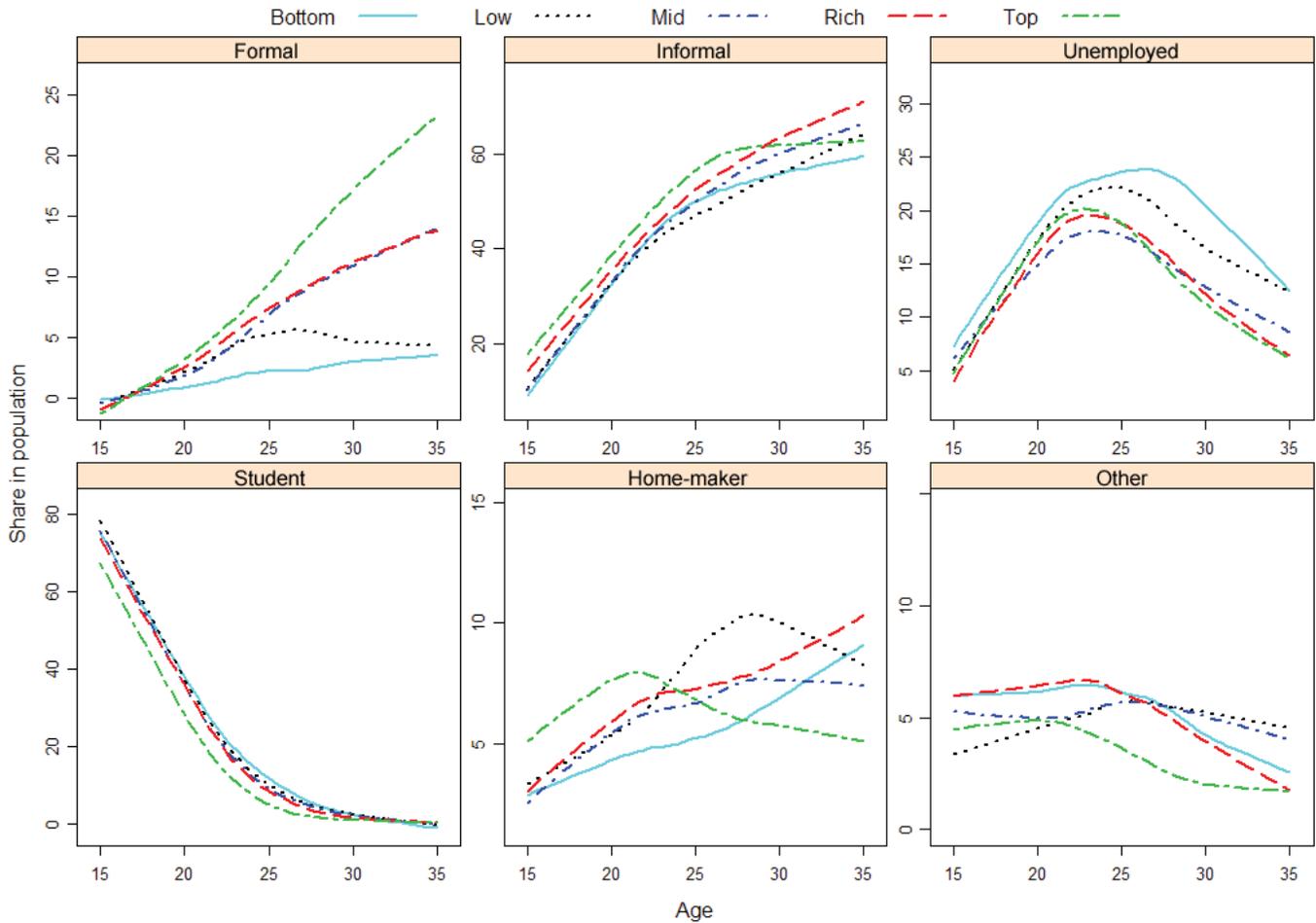
The number of unemployed people in each household income quintile broadly corresponds to the pattern described by unemployment rates. One must note, however, that the number of unemployed people in high-income households peaks around 24 years of age and surpasses the numbers of any other quintile. This is surprising because the unemployment rates of the groups are consistently lower than those of lower income quintiles. As will be shown below, this seemingly anomalous behaviour is explained by the greater access these groups have to work and by their lower engagement in economically inactive tasks.

**Figure 4.7: Unemployment rate by age and household income**



**Source:** authors' calculations based on KIHBS 2005/06.

**Figure 4.8: Youth activities by age and income (percent of the population)**



**Source:** authors' calculations based on KIHBS 2005/06.

Throughout the entire youth years, the proportion of unemployed people is larger the lower the household income. This stronger relationship with income, compared to that of the number or rate of unemployment, simply reflects another relationship: formal and informal employment both increase with income (Figure 4.8, upper left-hand panels). The difference in access to a job is of course clearer in the case of formal work, but it is remarkable that access to informal work also rises with household income. The proportion of youth in formal jobs increases with age, but mainly for high-income households. The proportion of youth working in an informal activity also increases with income, and the difference also widens, albeit only slightly. This suggests that poor households are constrained in their access to both formal and informal jobs. Youth employment promotion policies would have to take this into account to make sure that appropriate support is in place to allow poor households to effectively benefit from wider employment opportunities.<sup>13</sup>

Data reviewed in this section suggest that employment generation programmes should give high priority to targeting low-income households. This is suggested by the rate of unemployment and the proportion of unemployed youth by income quintile. The fact that high-income groups constitute, at certain ages, the largest group of unemployed young people should also be tackled,

<sup>13</sup> The proportion of young people in full-time education is quite similar across income; except for the top quintile, for this quintile the proportion of young people in full-time education is consistently lower. It is beyond the scope of this study to investigate why this is so, but this lower share means potentially higher shares of employment and unemployment.

# The Determinants of Unemployment and Choice of Activity

remembering that many of them are unemployed because they can afford to be without a job and that high unemployment is limited to mid-youth age groups. Since low-income households have a higher proportion of economically inactive people, including home-makers, it is important to ensure that these activities are not unduly overlooked when people take the jobs that employment promotion programmes might make available.

## 4.5 The interaction between gender, area of residence, education and income

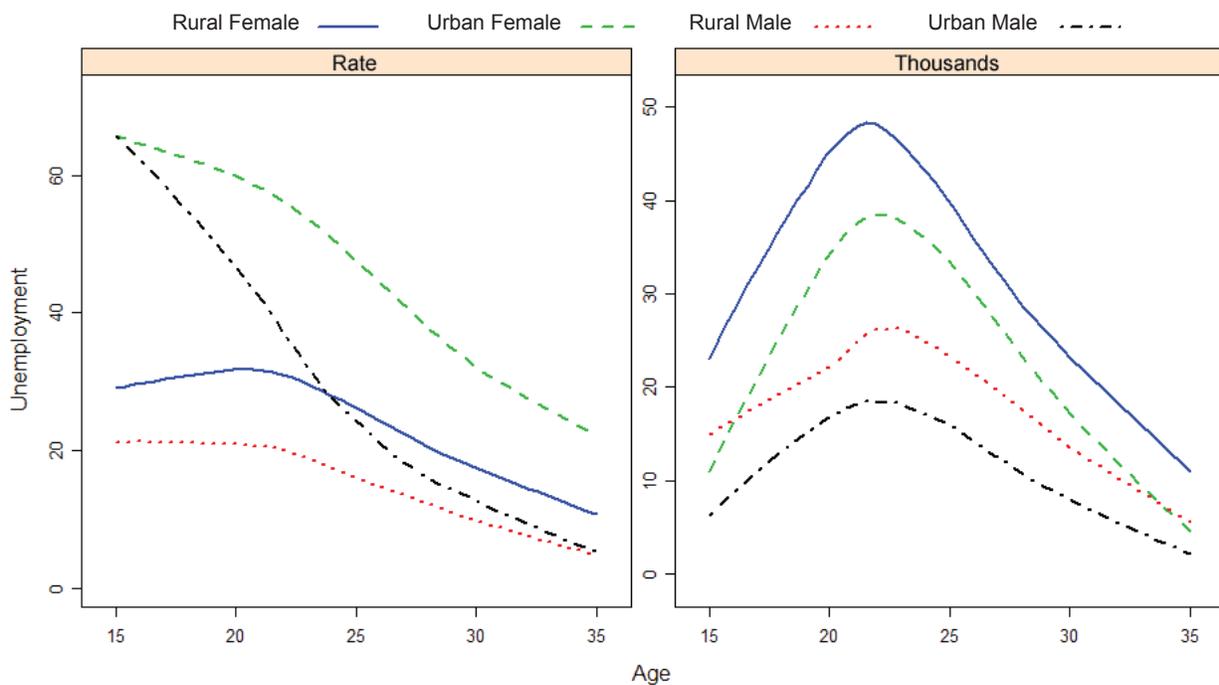
The conditioning factors of type of area of residence, gender, education and income, obviously, do not act in isolation but interact in various ways. Some of these interactions are highlighted below.

### 4.5.1 Type of area of residence and gender

Unemployment affects urban females the most and rural males the least. Thus, it can be said that unemployment is a female and an urban problem. The unemployment rate of urban females is the highest, regardless of age (Figure 4.9, left-hand panel). An important distinction between male and female urban unemployment rates is that, while both rates are high at young ages, the male rate decreases rapidly to be one of the lowest by the time they reach 34 years of age. Judging by the unemployment rate, urban unemployment is the most difficult problem for youth aged between 15 and 24 years. For youth aged 25 to 34 years, the most difficult problem is female unemployment.<sup>14</sup>

By numbers, the biggest unemployment problem is that of females in rural areas, followed by females in urban areas, males in rural areas and males in urban areas (Figure 4.9, right-hand panel). The numbers are large between the ages of 15 and 28 years but largest between 21 and 23 years for all four area-gender groups.

**Figure 4.9: Unemployment rate by gender, area of residence and age (percent)**



**Source:** authors' calculations based on KIHBS 2005/06.

<sup>14</sup> Also, the male and female proportions of young people in full-time education have become similar.

# The Determinants of Unemployment and Choice of Activity

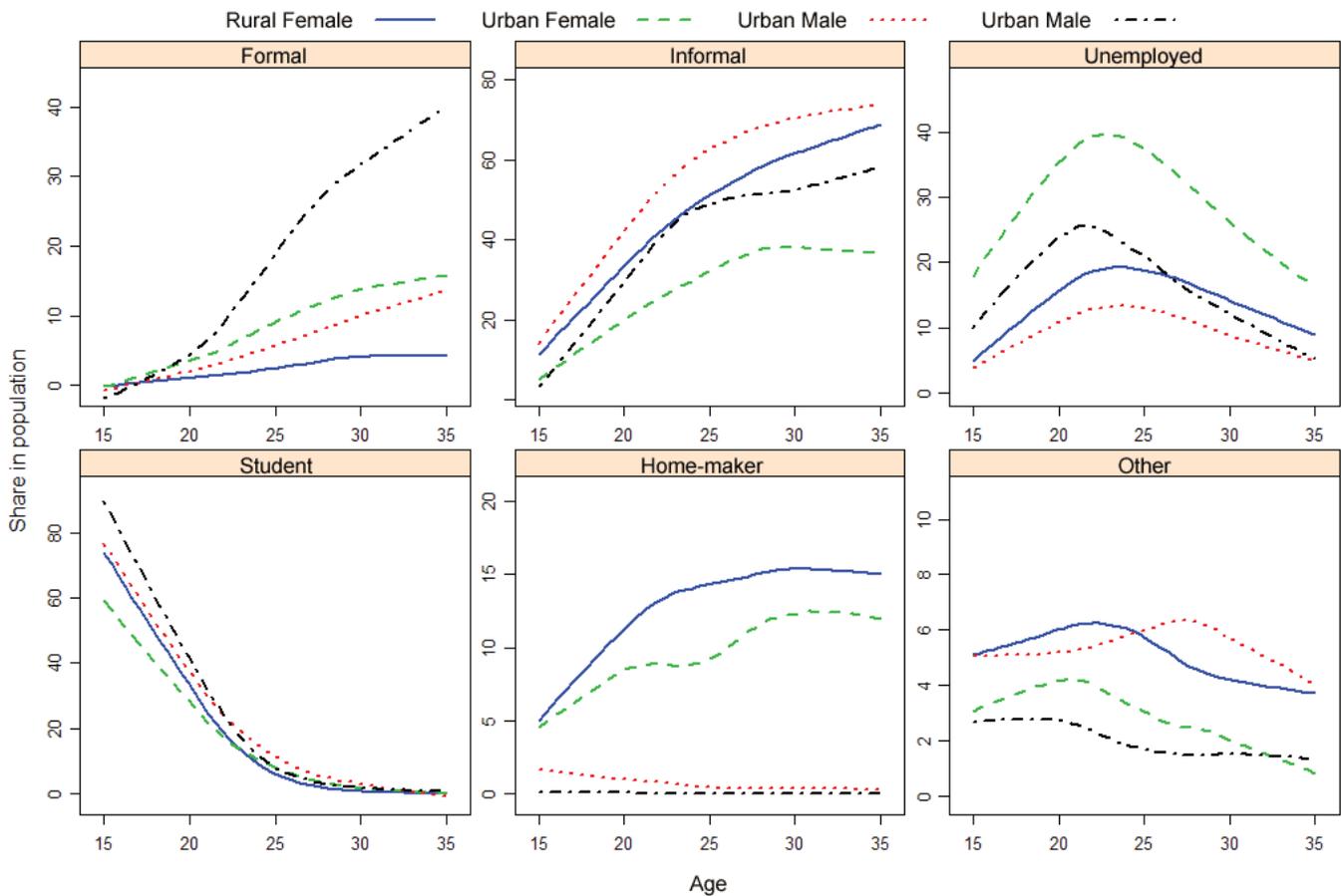
The similarity between the pattern of the unemployment rate and the proportion of the unemployed youth (Figure 4.10, top right-hand panel) reflects the very low female participation in formal jobs (particularly in rural areas) and in informal activities (particularly in urban areas) as well as the low proportion of females in full-time education (Figure 4.10). High female unemployment occurs despite a high propensity to become home-makers, particularly in rural areas.<sup>15</sup>

Overall, the strongest pressure on labour markets is from unemployed urban females, but the largest number of unemployed people are females in rural areas. The more difficult unemployment problems, in both urban and rural areas, correspond to young females in their mid-20s. This suggests that youth employment policies should have a clear emphasis on females. More specifically, data reviewed in this section suggest that urban employment policies should pay close attention to the youngest females (in their first 10 years of 'youth') and to supporting informal activities among the rural youth aged 25 to 34.

## 4.5.2 Gender, type of area of residence, and education

Young people's choices correlate with the type of area of residence, gender and education in various ways. Looking first at unemployment, there are three main patterns: first, within each gender and area group, the unemployment rates of those with no

**Figure 4.10: Youth activities by age, area of residence and gender (percent of the population)**



**Source:** authors' calculations based on KIHBS 2005/06.

15 There are no significant differences apparent in the decision regarding the full-time student activity, and there are expected differences in home-makers.

## The Determinants of Unemployment and Choice of Activity

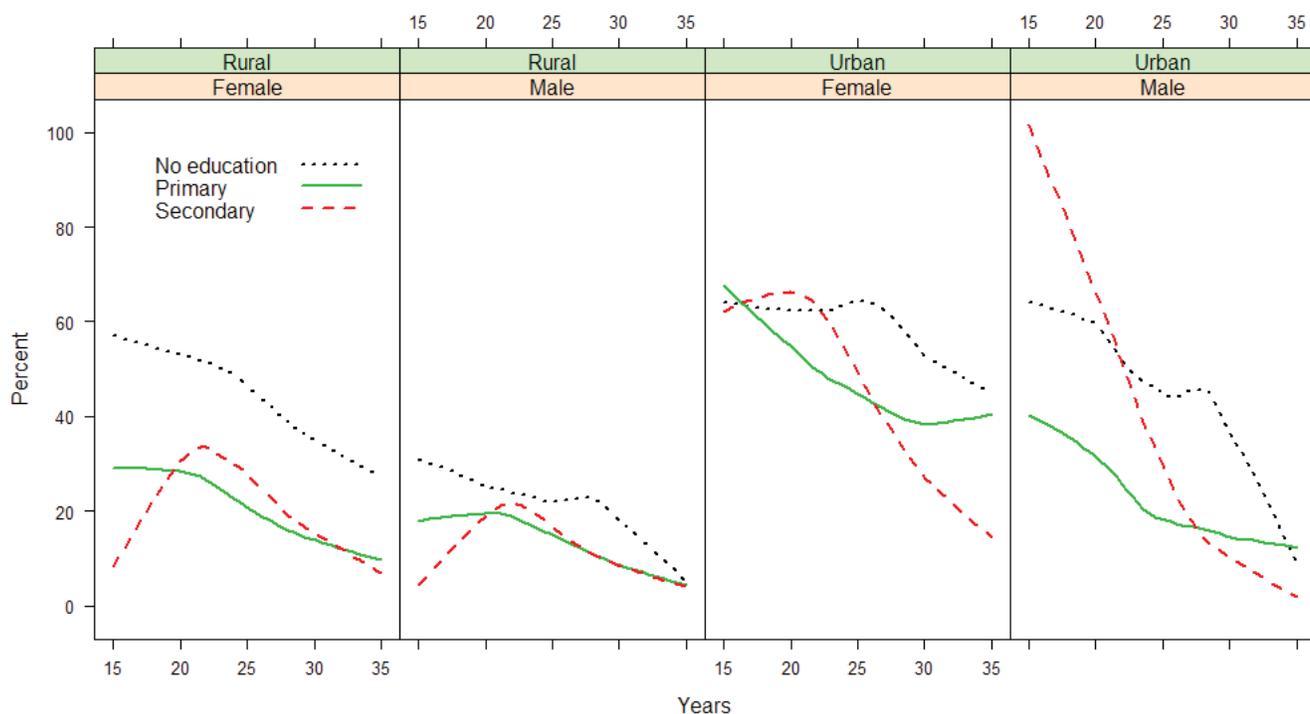
formal education are the highest in most cases. Second, those with primary and secondary education aged 23 to 34 in rural areas have similar unemployment rates, but rates for younger people with secondary education are lower. Third, the opposite trend appears to be true in urban areas, i.e. younger people with secondary education have higher unemployment rates than those with primary education, but older young people with secondary education have lower rates (Figure 4.11).<sup>16</sup> Thus, increasing education tends to lower unemployment rates, particularly among young workers older than 25 years.

A look at the number of unemployed people by gender, type of area of residence and education suggests that there are four groups with large numbers of unemployed people: rural and urban females with primary education, urban females with secondary education and rural males with primary education (Figure 4.12). These results show the importance of giving a strong gender and semi-skilled focus to employment promotion policies.

The reviewed unemployment patterns relate to access to formal and informal jobs. Particularly, the high unemployment of urban females with primary and secondary education appears to be related to their distinctively low access to informal jobs (Figure 4.13). Among young people with no formal education, the relatively high unemployment rates of urban females and males stand out (Figure 4.13, bottom row).

The breakdown of the data also suggests that the already noted trend of rising shares of formal employment as education increases is more clearly accentuated among males in urban areas than for any other group of young people, underscoring the importance of promoting formal jobs for females with secondary education.<sup>17</sup>

**Figure 4.11: Unemployment rate by gender, area of residence and education**

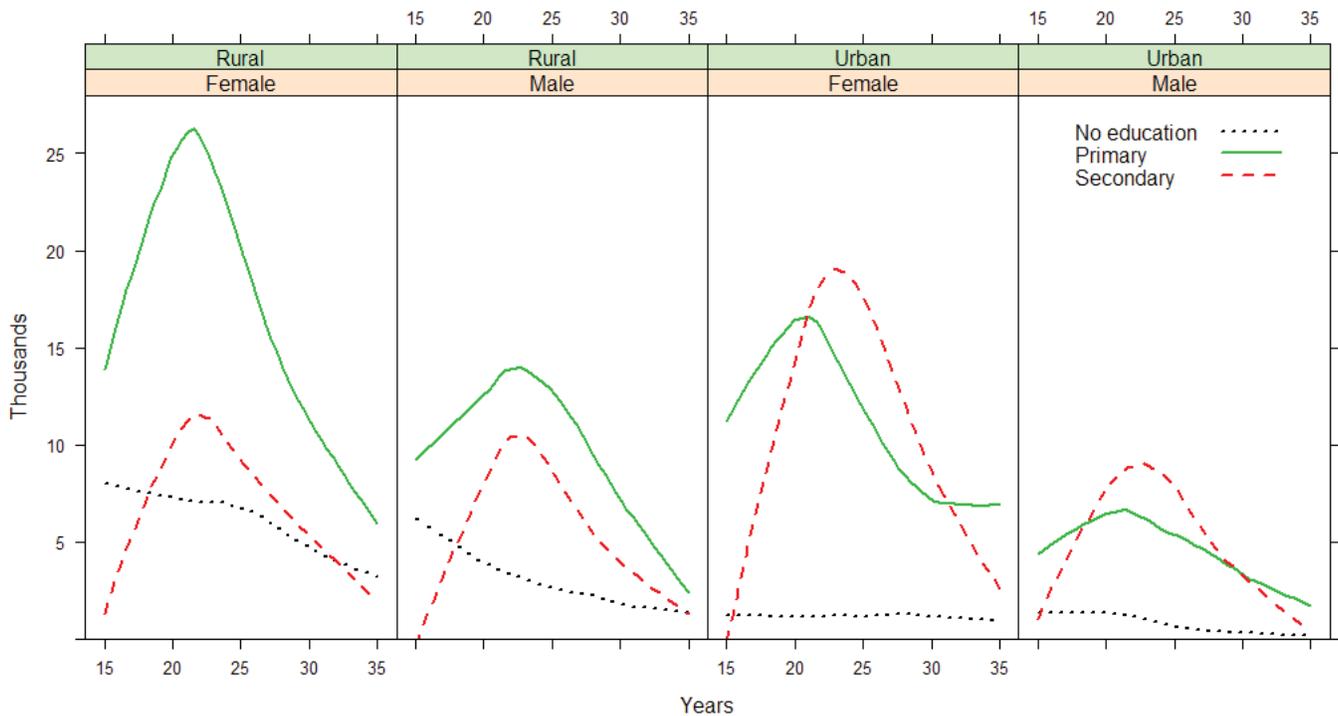


**Source:** authors' calculations based on KIHBS 2005/06.

16 To better analyse this issue, we exclude young people with tertiary education from the discussion, since their numbers are small.

17 See Zepeda et al. (2012) for a statistical discussion of these interactions.

**Figure 4.12: Number of unemployed people by gender, area of residence and education**



**Source:** authors' calculations based on KIHBS 2005/06.

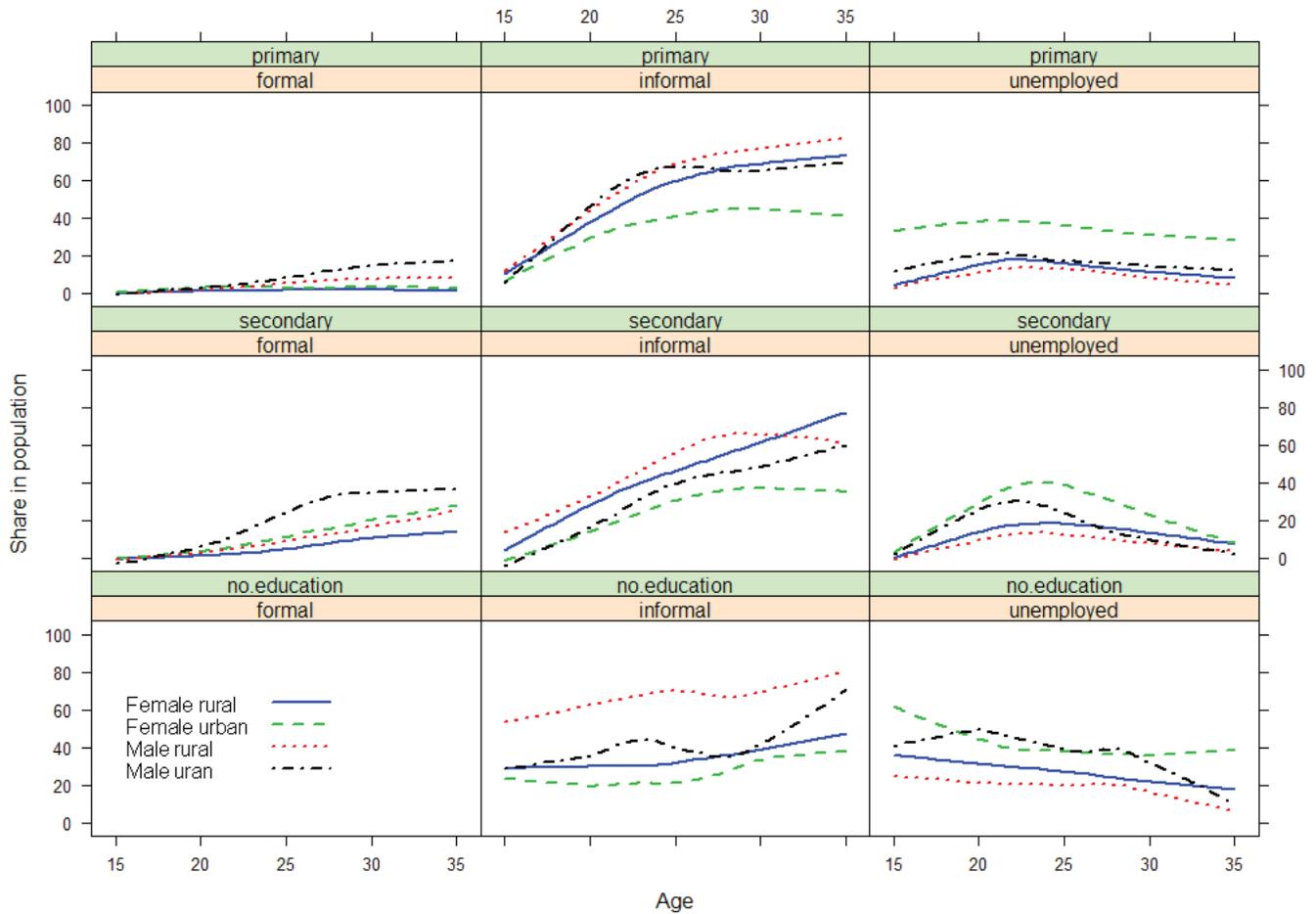
Overall, the look at unemployment rates and the number of unemployed young people suggests that urban females should be a priority group in employment promotion policies. The rapid reduction in unemployment of young people who have both a secondary education and some more years of age, which might correlate with years of experience, suggests that these young people are in high demand. This is something worth considering when formulating apprenticeship programmes that can provide young people with some experience to make them more attractive for job markets. It also suggests that, along with job creation measures for those with basic skills (particularly in rural areas), employment promotion policies should also aim to provide adequate opportunities to females with secondary education, particularly when they are younger.

## 4.6 Concluding remarks

The challenge of youth unemployment is significant in both rural and urban areas; in rural areas because of the numbers involved, and in urban areas because of the prevailing rates. Employment promotion policies need to focus on finer age subgroups than those of current government policies. Although urban unemployment rates are significantly higher than those in rural areas, employment promotion policies should also look carefully at rural areas. One important reason for this is that the number of unemployed youth is high in rural settings, but there are at least two other important reasons. First, the lack of job opportunities in rural areas surfaces in part as urban unemployment (as young people migrate to cities), meaning that urban unemployment might benefit from successful employment promotion in rural areas. Second, the young inactive population is proportionally larger in rural areas, which means that a sudden availability of jobs might prompt them to switch from economic inactivity to labour markets. More rural jobs might 'paradoxically' fail to reduce the rate of unemployment, as discouraged workers might decide to join the labour force.

Unemployment affects youth from when they are very young up to about 28 years of age, depending on the amount of education, gender and other social factors. Overall, the most difficult and sizeable unemployment problem appears to be that affecting young people between the ages of 18 and 24 years. Female unemployment is worse than that of males. Young women in rural areas

**Figure 4.13: Employment and unemployment by age, area of residence, gender, and education (percent share of the population)**



**Source:** authors' calculations based on KIHBS 2005/06.

**Note:** plots present the data in a smoothed form.

account for the largest number of unemployed people, and females in urban areas have the highest rates of unemployment. Youth employment promotion policies must aim to provide jobs to females in rural and urban areas, perhaps by establishing minimum quotas. Youth employment promotion policies need to also consider that females might face a higher opportunity cost when attempting to work, as they might also have to look after home-making duties. As such, youth employment promotion policies should give proper consideration to the cost of accessing jobs.

Young people with no formal education have some of the highest unemployment rates. However, the most pressing youth unemployment problem is of people with primary and secondary education. Youth employment promotion policies should not, thus, restrict themselves to those with only basic skills. They should include the promotion of jobs for people with primary and secondary education. Unemployment among those with tertiary education is limited to a small proportion of young people and to certain age groups. Actions to improve the functioning of labour markets for people with tertiary education might be the most appropriate form of intervention.

## The Determinants of Unemployment and Choice of Activity

Access to jobs and household income are directly interwoven. Unemployment rates are consistently higher for young people from the bottom 40 percent of the income pyramid. Pressure from high-income households to aim promotion policies towards their constituency can be great, given that the number of unemployed people from these households is also high at certain ages. However, appropriate policies to attend to their employment needs might be of the active type. In contrast, more decisive interventions might be needed to address the unemployment problems of young people from low-income households. Targeting poor people should be an important component of employment promotion policies.

Unemployment is, of course, related to the availability of informal and formal jobs. The data reviewed in this section seem to suggest that the market is setting a significant premium on secondary education, not to mention tertiary education. Youth employment promotion policies should avoid introducing disincentives for people to continue school and acquire a secondary degree. Furthermore, policies might consider introducing incentives to combine work and school. Given the need to improve apprenticeship programmes, policymakers might consider apprenticeships with the acquisition of vocational training and formal education.

Youth unemployment mirrors the scarcity of formal job openings and the incapacity of young people to create an attractive enough job in the informal market for themselves. Youth employment policies should then include emphasizing the promotion of micro, small or household businesses for young people to widen opportunities to work as owners or employees of these businesses. Promoting young females, particularly those with primary and secondary education, in these businesses should also be emphasized. Finally, the overall promotion effort should ensure that policies benefit first people from low-income households.

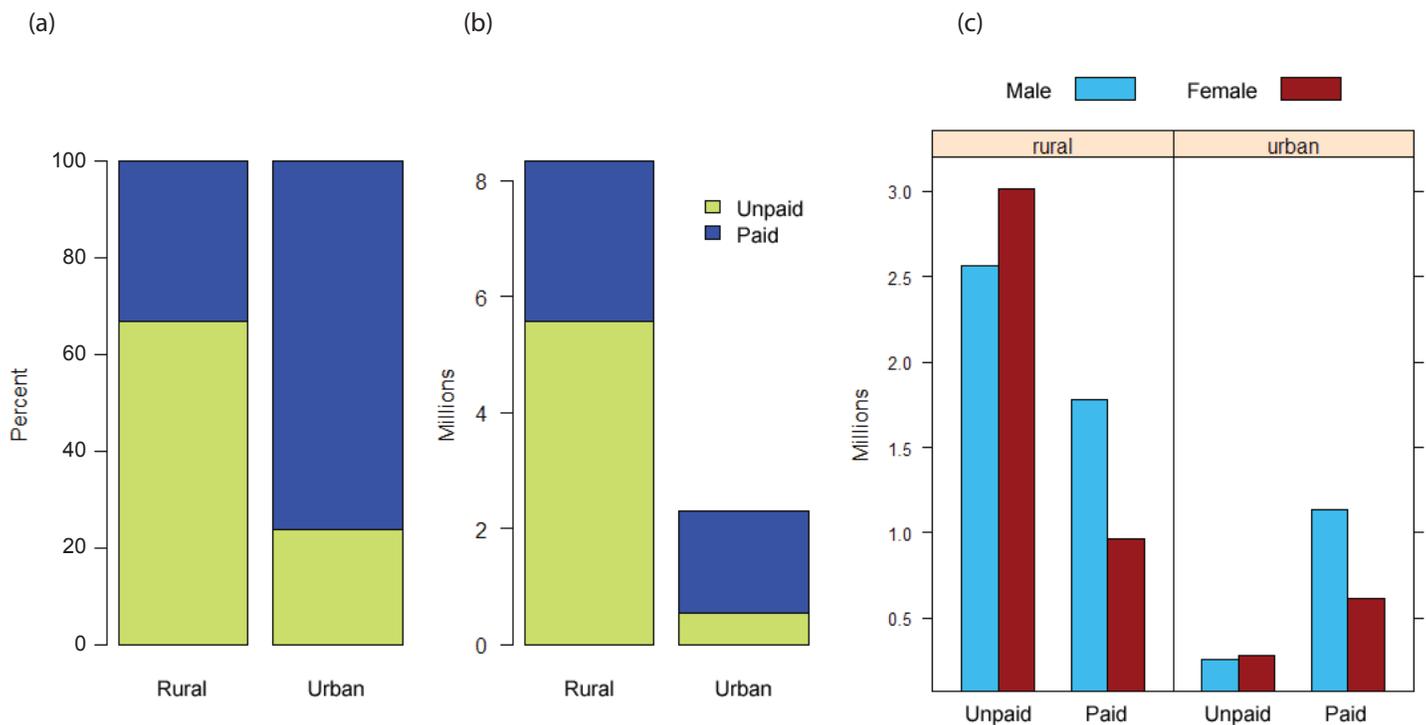
## 5. Wage Earnings

The still strong presence of traditional rural activities in the Kenyan economy determines that not all labour relations or contracts take a monetary form. This underscores the importance of distinguishing between work that is performed under traditional or non-monetary arrangements and work that takes place on a monetized basis. Before entering the discussion of the wage level, this section looks in more detail at the occupational structure of the economy by distinguishing between those who work under traditional arrangements and those who work for pay or a wage, and then by distinguishing among the latter by the type of employer or work arrangement. After this discussion, the section focuses on the mean wage or pay that workers receive for their work under a monetized set-up.

### 5.1 Working under a traditional and monetized setting

According to the KIHBS, there are 4.5 million people in Kenya working for pay. This type of work for pay is a secondary form of work in rural areas but the predominant labour relationship in urban settings: about 30 percent of the rural population indicated that they work for pay, compared to 75 percent in cities (Figure 5.1a). In terms of the number of people, the sheer size of the rural population means that these areas still account for the largest number of people working for pay (2.7 million), compared to 1.7 million people in cities. The two combined make up the 4.5 million people working for pay (Figure 5.1b).<sup>18</sup> Both men and women work for pay, but

**Figure 5.1: Proportion of people that work for pay or wages in rural and urban areas**



**Source:** authors' calculations based on KIHBS 2005/06.

<sup>18</sup> According to the figures in the KIHBS, 77 percent of the working-age population lives in rural areas.

## Box 1. Apprenticeships:

Despite their widely acknowledged importance, the practice of apprenticeship appears to be very limited in Kenya. According to the KIHBS, there were only about 30,000 people in apprenticeships at the time of the survey. Half of all apprentices do not receive a wage, while the other half does; they are also split in half in terms of location: between urban and rural areas.

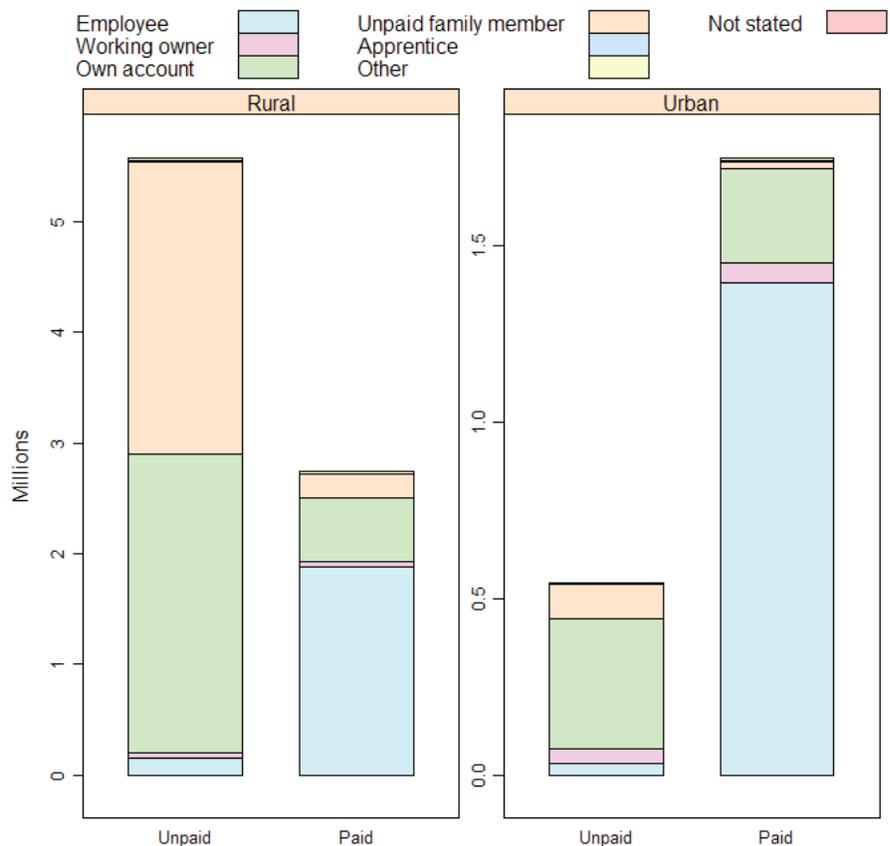
Apprenticeship is a youth occupation; about 95 percent of apprentices are between 15 and 34 years of age. Almost 50 percent of those are 20 to 24 years of age. The youngest of the young account for 25 percent of them and those 25 to 30 for about 20 percent. Only about 6 percent of young apprentices are aged 30 to 34 years.

Apprenticeship can play an important role for young people by smoothing the transition from school to the job market by helping them gain experience and skills and expanding their job opportunities and the possibility of opting for a better job. Given the small size of apprenticeship, it is clear that Kenya will benefit from an enlarged apprenticeship programme with adequate incentives to make a good match between young workers and employers.

the number and proportion of men is larger than that of women, particularly in rural areas (Figure 5.1c).

The KIHBS 2005/06 classifies work for pay into six categories: paid employee, working employer, own-account worker, unpaid (sic) family worker, apprentice, and other. The most important category is working for pay employees. There are 1.9 million paid employees in rural areas and 1.4 million in urban areas (Figure 5.2). Rural employees outnumber those in urban areas due to the size of the rural population. However, the employee category is relatively more important in urban areas. Second in importance among those who work for pay are own-account workers. There are about 580,000 of them in rural areas and 270,000 in urban areas. All other workers working for pay—i.e. working owner, apprentices and others—account for a small number of people (see Box 1 for further details on apprenticeships).<sup>19</sup>

**Figure 5.2: Number of people working for pay in urban and rural areas by category of work**



Source: author's calculations based on KIHBS 2005/06.

19 If apprentices do receive a wage, this is comparable to the wage a young employee gets. Incidentally, note that even if the sample of the household survey severely underestimates the size of youth apprenticeships, it might be safe to say that any reasonable correction for underestimation might still result in numbers suggesting the need to expand apprenticeships.

## 5.2 Effectively Working for pay

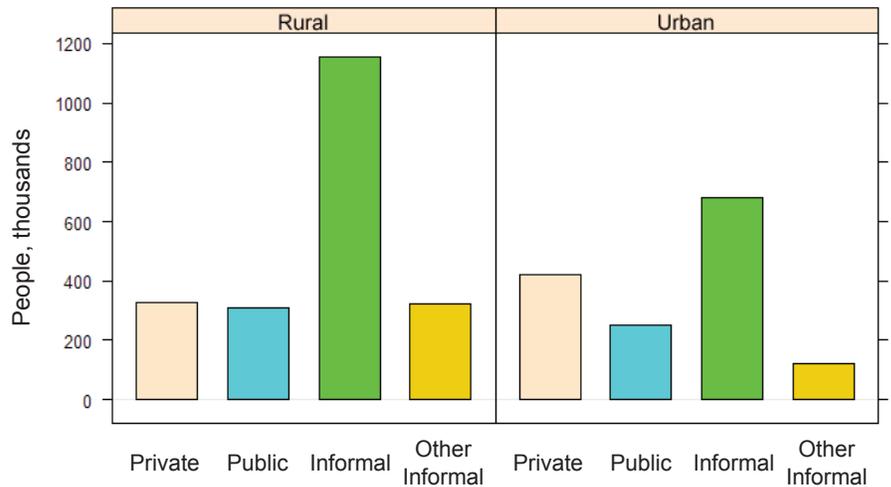
Of the 4.5 million that declare working for pay, we now focus our attention on the 3.6 million that reported they have received at least one Kenyan Shilling as payment and have worked at least one hour during the week prior to the interview. To better understand the structure of income from labour, we group the KIHBS into four categories: employees in the public sector; employees in non-governmental businesses or institutions, which we call private sector; employees in informal businesses; and all other work categories—working owner, own account, unpaid family, apprentice, other and no stated. We call the first two categories formal employment and the second two informal.

The largest number of workers in these four categories are the 1.8 million employees in informal businesses, of which the majority live in rural areas. Next in importance are employees in the formal private sector (about 750,000 people). In third and fourth place are public-sector and other informal workers (Figure 5.3).

Young people tend to work as employees in informal businesses and, secondly, as employees of the formal private sector (Figure 5.4). Adults concentrate in the public sector and other informal employment. This suggests that youth employment promotion policies should attempt to increase the number of youth that are hired in the public sector. At the same time, of course, these policies should try to make the hiring of young people by the private sector more attractive. It also suggests that policies should emphasize employment in rural areas.

By far the most numerous group of young people aged 15–24 years are employees in an informal business (Figure 5.5) in both rural and urban areas. Only for people aged 25–34

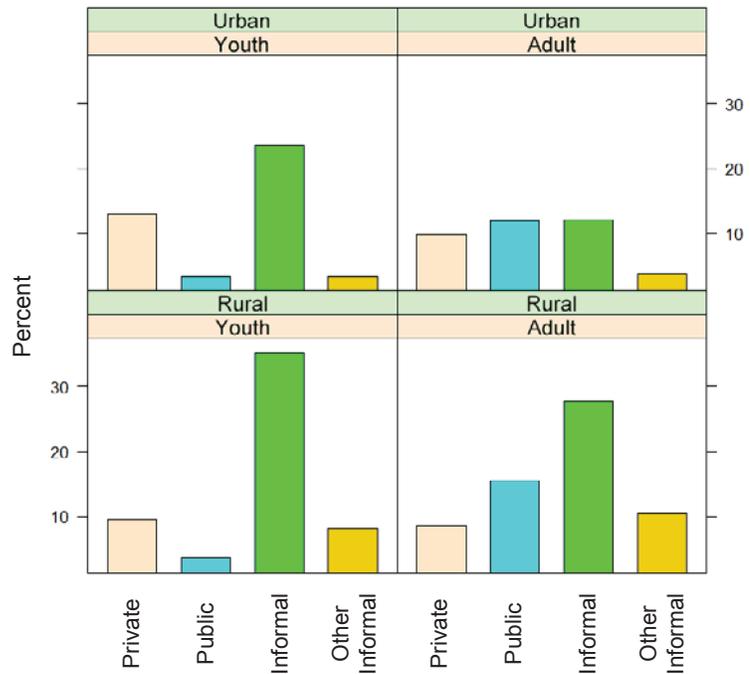
**Figure 5.3: Waged workers by sector, area of residence, and age (thousands)**



**Source:** authors' calculations based on KIHBS 2005/06.

**Note:** Informal refers here to employees in informal businesses.

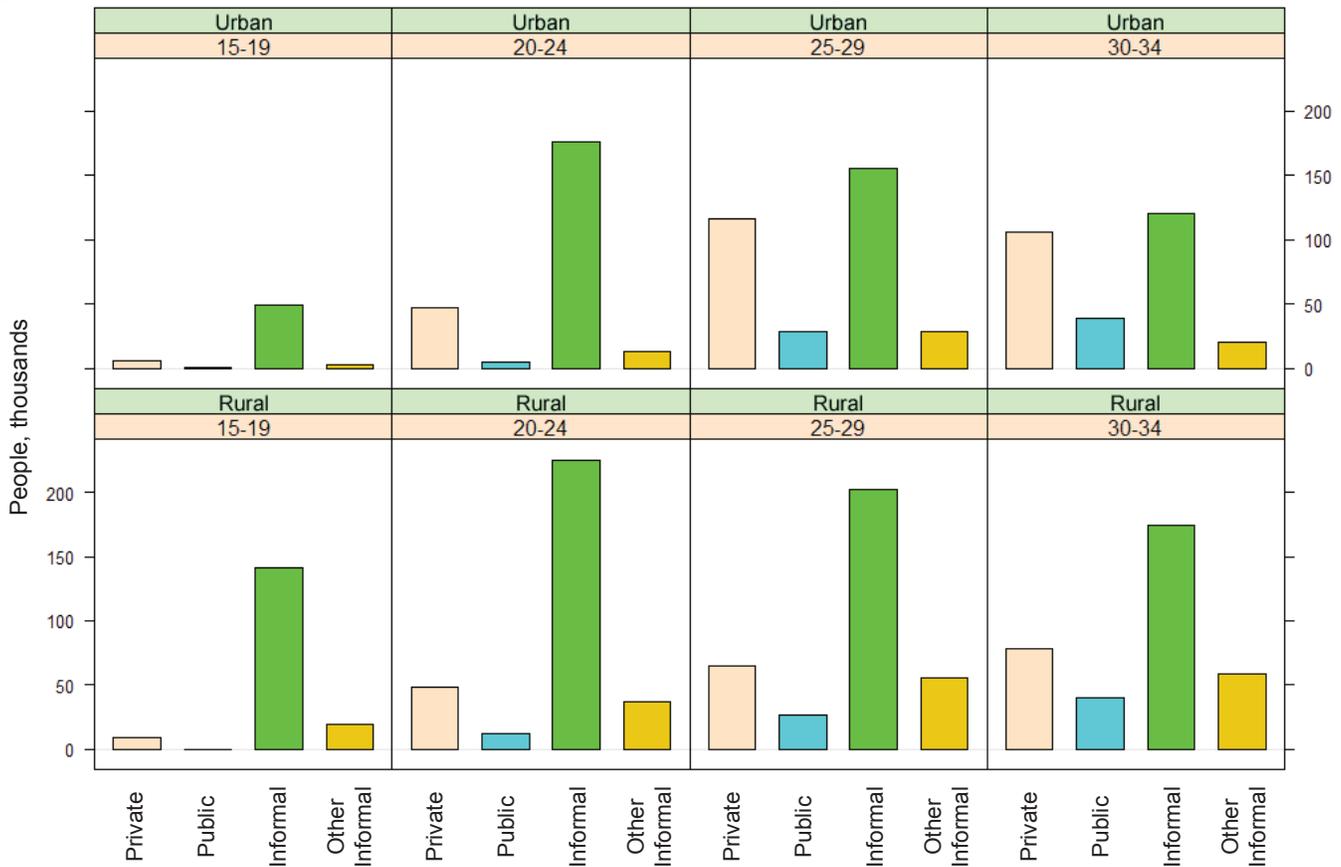
**Figure 5.4: Waged workers by sector, and area of residence (percent)**



**Source:** authors' calculations based on KIHBS 2005/06.

**Note:** Informal refers here to employees in informal businesses.

**Figure 5.5: Number of workers by type of work and age**



**Source:** authors' calculations based on KIHBS 2005/06.

**Note:** Informal refers here to employees in informal businesses.

does a job in the formal sector rival in importance those with a job in an informal business; and that only happens in urban areas. The number of jobs held by young people as employees in the public sector increases gradually in rural areas, but the number remains low in urban areas among those aged 15–24 years. This suggests that policies to promote youth employment might consider recommending that the public sector change its recruitment policies to extend the hiring of young people aged between 15 and 24 years of age.

To this end, various modalities of hiring could be tried, including apprenticeship programmes. Youth employment policies might also consider creating incentives to increase the hiring of young people by the private sector in such a way as to increase employment of the youngest (aged 15–19 years) and of young people in general in rural areas.

### 5.3 Wages by area

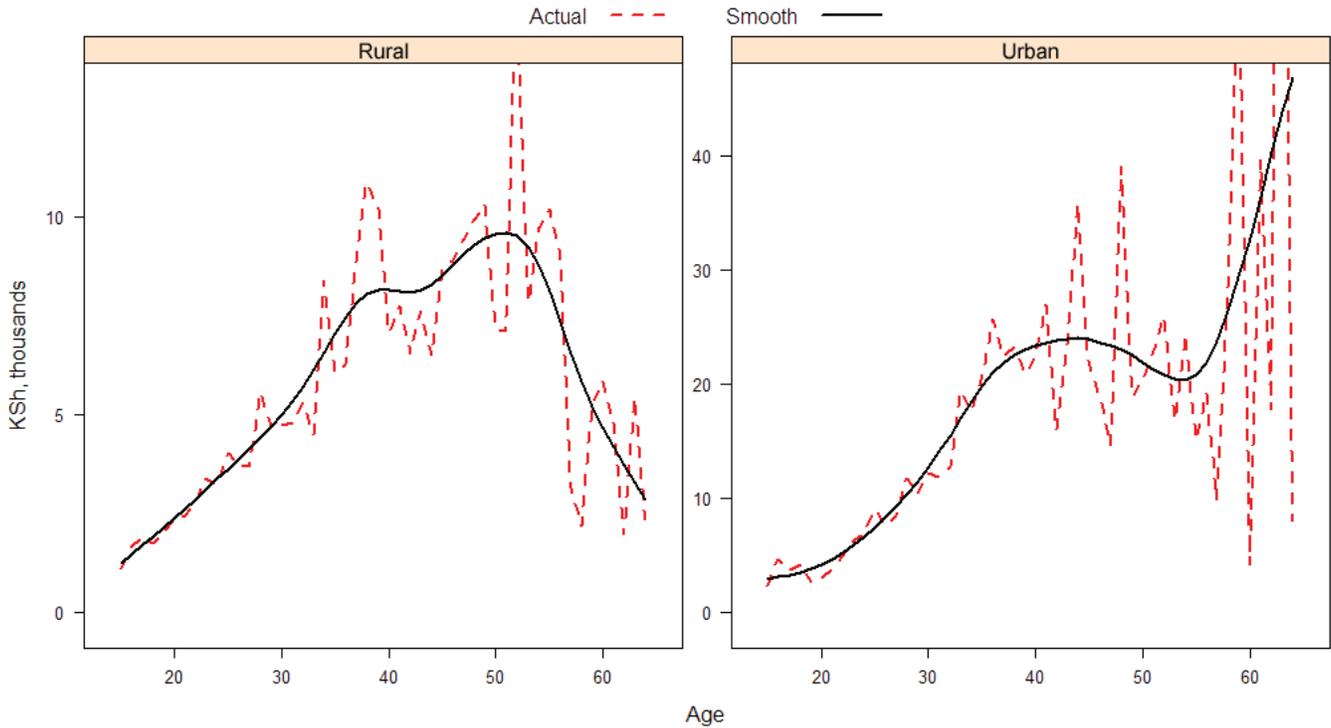
Wages in Kenya, as in many other countries, are distinctively higher in urban than in rural areas.<sup>20</sup> While rural wages by age group typically vary from KSh 3,000 (Kenyan Shillings) to KSh 9,000 per month, in urban areas the typical variation is between KSh 5,000

<sup>20</sup> We use the term wages for labor retributions to public and private employees, but also for the retributions to non-employee workers that declared working for pay such as working owners and others. We do not include the labor income declared by labor groups that received an income but indicated not working for a pay such as workers in own family business or agriculture holding.

# Wage Earnings

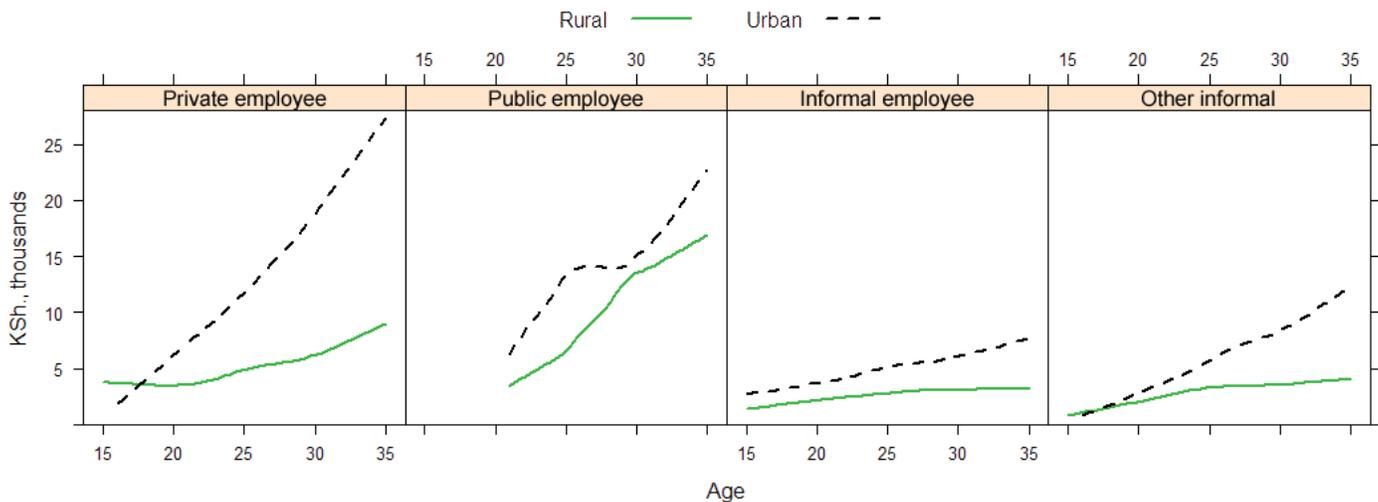
and KSh 25,000 (Figure 5.6; note the different scales). The pattern of wages by age is also distinctive. An urban worker might reach the pinnacle of earnings somewhere between 40 and 50 years of age, while a rural worker might do so past the age of 50. There are also differences when workers are younger. The pace of the increase in mean wages throughout the youth years is almost constant in rural areas, but in urban areas it starts slowly and only accelerates around the age of 30 (Figure 5.6).

**Figure 5.6: Wage variation by age in rural and urban areas**



*Source: authors' calculations based on KIHBS 2005/06.*

**Figure 5.7: Wages by type of employer and location**



*Source: authors' calculations based on KIHBS 2005/06.*

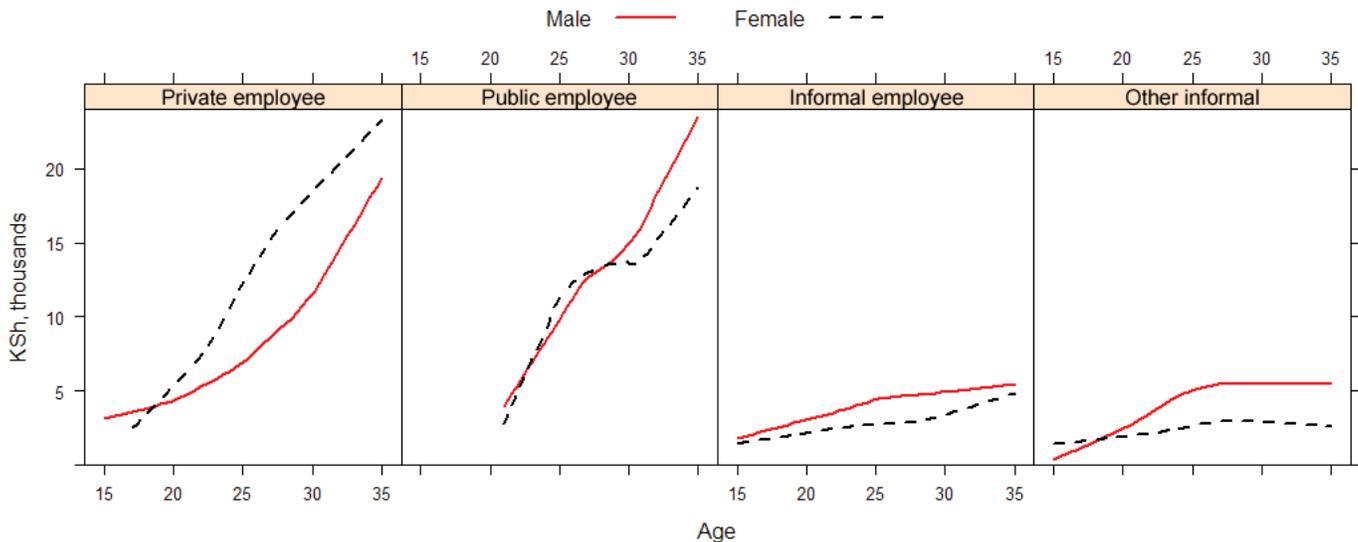
## Wage Earnings

Wages depend heavily on the type of employer. Mean wages are higher in the formal private sector and lowest in informal businesses (Figure 5.7). Wages are higher in cities than in rural areas, and the urban wage advantage is larger for older age groups. This trend is particularly clear among employees in the private sector and, to a lesser extent, among other informal workers. On the other hand, the trend is softer among employees in informal businesses and hardly visible among public-sector employees. Finally, as expected, the wage floor for paid work corresponds to the mean wage of employees in informal businesses, which is notably only slightly higher for urban than rural areas and for older than younger young workers.

### 5.4 Wage differences by gender

The KIHBS confirms that male wages are higher than female wages. Among young people, this is clearly the case in informal jobs and in the public sector (Figure 5.8). However, it is not the case for young workers aged 15–24 years in the public sector and for young people of all ages in the private formal sector. These last two results are a bit surprising but can easily be explained after a more detailed look at the data.

**Figure 5.8: Wages by gender**

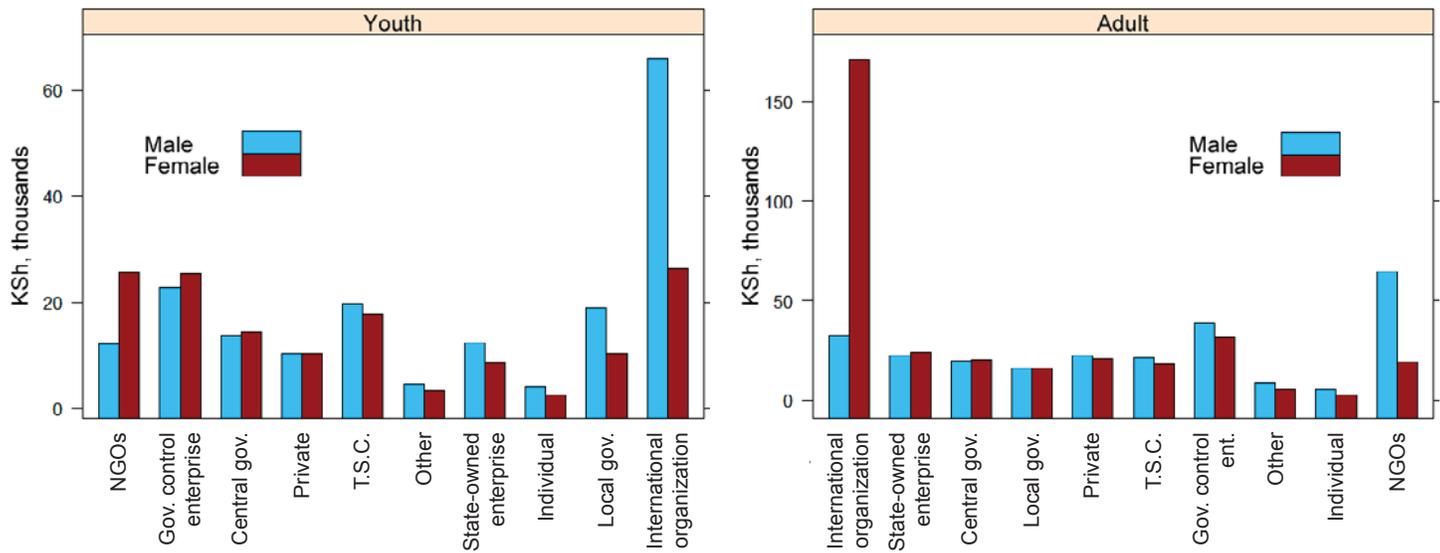


**Source:** authors' calculations based on KIHBS 2005/06.

To better understand the wage differences between males and females, we sacrifice age detail to gain information on the type of employment. Thus we look at the wages of five age groups in 10 employment categories. Among young people, the mean wage paid to females is higher than that paid to males in non-governmental organizations (NGOs) and government-controlled enterprises, slightly higher in central government and practically the same in the private formal sector (Figure 5.9, left-hand panel—the bars on the left show a higher wage for young women than for young men). Female wages are lower for the rest of the employers—namely, Teachers Service Commission (TSC), state-owned enterprises, individual (informal) employers, local government and international organizations. The wage advantage females have in adulthood is significantly different. Females have a large advantage over males in international organizations, a small edge in state-owned enterprises and central government, almost the same wage in local government but a smaller wage in the other types of employers (Figure 5.9).<sup>21</sup>

<sup>21</sup> Some of these differences can be attributed to variations in the mix of education and occupation within each of the four gender-area groups.

**Figure 5.9: Wages by type of employment for youth and adults by gender**

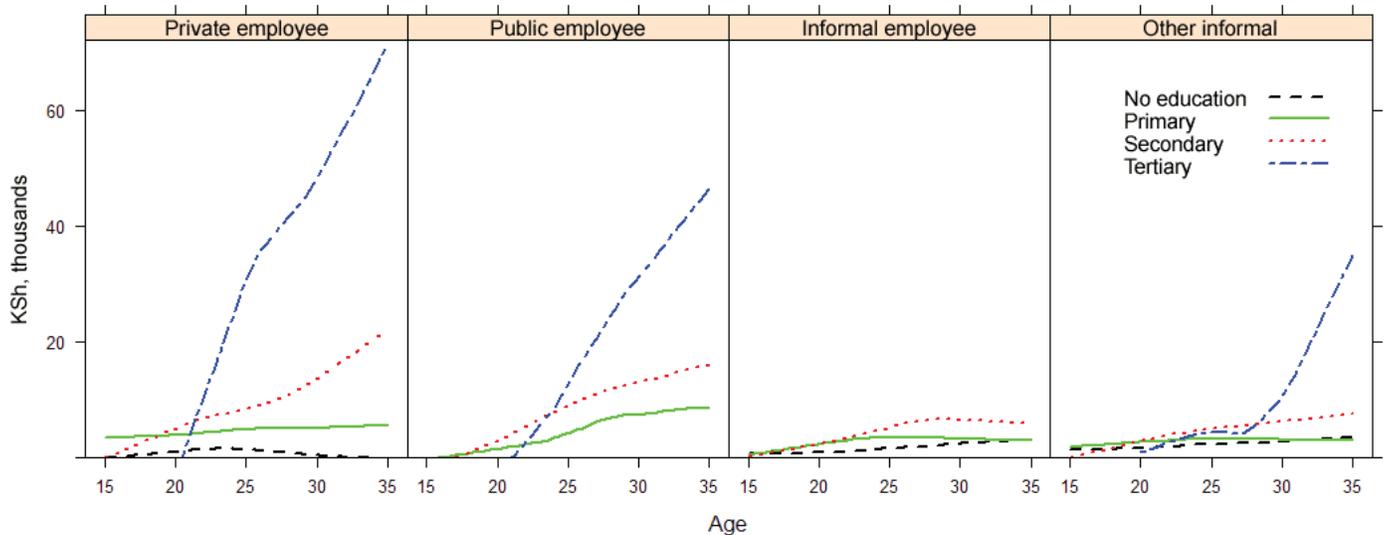


Source: authors' calculations based on KIHBS 2005/06.

## 5.5 Wage differences by level of formal education

As expected, wages increase with formal education. The first thing that can be highlighted is the extent to which tertiary education results in higher wages (Figure 5.10). Taking the case of employees in private formal businesses, where the contrast is sharpest, the wage of a 25-year-old person with tertiary education is three times higher than that of someone with secondary education. At around 34 years of age, the wage difference between the two is five-fold. The gap in other informal, public-sector or informal businesses is also significant.<sup>22</sup>

**Figure 5.10: Wages by education, age and type of work**



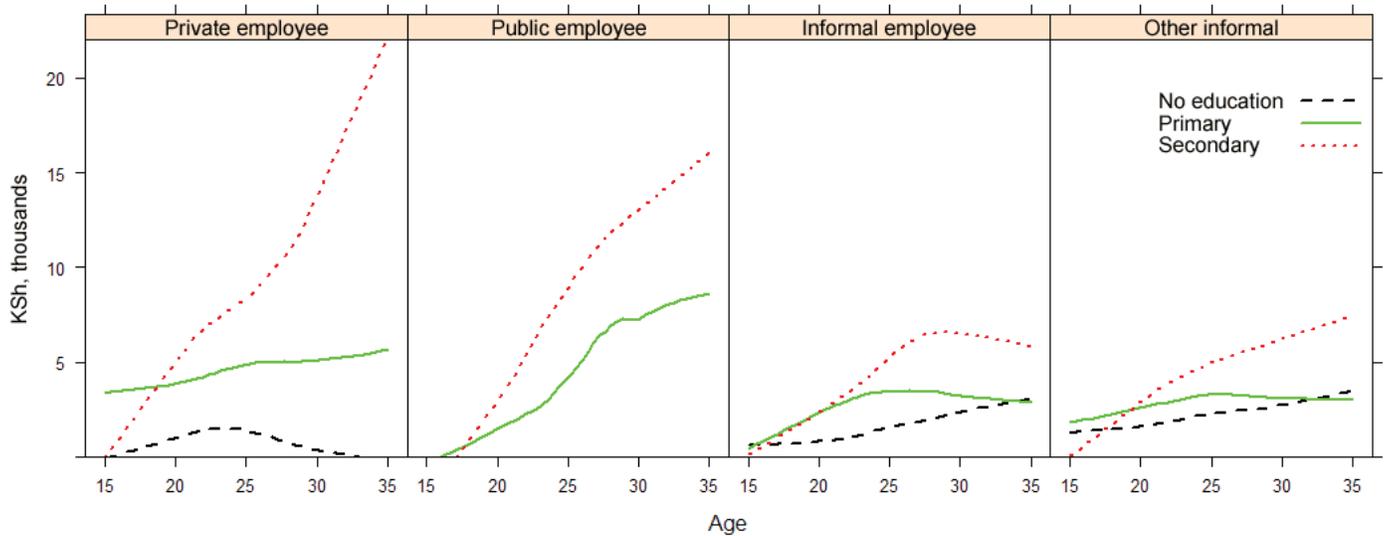
Source: authors' calculations based on KIHBS 2005/06.

<sup>22</sup> The category of other informal in our data might include professionals, which will explain the importance of tertiary education and also the fact that their presence is only apparent among older youth groups.

## Wage Earnings

There is also a clear differentiation in the wages of young people with secondary, primary and no formal education, but the magnitude of wages and their differences are much smaller. The size of the difference between the wages of young people with secondary and primary education is striking (Figure 5.11). Differences are larger in the private sector, followed closely by the public sector and, at a distance, by other informal work and informal businesses. For example, while wages do not differ much at the age of 20, at 34 years of age the wage of a young person with secondary education compared to the wage of someone with primary education is twice as large in the public sector but three times as large in the private sector. On the other hand, there is not much difference between the

**Figure 5.11: Wages by education, age, and type of work**



**Source:** authors' calculations based on KIHBS 2005/06.

wages of a young person with no formal education and one with primary education. It is worth noting that the public sector deviates somewhat from this general pattern, as the wages of young people in their 30s (with primary education) are significantly higher than the wages of those with no formal education. This may be partially explained by the wage structure of public bureaucracy.

It appears that, for young people, education really makes a difference in the wages they can hope to earn, but also that the interaction between age and type of job is very important. Young people with primary education see their wages improve when they are older if they happen to have a job in the public sector. Young people with secondary education can hope to earn a higher wage when they are older in any sector, more so in the public and private formal sectors, but also in the informal sector. A statistical exercise analysing wages by age, education, type of area of residence, gender and type of employment (among other variables) confirms the analysis presented here (Zepeda et al., 2012). It suggests that if everything else is equal, males earn significantly higher wages than females, and urban workers have higher wages than rural workers. The exercise also confirms that education and access to a formal job are decisive factors in determining wages. In particular, the exercise shows that, while age is an important determinant of wages, education is much more important.

This suggests that workers with secondary and tertiary education are in strong demand in the economy. The idea that there is a strong demand for young people with secondary education is consistent with the rapid reduction in unemployment among this group of people. This suggests that any youth employment promotion scheme should not interfere with the pursuit of secondary education. Even better, policies promoting youth employment should provide incentives for young people to pursue and acquire

secondary education. The wage premium of tertiary education is so large that it goes without saying that the supply might well be falling short of the market's needs.

### 5.6 Concluding remarks

People working for pay represent a significant proportion of the employed Kenyan population. Large numbers of people work for pay in urban areas, where they represent the majority of workers, but the largest numbers are to be found in rural areas. The majority of these jobs are for employees in informal businesses, with males dominating the work-for-pay sphere. Young people tend to work in informal businesses, as adults tend to capture a higher share of the jobs in the formal private sector and, particularly, in the public sector. This suggests that youth employment policies should consider targeting an increase in job opportunities for those aged 15 to 24 years in the private and public sector; this could perhaps be done through wide apprenticeship programmes.

Wage structures confirm that jobs in the public and formal private sectors are the most attractive occupations. Wages by type of employer suggest that the lowest wage paid to formal employees is the mean wage paid in informal businesses, slightly higher in cities than in rural areas and slightly higher for older young people. The analysis also confirms that there are significant wage differences between males and females. Any programme aiming to create jobs should closely look at the lowest wage paid in formal jobs and determine to what extent such a wage represents a socially satisfactory reward for work in public work programmes and to what extent a higher wage might inhibit otherwise economically viable activities. It should also pay close attention to measures that could narrow wage differences between males and females.

The large wage premium for workers with tertiary education and the opportunities for wage improvement opened by secondary education underscore the need to increase education in Kenya. Any youth employment promotion programme should make its initiatives compatible with the aim of increasing education.

This study did not look at the impact of apprenticeships or vocational training on earnings. However, it highlighted that the size of current programmes pale in comparison to the need for bringing more young people into apprenticeships. It is recommended that any scaling up of apprenticeships should not be done in isolation from efforts to increase education.

## 6. Youth Involvement in Household Enterprises

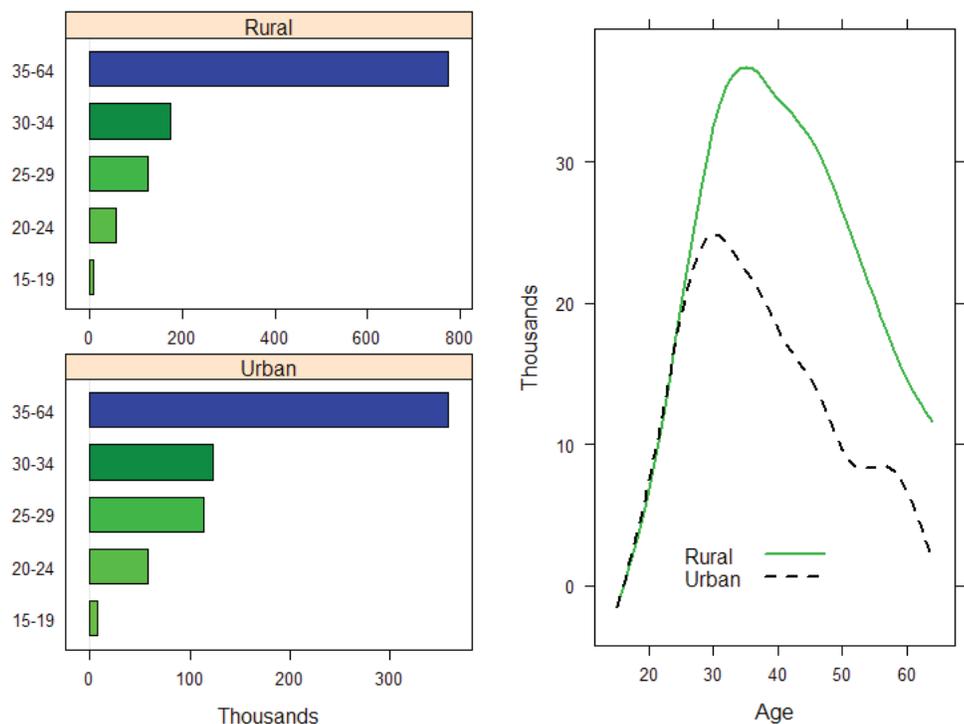
The KIHBS shows that 1.7 million families owned at least one household enterprise in 2004/05, and a little more than 230,000 owned more than one. Thus, one in every four households owns at least one of these enterprises, confirming that household enterprises are an important form of Kenya's economic activity.<sup>23</sup> In total, the KIHBS registered almost 2 million enterprises, of which 1.8 million are owned by people of working age.<sup>24</sup> In this section we will present information on the type of business, location, access to credit, volume of sales and profits of these enterprises, focusing on those owned by young Kenyans and comparing them, to the extent possible, to those owned by adults aged 35–64 years.

### 6.1 The youth/adult profile of rural and urban household enterprises

The majority of household enterprises—about two thirds of them—operate in rural areas. Household enterprises are typically owned by the male head of the household (two thirds), less than a third by the female head (mother), about 4 percent by a son, and around 1 percent by a daughter. A minority of these enterprises are owned by more than one household member. About one in 10 enterprises are owned by two household members; the most frequent second owner of these enterprises is the female head or mother (75 percent), and then the male head or father (11 percent).

Household enterprises' primary activity is the provision of services; most of them have a mobile or precarious fixed location, and they generally have limited access to credit. Nevertheless, these enterprises provide jobs to a significant part of the population. Considering owners and employees, household enterprises account for about 5 million jobs. Although many poor households own a household enterprise, running a household enterprise is not limited to poor people; relatively wealthy households also own these types of enterprises. The majority of the owners of these enterprises also function as managers of the enterprise. For convenience, we will present data according to the owner of the enterprise, i.e. we will not distinguish between owners and managers.

**Figure 6.1: Household enterprises by age and type of area of residence (thousands of enterprises)**



Source: authors' calculations based on KIHBS 2005/06.

23 According to the KIHBS there are 8,288,136 households (counted by the heads).

24 The majority of the remaining enterprises are owned by people ages 65 years and older, but the survey also reports some enterprises owned by people younger than 15 years.

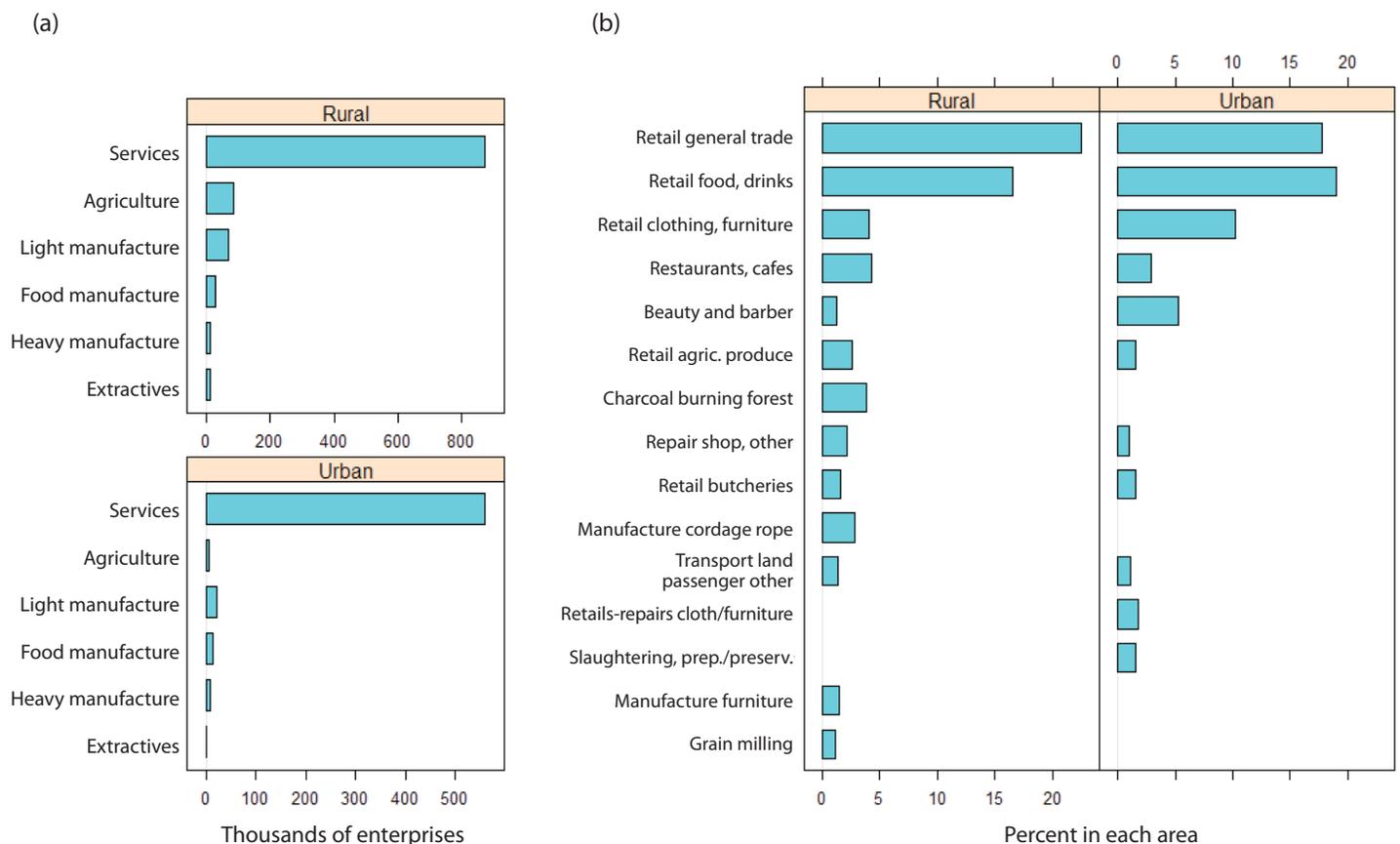
# Youth Involvement in Household Enterprises

Adults own the majority of household enterprises (about 60 percent), with 800,000 in rural areas and close to 400,000 in urban areas (Figure 6.1a—note the differences between rural and urban scales). In contrast, young people head about 400,000 enterprises in rural areas and 300,000 in urban areas. This implies that young people own about one third of the rural enterprises and almost half of the urban enterprises. Among the young people in rural areas, those aged from 30 to 34 years own the largest proportion of enterprises; in urban areas the largest proportion corresponds to a larger age segment: those aged 25 to 34 years. This suggests that urban areas might offer young people more opportunities earlier to own a household enterprise. In fact, the peak year for household enterprise ownership occurs shortly before the age of 30 years in urban areas but only after 35 in rural areas (Figure 6.1b).

## 6.2 Sector of activity

Around 70 percent of household enterprises concentrate on a single product or service; others offer a mix of two or more products or services. The great majority of these enterprises are engaged in service activities, close to 900,000 in rural areas and 600,000 in urban areas (Figure 6.2a). There are a small yet noticeable number of rural household enterprises dedicated to agriculture, light manufacturing and food processing. The presence of these activities is significantly smaller in urban areas, both in relative and absolute terms.<sup>25</sup>

**Figure 6.2: Household enterprises by sector of activity (thousands of enterprises)**



Source: authors' calculations based on KIHBS 2005/06.

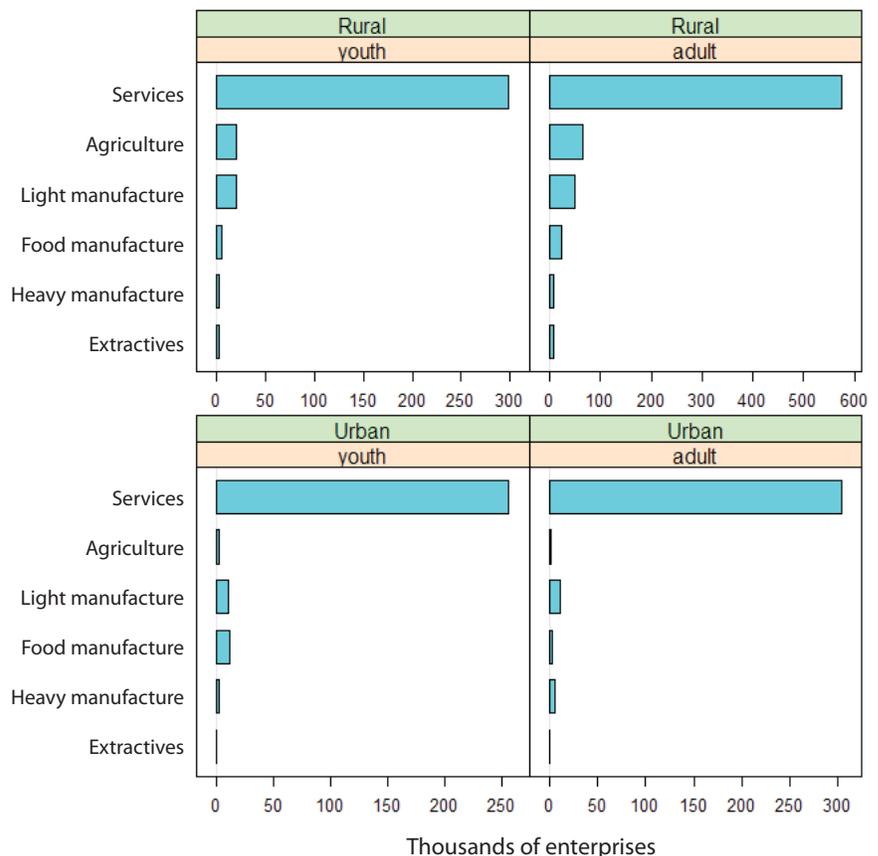
25 The distribution of household enterprises across finely defined sectors is relatively similar (that is, 4 digit industrial classification).

## Youth Involvement in Household Enterprises

In both rural and urban areas, retail trade and sales of food and drinks are the most frequent business of household enterprises (Figure 6.2b). There are also some expected differences between settings. Agriculture-related industries (such as cordage, grain milling and charcoal burning) are present in rural areas but not in cities, while retail sales of clothing and furniture and beauty salons and barber shops figure as important activities in cities but much less so in rural areas.

There is not much difference between the sector distribution of household enterprises run by adults and those run by young people (Figure 6.3). But, interestingly, youth-headed household enterprises have a slightly higher concentration in services, suggesting perhaps that venturing into other sectors calls for some know-how or that the needed resources are not readily available for young people. The flipside of a higher concentration in service-related industries is a lower concentration in agriculture, suggesting that young people's limited access to land might be an obstacle for owning more enterprises in this sector.

**Figure 6.3: Sector distribution of household enterprises by sector and age of owner (thousands)**



*Source: authors' calculations based on KIHBS 2005/06.*

### 6.3 The location of household enterprises

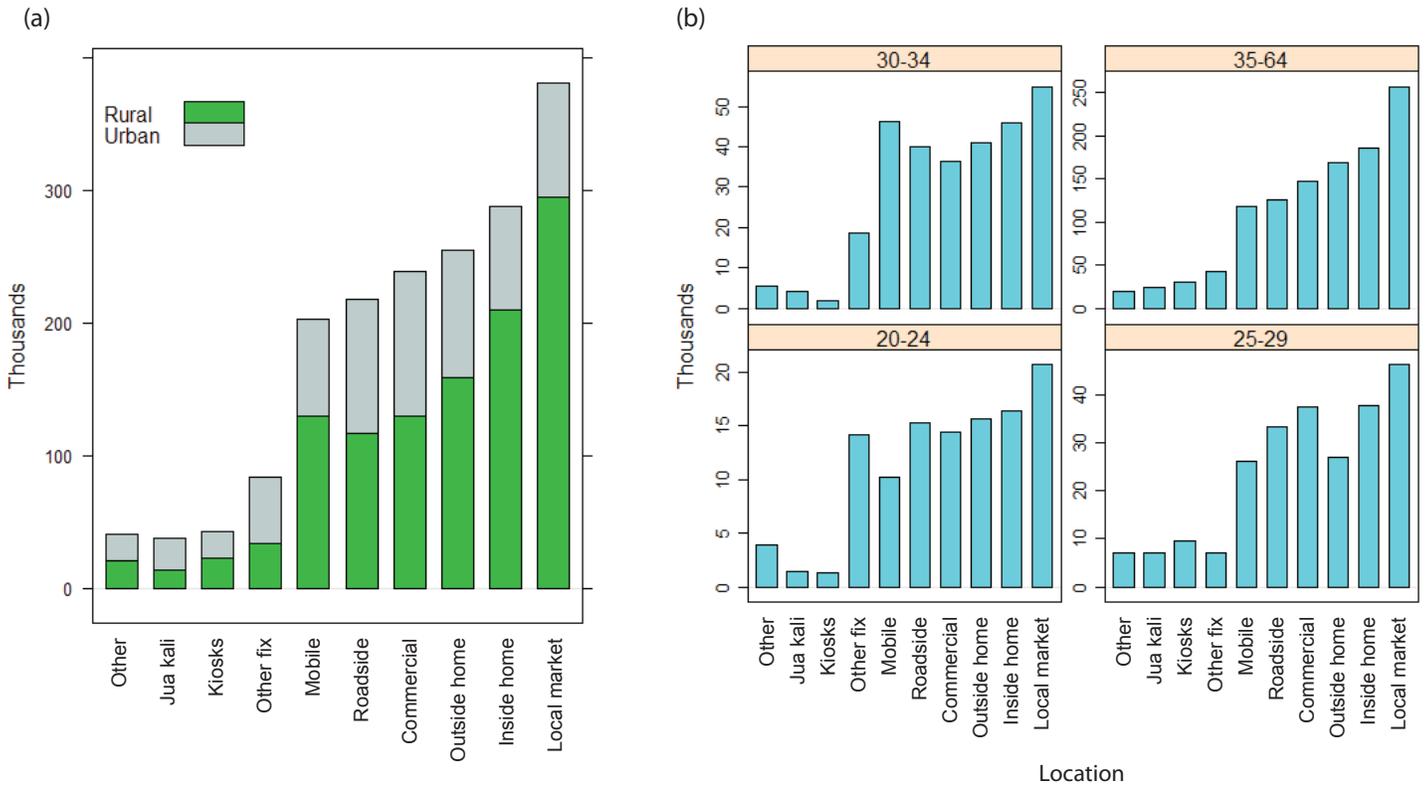
Household enterprises operate from a variety of locations. Business location is important because working conditions and revenue might differ from one site to another.<sup>26</sup> The two most frequent business locations are home and local markets (Figure 6.4a). This can be explained by the fact that the majority of household enterprises (63 percent) operate in rural areas. In contrast, the three locations with fewest enterprises are the *Jua-Kali* (small-scale craft or artisanal work, such as making tools or textiles), kiosks and other fixed locations. The age pattern of ownership of household enterprises indicates that enterprises owned by young people tend to be located more frequently in mobile, roadside and other fixed locations. In comparison, adult-owned enterprises tend to concentrate in local market locations (Figure 6.4b).

### 6.4 The performance of household enterprises

Household enterprises owned by people aged 15 to 64 years have average sales of KSh126,000 in a six-month period. Average sales in urban areas (KSh 241,000) are almost seven times higher than average sales in rural areas (KSh 36,000). On a monthly basis, urban

<sup>26</sup> Youth enterprises are relatively small. They employ an average of two other family members, one male and one female, and four non-family people.

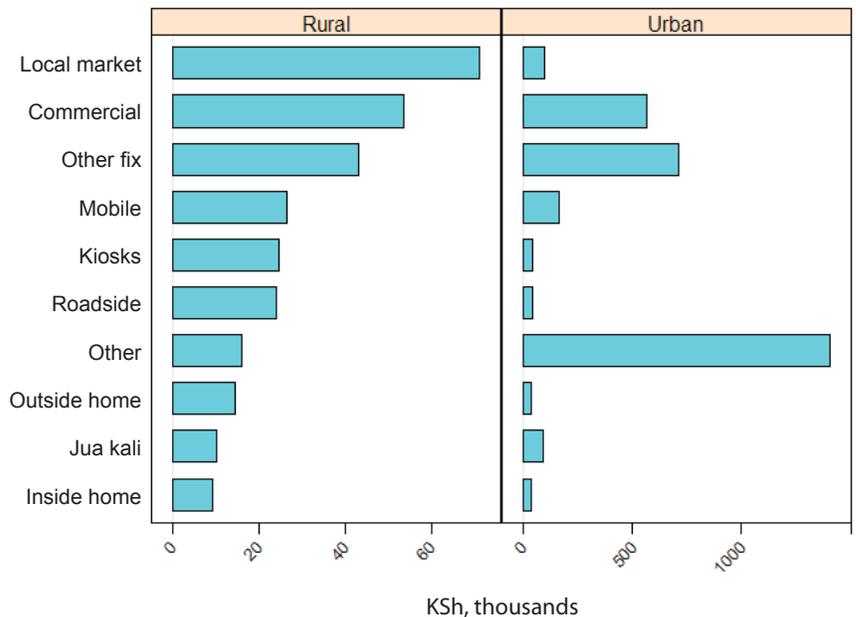
**Figure 6.4: The location of household enterprises by age of owner (thousands)**



Source: authors' calculations based on KIHBS 2005/06.

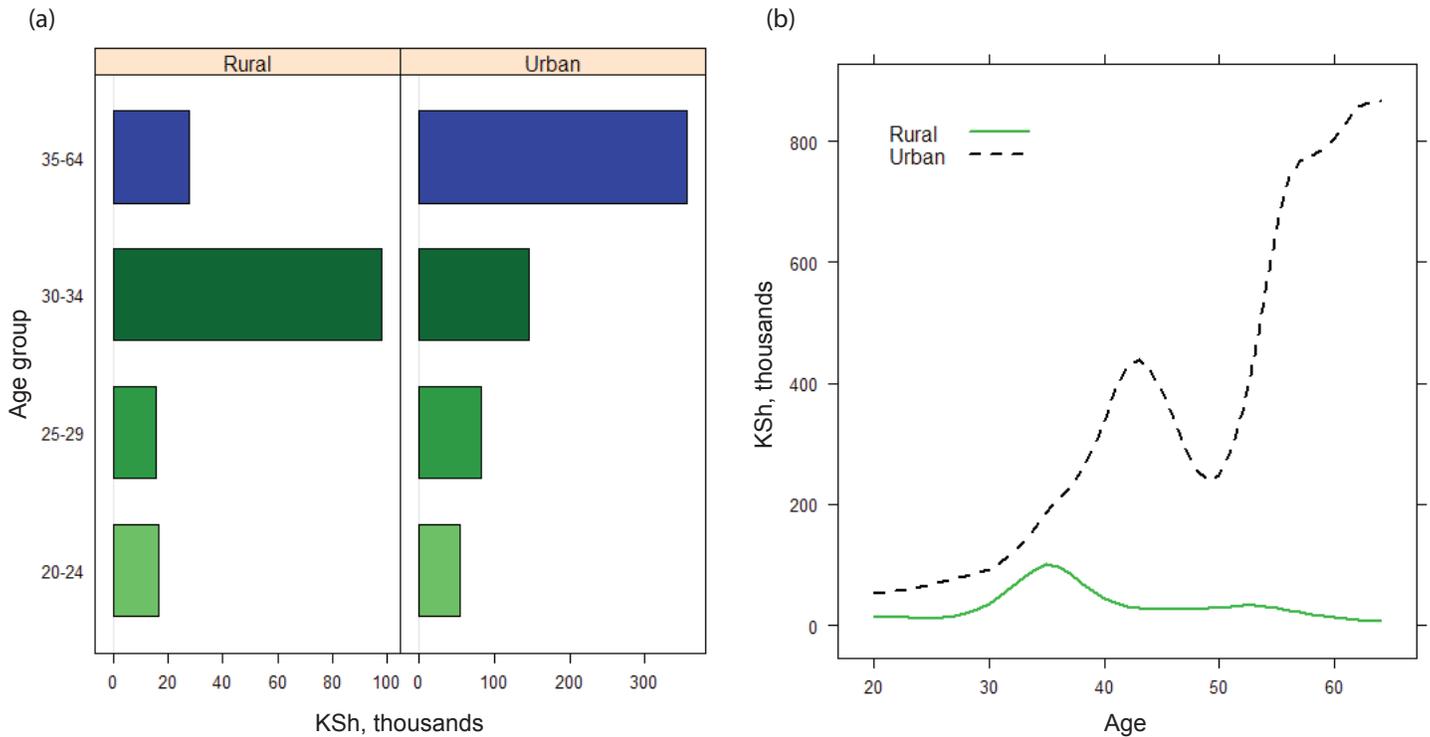
sales are equivalent to about KSh 40,000, which is about seven times the wage of a 35-year-old employee in an informal business. In rural areas, sales are around KSh 6000, equivalent to twice the average wage of an employee in an informal business in that setting. Three rural locations show strong average sales; ranked from high to low, these are: local markets, commercial areas, and other fixed locations (Figure 6.5). Two of these locations are also important in urban areas but in a different order. Locations that show the highest sales are other, followed by other fixed and then commercial areas. This means that in rural areas the most frequent location (local markets) is also the one with highest average sales. The most frequent urban location (commercial area), however, is not the one with the highest volume of sales.

**Figure 6.5: Average sales of household enterprises by location and area (KSh '000 over a six-month period)**



Source: authors' calculations based on KIHBS 2005/06.

**Figure 6.6: Average sales of household enterprises by age of owner and area (KSh '000s over a six-month period)**



**Source:** authors' calculations based on KIHBS 2005/06.

Sales volumes are higher for enterprises that have older owners. This is probably because enterprises have been in business longer or owners had more start-up capital (as access to credit might be better), which may translate into more products to sell or a better ability to promote their products and/or services. The increase is particularly strong (doubling) from those aged 30–34 to those aged 35–64 years (Figure 6.6a). In rural areas the pattern is irregular. Adults and young people aged 30–34 years have higher sales than enterprises owned by young people aged 20–29 years, but there is not much difference between the 20–24 and 25–29 years age groups. Sales for young people aged 30–34 years are much higher (more than triple) than sales of adults. This is an interesting finding about which not more can be said here, as it calls for a more detailed investigation beyond the scope of this study.

A detailed look at average sales of household enterprises in rural and urban areas by age of the owner suggests that the prime age for business in rural areas is between 30 and 40 years (Figure 6.6b). It also suggests that average sales of urban household enterprises are consistently higher than those of rural areas, with the earnings of people doing business peaking after 40 years of age. Sales for household enterprises peak when owners are around 43 years old and again after they are around 50 years of age. Estimates of sales of enterprises owned by people aged 50 and older are generally high. Some of them report extremely high sales in relative terms; these sales are excluded from the plot.

Among household enterprises run by young people, those owned by young people aged 30–34 years located in local markets and commercial areas have the highest volume of sales (Figure 6.7 — note the difference in the scale of sales of each age group).<sup>27</sup>

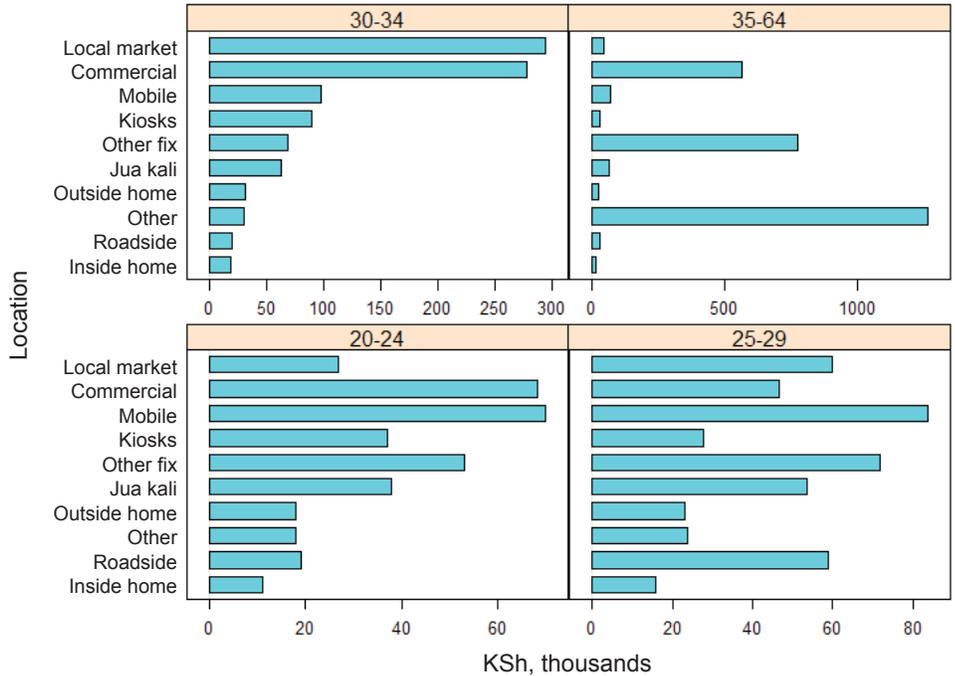
<sup>27</sup> How much the area of residence influences sales by location and age cannot be completely assessed due to the small number of cases in some data cells.

# Youth Involvement in Household Enterprises

Profits of household enterprises are only loosely related to total sales. There are many instances in which high sales do not lead to high profits. On average, rural household enterprises report profits equal to KSh 28,000 over a six-month period, compared to an almost 10 times higher profit for urban enterprises, at KSh 234,000. If compared to monthly wages, in urban areas, owning a household enterprise generates profits that are clearly better than the wage of an employee in an informal business.

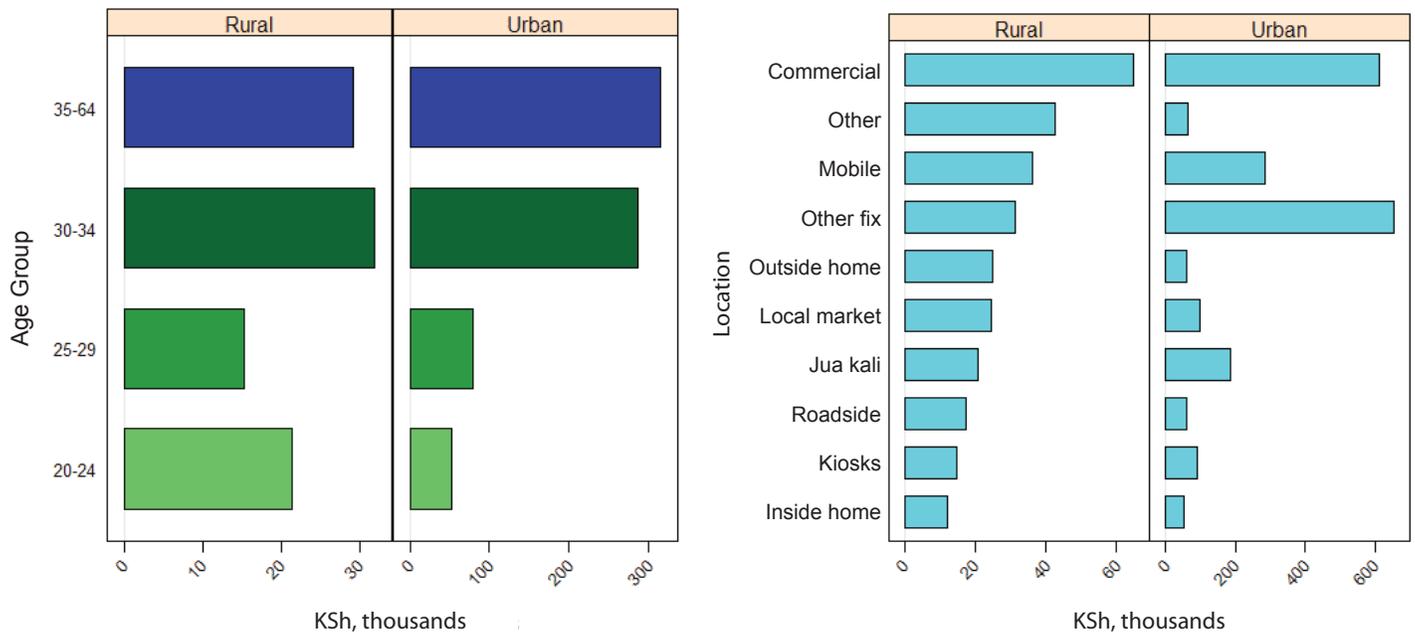
Commercial areas are highly profitable locations in both rural and urban settings. In rural areas, these locations record profits significantly higher than those of any other location; in fact, the next two locations in order of sales (other fixed and mobile) each have

**Figure 6.7: Average sales of household enterprises by age and location (KSh '000s over a six-month period)**



Source: authors' calculations based on KIHBS 2005/06.

**Figure 6.8: Average profits of household enterprises by age and location (KSh '000s over a six-month period)**



Source: authors' calculations based on KIHBS 2005/06.

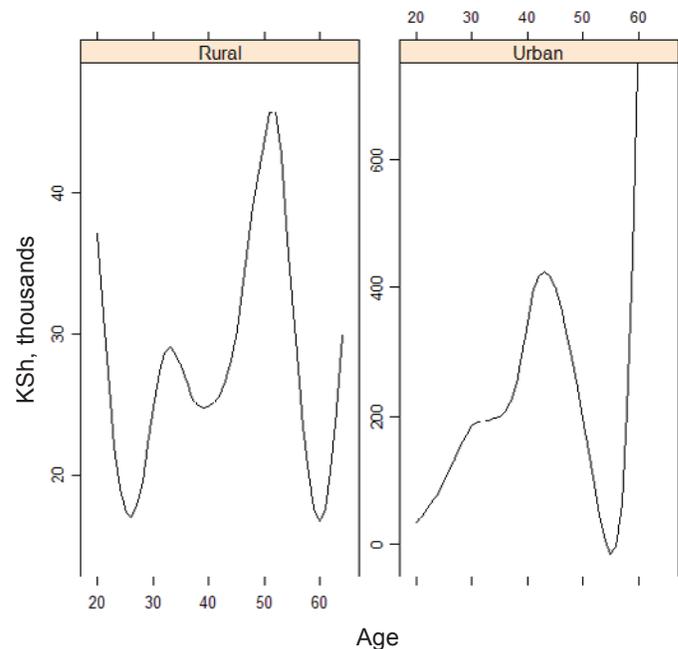
## Youth Involvement in Household Enterprises

profits that are only two thirds of the profits of businesses located in commercial areas. In cities, in contrast, commercial areas provide profits that are slightly smaller than the profits of other fixed locations. The significance of these differences is clearer if one recalls that, whereas commercial areas are sites of concentration in urban areas, only a moderate proportion of enterprises have such locations in rural areas (Figure 6.8a).

Average enterprise profits by age group are higher for adult and young owners aged 30–34 years and lower for young owners aged 20–29 years in rural and urban areas. The difference in profits is particularly large in urban areas (Figure 6.8b).

This suggests that the age at which household enterprises' performance improves substantially is when owners are approaching adulthood. A look at the yearly profit profile supports this view. In rural areas, the pattern is bit more nuanced, with profits also exhibiting two peaks: an absolute peak when owners are around the age of 53 (which is significantly later than in cities) and a relative peak when owners are around 32–33 years old. In urban areas, a first peak in profits occurs when owners are around the age of 43 years and later again when they are towards the age of 64 (Figure 6.9).

**Figure 6.9: Average profits of household enterprises by age in years and area (KSh '000s over a six-month period)**



*Source: authors' calculations based on KIHBS 2005/06.*

Distinguishing by age and location reveals that two urban and three rural locations are remarkably profitable, although such high profitability is restricted to enterprises owned by adult and young owners aged 30 to 34 years old. These locations are fixed and commercial areas in rural and urban areas and rural mobile locations (Figure 6.10—note the different profit scales of age panels). Note that differences in the profitability of locations are not as sharp for enterprises owned by young people between 20 and 29 years (except for the relatively strong profits of enterprises in Jua-Kali among young business owners aged 20–24 years).

### 6.5 Access to credit

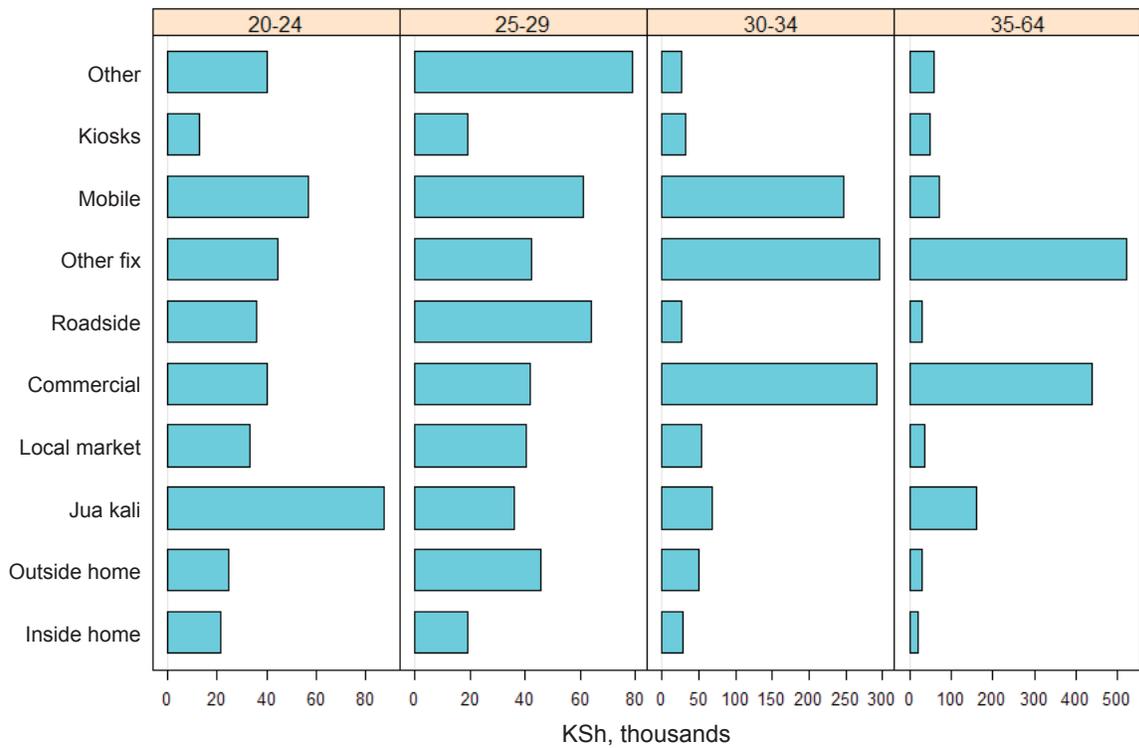
Start-up capital is required to set up a household enterprise. An adequate initial investment can have a positive impact on the profitability of the enterprise. The KIHBS allows us to form an approximate idea regarding start-up capital, as it includes information about the source of such capital. However, no information is available on the amount of money used to start the business.

In general, the most often cited sources of start-up funds are those closely linked to the household: 50 percent of the enterprises indicated that the most important source was their own savings, about 24 percent pointed to family loans, gifts or inheritances, another 10 percent to sales of household assets, and 5 percent to proceeds from other business (Figure 6.11). Thus, around three-quarters of start-up funds are directly linked to the household. About 6 percent of enterprises run by young people identified no main source of start-up capital, suggesting no capital was used. The large dependence on funds closely related to the owner's household suggests the need to support household enterprises from low-income households. Given the meagre resources they might have to begin with, these enterprises will be constrained in their future development.<sup>28</sup>

<sup>28</sup> This is an area in which employment programmes could play a role. Some evidence points to a lack of knowledge among the majority (about 60 percent) of young people on how the fund works, and another 54 percent expressed difficulties in accessing the fund (Mbatia et al., 2009).

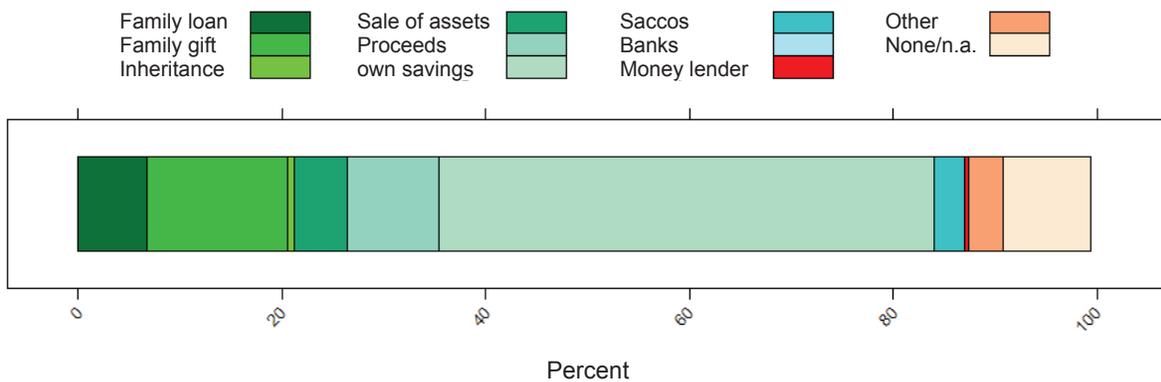
## Youth Involvement in Household Enterprises

**Figure 6.10: Average profits of household enterprises by age, location and area (KSh '000s over a six-month period)**



Source: authors' calculations based on KIHBS 2005/06.

**Figure 6.11: Frequency with which household enterprises used start-up funds by source cited as the most important**

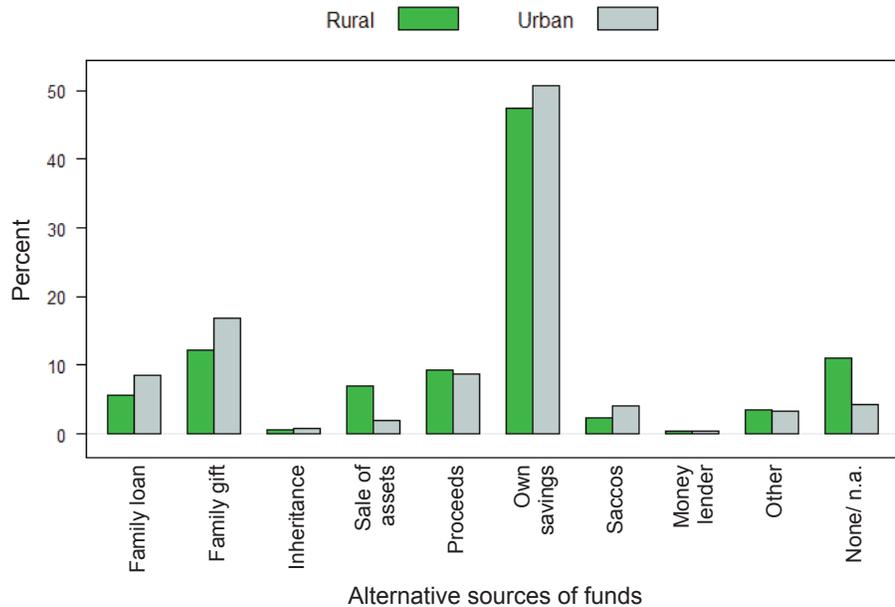


Source: authors' calculations based on KIHBS 2005/06.

The importance of the different sources of start-up capital is in general similar in rural and in urban areas (Figure 6.12). The most apparent differences are the larger proportion of rural enterprises sourcing capital from asset sales or with no capital at all, and the smaller proportion of rural household enterprises that use their own savings, family loans and family gifts as start-up capital.

## Youth Involvement in Household Enterprises

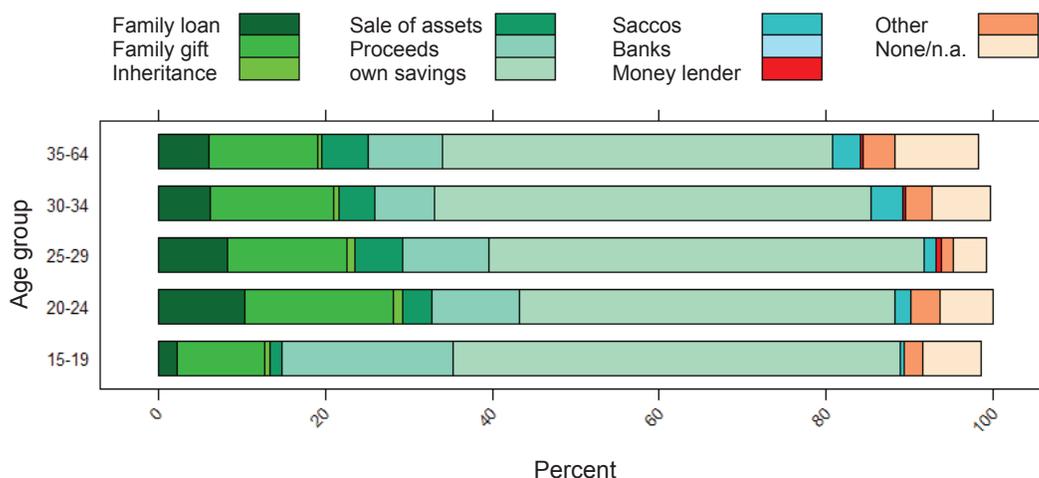
**Figure 6.12: Frequency with which household enterprises used start-up funds by source cited as the most important and area of residence**



**Source:** authors' calculations based on KIHBS 2005/06.

In general, the source of start-up capital is similar across age groups (Figure 6.13).<sup>29</sup> On closer examination, however, interesting patterns emerge. The older the age group is, the smaller the reliance on family sources, and the larger the proportion of funds that come from banks (non-agriculture credits) or from other, undefined sources (including 'none'). It also becomes apparent that the owner's savings is a proportionally smaller source of start-up capital for enterprises run by young people aged 20–24 years.

**Figure 6.13: Frequency with which household enterprises used start-up funds by source cited as the most important and age of owner**



**Source:** authors' calculations based on KIHBS 2005/06.

<sup>29</sup> The exception is the 15–19 years age group. This group has a visibly larger reliance on their own sources of funds. Not much should be made of this, since this age group accounts for less than 2 percent of household enterprises.

# Youth Involvement in Household Enterprises

## 6.6 The impact of employment

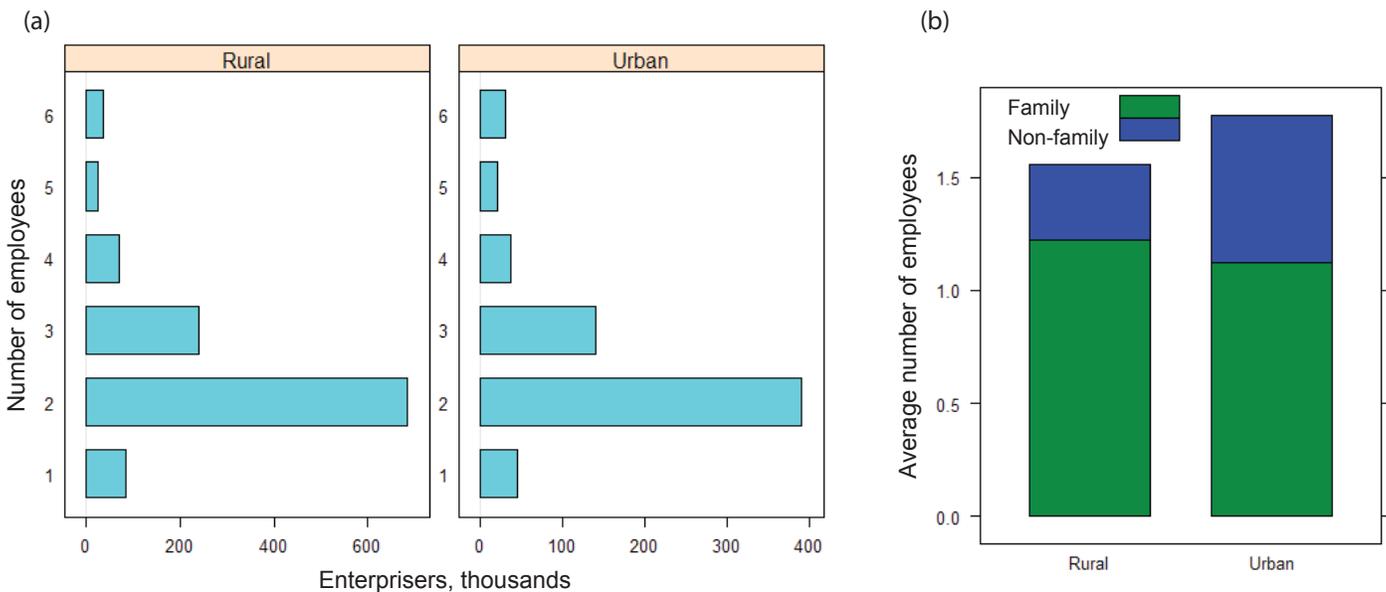
Although a number of household enterprises operate without employing anyone, the majority do employ workers. The 1.8 million household enterprises owned by people aged 15–64 years yield close to 5 million jobs. In addition to the people managing the enterprises, they employ almost 3 million people, of which close to 2 million are family members.

Most enterprises (about 60 percent) employ only one person, about 20 percent employ two people, less than 10 percent employ three people, and the rest employ four or more people. The proportions are similar for both rural and urban areas. Household enterprises employ an average of 1.6 people in rural areas and 1.8 people in urban areas. Average employment per enterprise is higher in urban areas, but the hiring of family members is slightly lower than in rural areas (1.1 and 1.2 family workers in urban and rural areas, respectively).

Average employment in household enterprises is higher the older the owner. Average employment increases from 0.2 to 0.5 people between enterprises owned by people aged 15–19 and those owned by people aged 35–64 years. The increase is smallest for non-family employees in urban areas, moderate for family employees in urban areas and largest in rural areas for both family and non-family members.

Household enterprises employ, on average, fewer females than males. The national average is 47 percent females, but the proportion in urban areas is lower at 43 percent. In rural areas, males and females are almost at par; females represent 49 percent of the employees in household enterprises. The share of females employed in household enterprises depends on whether the employee is a family member or not, on the age of the owner of the enterprise and, as we have seen, on the type of area of residence.

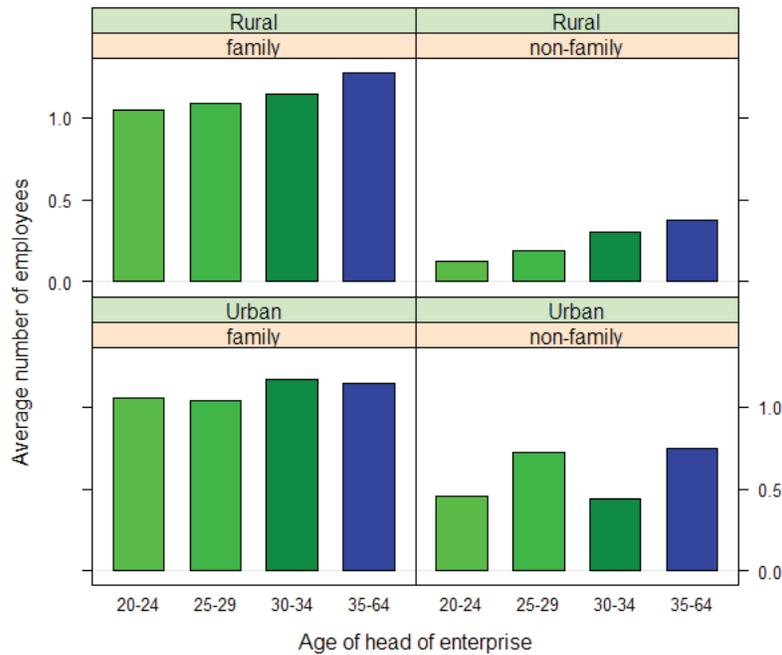
**Figure 6.14: Household enterprises’ average employment of family and non-family members by area of residence**



Source: authors’ calculations based on KIHBS 2005/06.

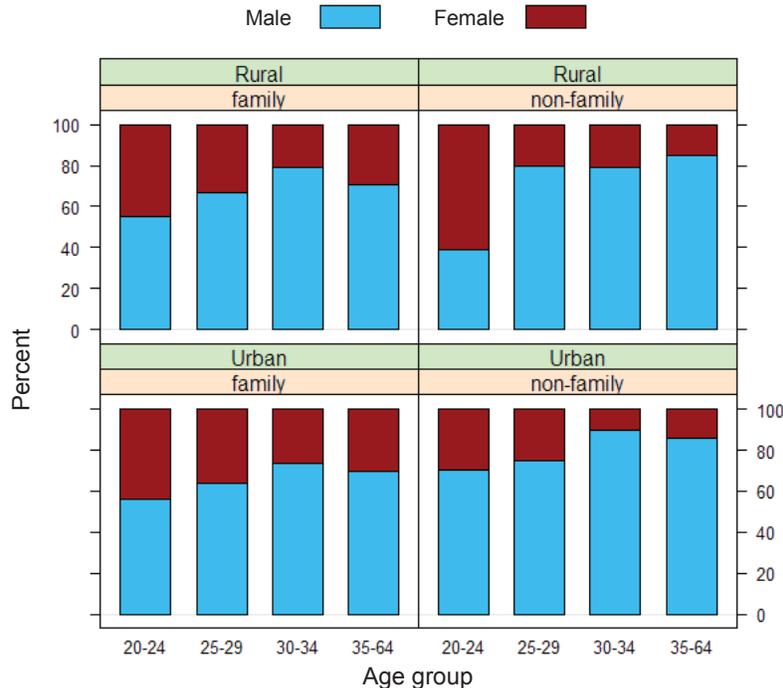
## Youth Involvement in Household Enterprises

**Figure 6.15: Household enterprises' average employment of family and non-family members by area of residence and age**



Source: authors' calculations based on KIHBS 2005/06.

**Figure 6.16: Household enterprises' average employment of family and non-family members by area of residence**



Source: authors' calculations based on KIHBS 2005/06.

## Youth Involvement in Household Enterprises

There are two general patterns: the share of female employees is lower for non-family members than for family members (which is expected), and the share of females is higher the younger the owner of the enterprise, a peculiar pattern that resists quick interpretations (Figure 6.16). The high proportion of females among non-family employees in rural areas in enterprises owned by young people aged 20–24 years is noteworthy.

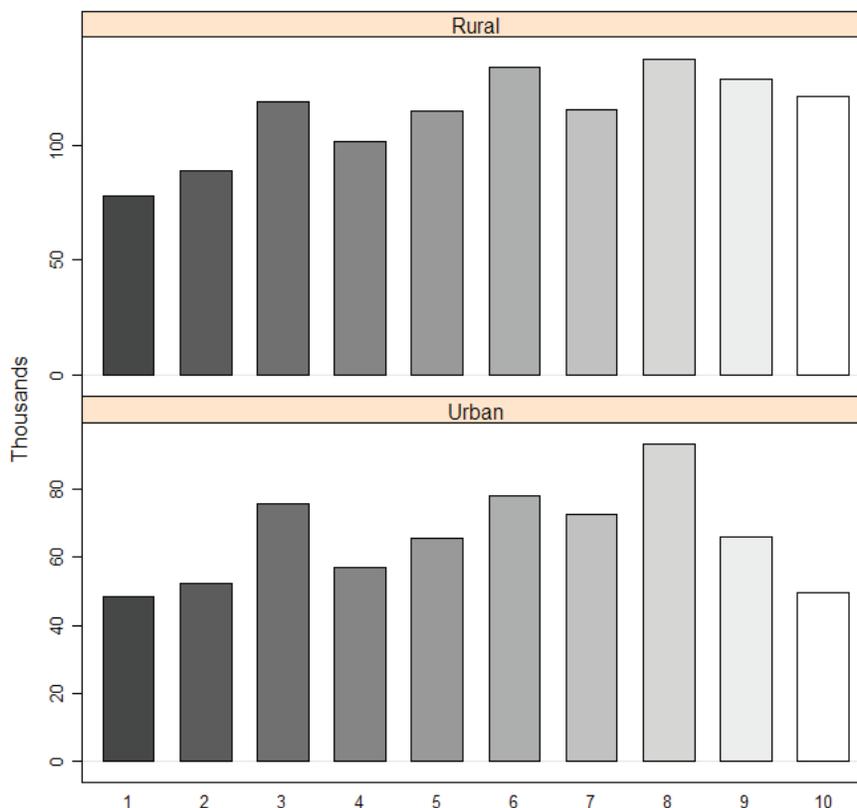
### 6.7 Income distribution and enterprises

In most income brackets there are households that own a household enterprise. Rather than being an option that is only attractive to poor people, household enterprises appear to improve income, as suggested by the relatively low number of household enterprises that are owned by the 20 percent of the poorest populations in both rural and urban areas (Figure 6.17). On the other hand, while high-income households also own these enterprises, their relative numbers are low, particularly in urban areas.

Young poor people appear to have limited ability to own a household enterprise. The number of household enterprises owned by young people in the 40 percent poorest households is relatively low when compared to those owned by young people in upper income brackets (Figure 6.18). Their numbers are also low relative to the number of enterprises owned by adults across all income quintiles. It is interesting to note that the number of enterprises owned by adults from the poorest urban income quintile is similar to the number owned by adults from upper income quintiles. This suggests that, at least in urban areas, poor people who wish to own a household enterprise face a number of factors that might prevent them from succeeding when younger than 35 years of age.

The link between household income and the performance of household enterprises is confirmed by the close relationship between the income quintile of the household and average sales of household enterprises (Figure 6.19). The link between income and

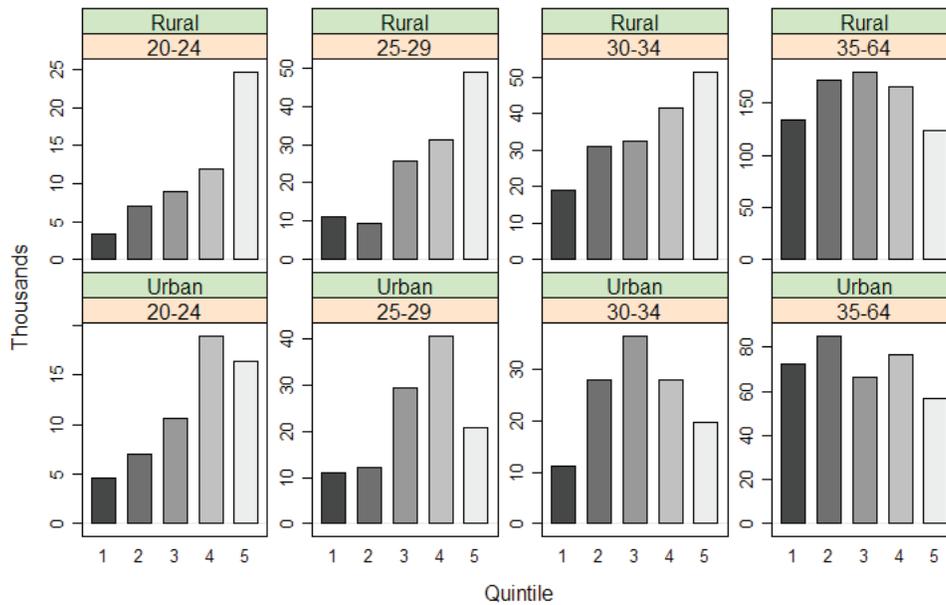
**Figure 6.17: Household enterprises by income decile and area of residence (thousands)**



**Source:** authors' calculations based on KIHBS 2005/06.

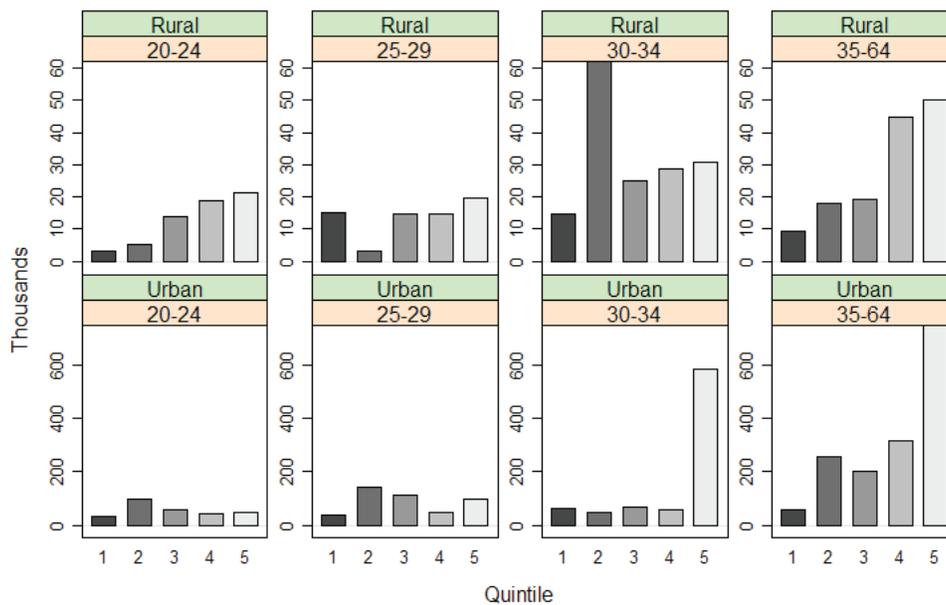
## Youth Involvement in Household Enterprises

**Figure 6.18: Household enterprises by income quintile, area of residence and age group (thousands)**



Source: authors' calculations based on KIHBS 2005/06.

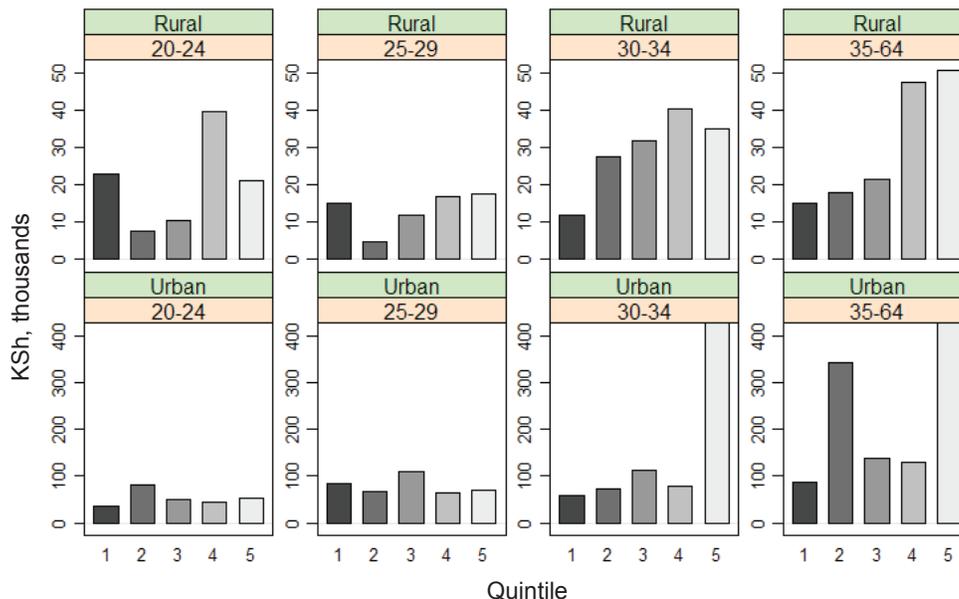
**Figure 6.19: Sales of household enterprises by income quintile, area of residence and age group (KSh '000)**



Source: authors' calculations based on KIHBS 2005/06.

Note: the range in panels rural 30-34 and urban 35-64 urban are censored; values not shown are KSh 473 and KSh 1,182, respectively.

**Figure 6.20: Profits of household enterprises by income quintile, area of residence and age group, KSh '000**



**Source:** authors' calculations based on KIHBS 2005/06.

**Note:** The range in panels urban 30–34 and 35–64 are censored; values not shown are KSh 1,207 and KSh 1,194, respectively.

performance is again confirmed by the profitability structure of household enterprises: average profits are lower the poorer the household. It is worth noting the strikingly high profitability of enterprises owned by young people aged 30 to 34 years and adults of the upper urban income quintile.

## 6.8 Concluding Remarks

Young people run about one out of every three household enterprises in Kenya. Understandably, their enterprises are usually not at the top of the household enterprises' productivity ladder. Compared to adult-headed enterprises, their revenues are on average 25 percent lower, have a mild tendency to locate in places that are not the most profitable, and have more limited access to credit.

Youth employment promotion policies might consider interventions to improve the performance of young people's household enterprises. This may be done by making funds available for start-ups and widening access to credit to enhance the capacity of these enterprises to provide better jobs for young people.

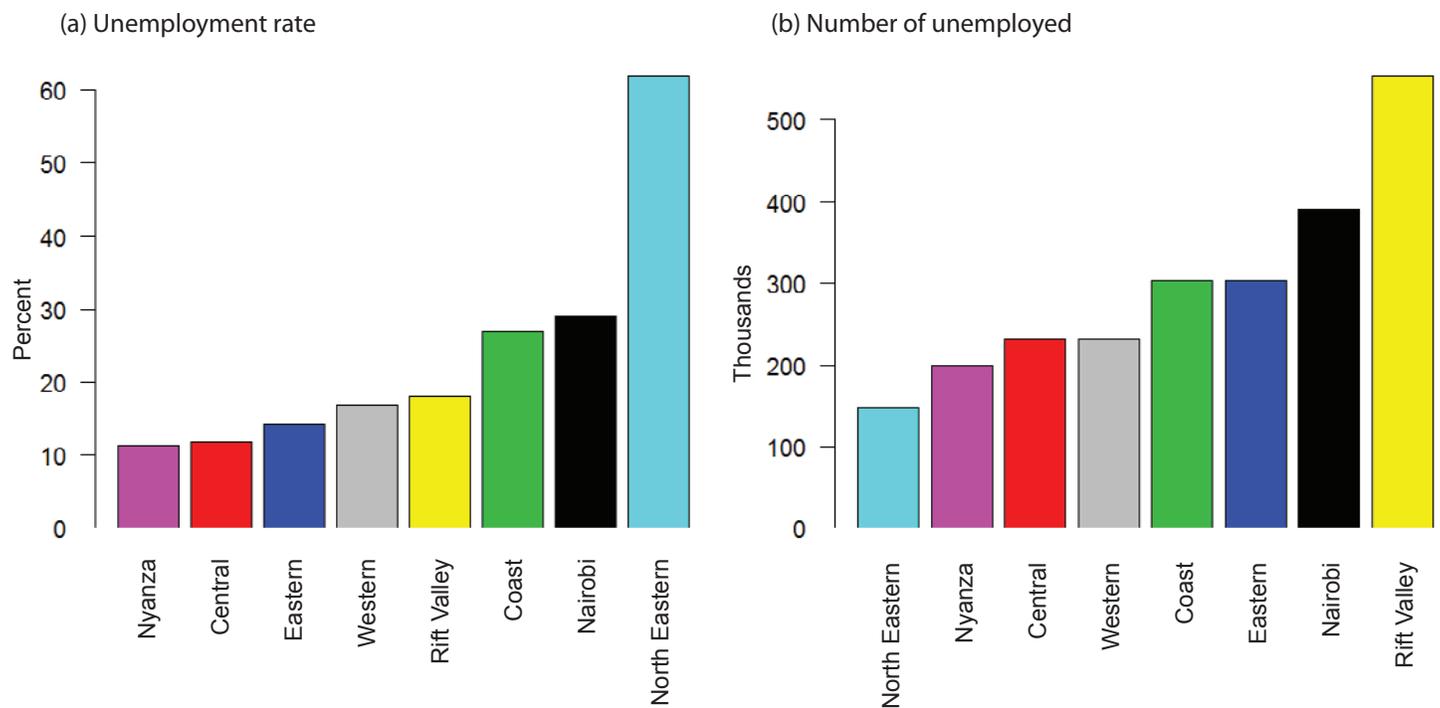
## 7. Youth Unemployment by Province

Youth unemployment rates and young people's choices of activity vary across provinces. In some cases, variations are significant enough to require particular regional approaches to youth unemployment problems. This section looks at some of the insights provided by the KIHBS for policymakers interested in improving and extending youth employment promotion.

### 7.1 The unemployment rate and the number of unemployed people

The Kenyan unemployment problem is tinted by important regional characteristics. For example, unemployment rates are low in Nyanza and Central, high in the Coast and Nairobi, and very high in the North Eastern province (Figure 7.1a). On the other hand, the largest numbers of unemployed people live in the Rift Valley, Nairobi and the Eastern province, and the smallest live in Nyanza and North Eastern provinces (Figure 7.1b). Thus, high unemployment rates by province do not necessarily coincide with provinces where the largest numbers of unemployed people reside. Although Nairobi and the Coast have high rates of unemployment and a large number of unemployed people, in this sense they are an exception.

**Figure 7.1: Unemployment by province (percent and thousands)**



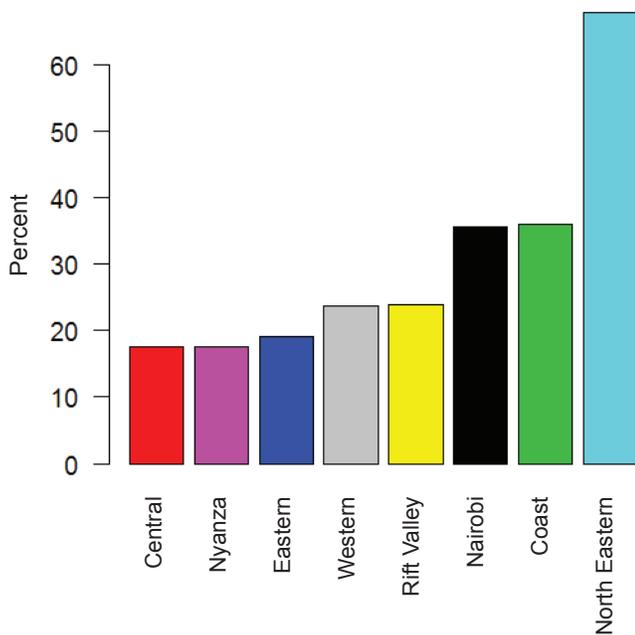
**Source:** authors' calculations based on KIHBS micro records.

Since young people represent the most acute unemployment problem in most provinces, the map of youth unemployment is similar to the pattern of unemployment of the entire working-age population (compare Figures 7.1 and 7.2). The difference is that youth unemployment rates are higher than overall unemployment rates, and, of course, their numbers are smaller (compare the scales in Figures 7.1 and 7.2).

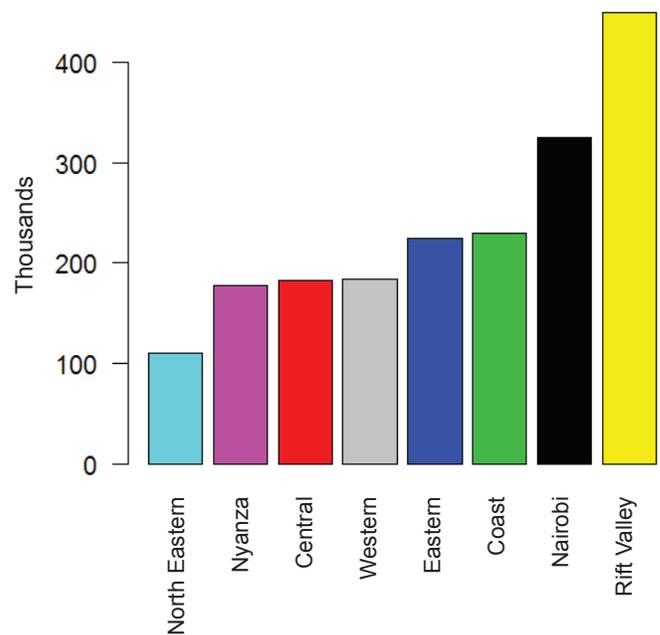
## Youth Unemployment by Province

**Figure 7.2: Youth unemployment by province (percent and thousands)**

(a) Unemployment rate



(b) Number of unemployed



**Source:** authors' calculations based on KIHBS micro records.

Youth unemployment rates are higher than adult rates in all provinces, but the magnitude of difference varies. Since most provinces show youth unemployment rates several times higher than adult rates, one should conclude that unemployment in most provinces is primarily a youth problem (Figure 7.3). An extreme case is Nyanza: the youth unemployment rate is six times the rate of adults (Figure 7.4). The only province where youth and adult unemployment rates are relatively close is the North Eastern region. Here, the youth unemployment rate is 36 percent higher the adult rate. In this province unemployment might be considered a problem affecting all ages more or less equally.

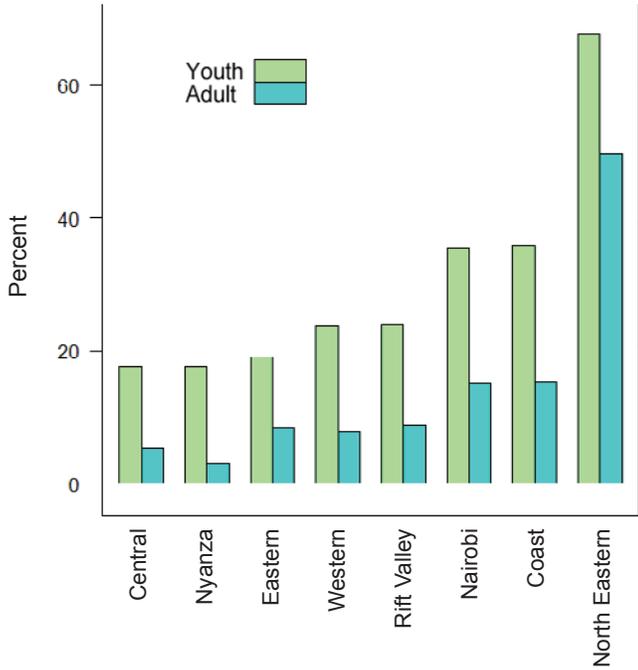
### 7.2 Youth unemployment

A 20-year span is too big for an adequate assessment of the regional distribution of the youth population. As young people are relatively mobile, they might change province to attend school or migrate in search of a job. This means that the distribution of the youth population across provinces might differ depending on the age group that is being considered.

Three provinces exhibit significant changes in the proportion of the national youth population that lives within their territories. If a province retains the same proportion of the population of different ages, it might suggest that there is no net migration to other provinces. The most stable provinces, in this regard, are Central, Coast and North Eastern, since these provinces account for approximately the same share of the national population regardless of age (Figure 7.5). Other provinces show visible variations. The Western province accounts for 15 percent of the national population aged 15 years, but only 10 percent of the national population aged 25 to 30 years. Nyanza accounts for about 17 percent of the population of 15-year-olds but for only about 13 percent of the population aged 30 years. Young people from these two provinces are likely to go to other provinces to study or work. On the other hand, Nairobi increases its share from about 3 percent of the national population of 15-year-olds to 13 percent of the national population of 25-year-olds, confirming the common tendency of young people migrating to Nairobi.

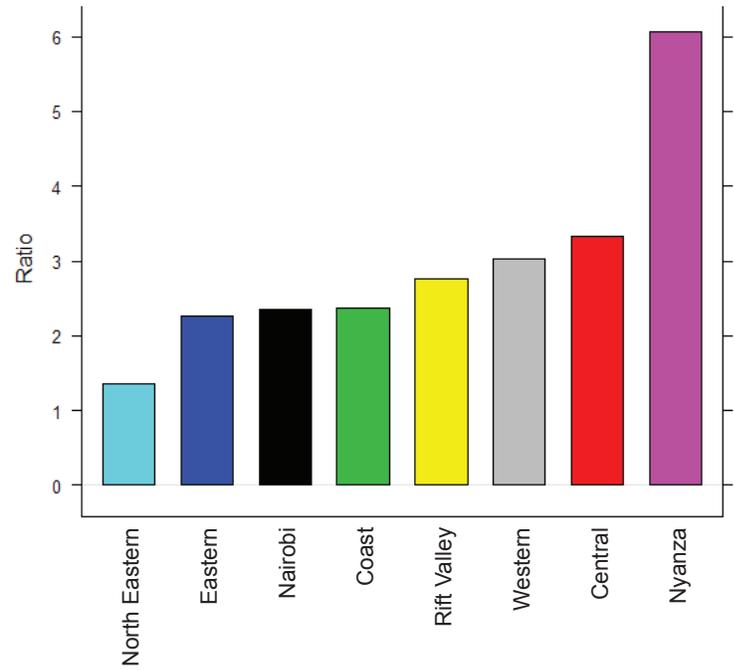
# Youth Unemployment by Province

**Figure 7.3: Unemployment rates by age and province (percent)**



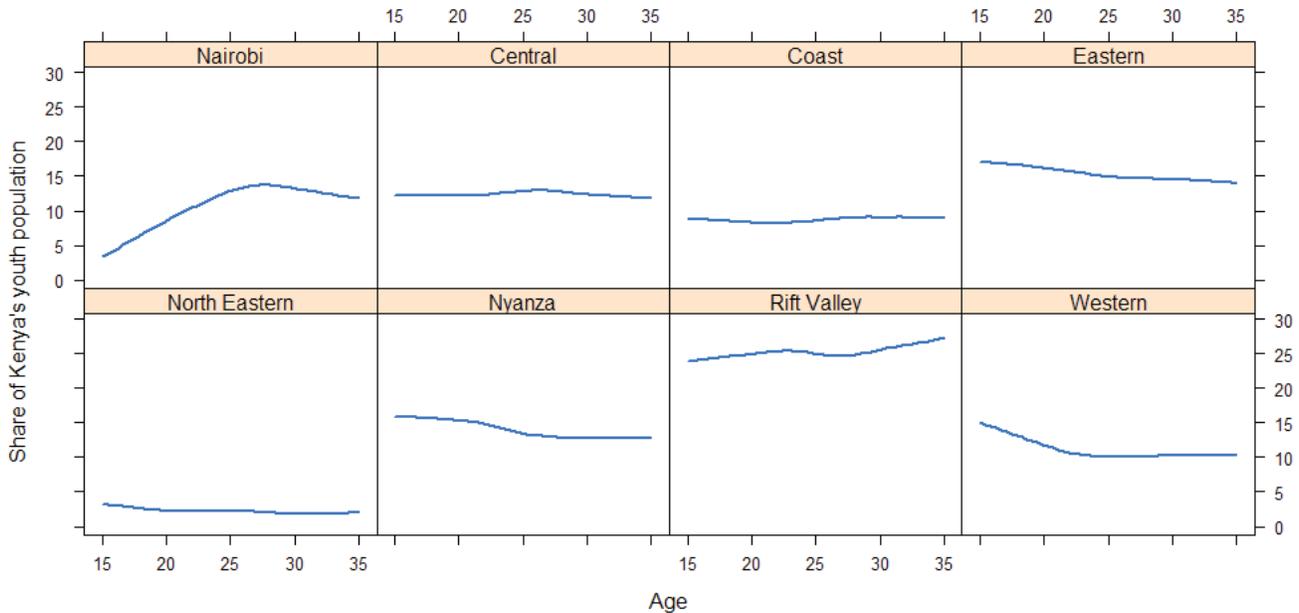
Source: authors' calculations based on KIHBS micro records.

**Figure 7.4: Ratio of youth to adult unemployment rates by province**



Source: authors' calculations based on KIHBS micro records.

**Figure 7.5: Each province's share of the total youth population by age (percent)**



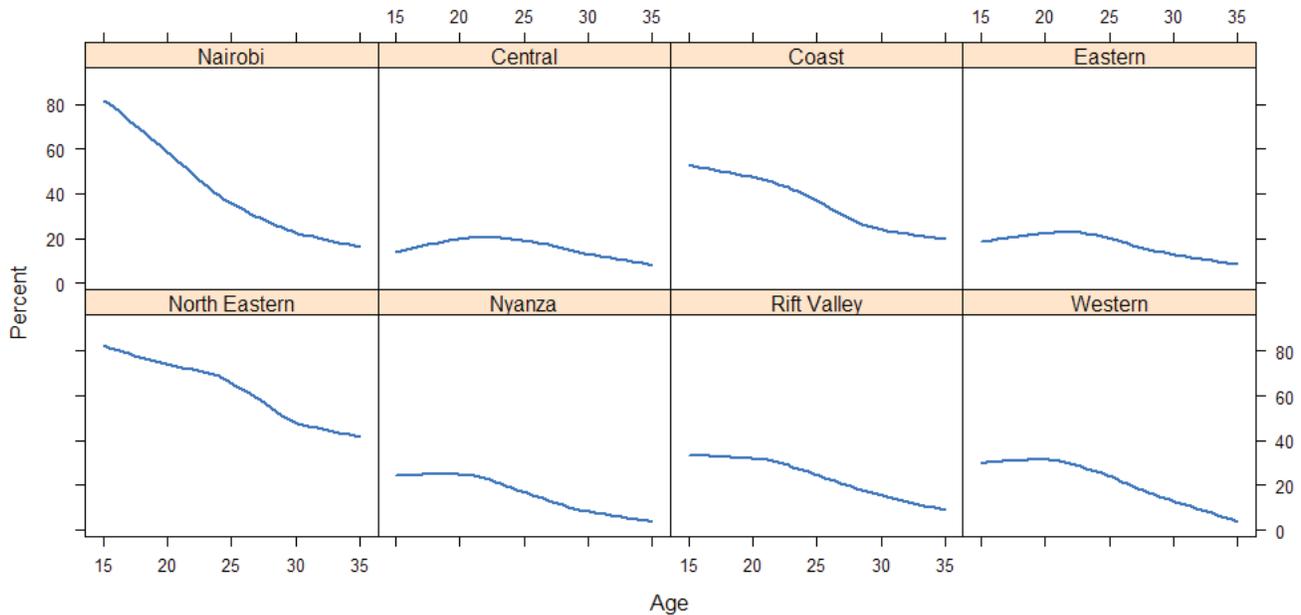
Source: authors' calculations based on KIHBS 2005/06.

# Youth Unemployment by Province

## 7.2.1 Youth unemployment rates by province and age

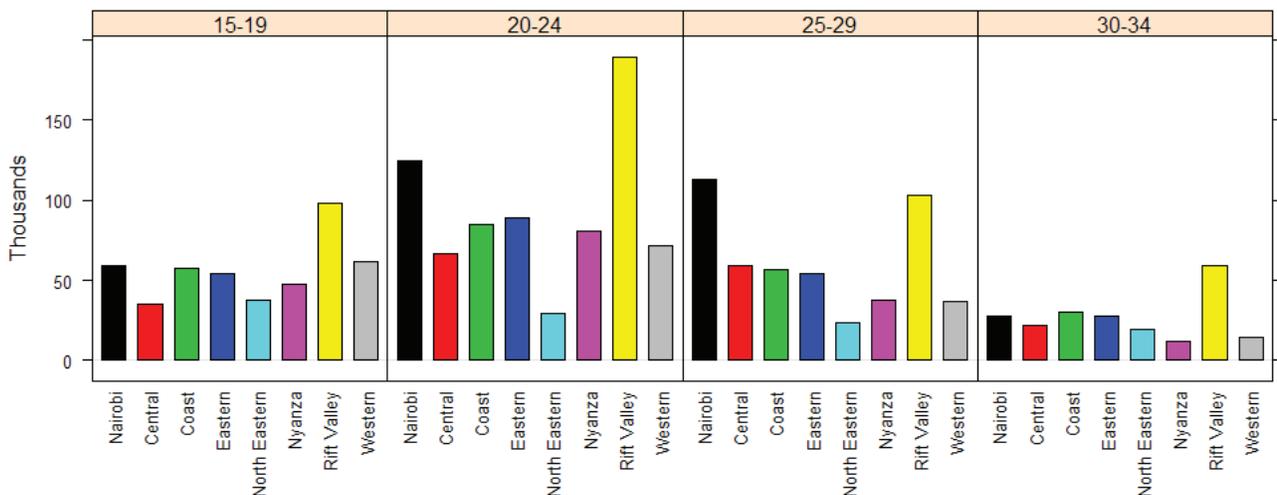
The national picture of youth unemployment across provinces exhibits three main patterns and one special case. First, the North Eastern province has high unemployment rates for the very young but moderate rates for more mature youth (Figure 7.6). Second, there are four provinces with moderate unemployment rates for the very young but relatively low rates for older youth: Rift Valley, West, Nyanza and the Coast province. Third, in the Central and Eastern provinces rates are low for the very young and very low for

**Figure 7.6: Youth unemployment rates by province and age (percent)**



Source: authors' calculations based on KIHBS 2005/06.

**Figure 7.7: Unemployed young people by province and age group (thousands)**



Source: authors' calculations based on KIHBS 2005/06.

# Youth Unemployment by Province

the older youth, suggesting that youth unemployment is not big concern. The special case is Nairobi. There, rates for the very young are high but low for older youth, suggesting that many young people find a job as they grow older.

## 7.2.2 Youth unemployment by age group

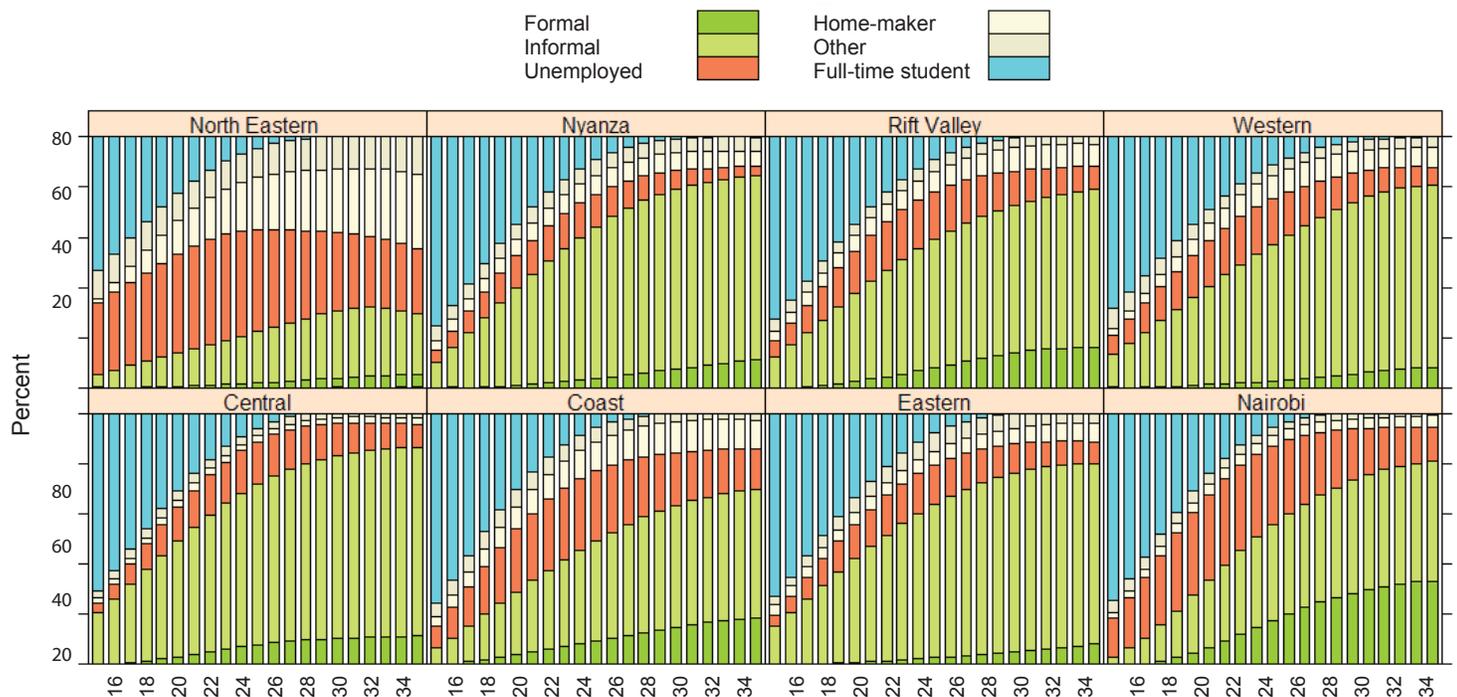
The largest numbers of unemployed young people by age group are found across various provinces. For age brackets 15–19, 20–24 and 30–34, the largest numbers reside in Rift Valley (Figure 7.7). The largest number of unemployed people aged 25–29 years is located in Nairobi, followed closely by Rift Valley. The number of unemployed people aged 30–34 years is small compared to that of younger people. On the other hand, the North Eastern province clearly has the smallest number of unemployed people aged 20–29 years.

Differences in the rates and numbers of unemployed people across provinces depend, among other things, on the availability of education opportunities, the ability of families to support young people without having to work, gender and the roles assigned to each gender by local traditions.

## 7.3 Youth choices by province

The choices young people make across activities vary across provinces. The most notable difference concerns Nairobi, which represents a unique case in several regards. It has the highest share of full-time students, a high share of formal jobs and one of the lowest shares of home-making and other activities. Despite this, the proportion of unemployed people is significantly high, which suggests that the only possible faltering factor is informal activities. But more than a true lack of opportunities to engage in informal activities, the explanation might be that its traditional sector is weak. But it should also be taken into account that the high

**Figure 7.8: Proportion of young people by main activity and age group (percent)**



Source: authors' calculations based on KIHBS 2005/06.

## Youth Unemployment by Province

proportion of unemployed people might be simply the reflection of a more vibrant economic setting requiring a more intensive job search.

The two provinces with relatively large proportions of unemployed young people, North Eastern and Coast, exhibit a different mix of activities. In the North Eastern province, the high proportion of unemployed young people results from a combination of low employment (practically no formal employment) and low student enrolment. The province also has the highest share of young people involved in home-making and other activities, suggesting that a greater availability of jobs might encourage some of these young people to join the labour market. This may, in turn, lead to situations where employment increases but the rate of unemployment also increases. In contrast, unemployment in the Coast results from the combination of low informal employment and young people doing little home-making and other activities. One could assume that, there, young people are already exerting all the pressure they could on labour markets.

The significant unemployment in the Central province is due to a low share of young people in home-making and other activities and perhaps also to a relatively low share of full-time students. However, employment is not low by national standards. The share of formal jobs is neither high nor low, but the share of young people in informal activities is high, if not the highest. So the issue here might be that many young people are searching for a job.

The share of unemployed young people and the structure of young people's activities are similar in Rift Valley and in the Eastern and Western provinces. Since the share of home-making and other activities is significant, one should expect that an increase in the availability of jobs might attract some of these young people to labour markets. It is worth noting that total employment is similar in these three provinces, despite visible differences in the share of formal employment.

Nyanza has one of the lowest shares of unemployed young people. This occurs despite a low proportion of young people in formal jobs. Low unemployment results from a large informal sector and might also be due to some visible engagement of young people in home-making and other activities. Therefore, policymakers should not be surprised if a greater availability of jobs triggers more unemployment, for some of the economically inactive young people might be tempted to join the labour market if more jobs become available.

### 7.4 Unemployment rates by gender and province

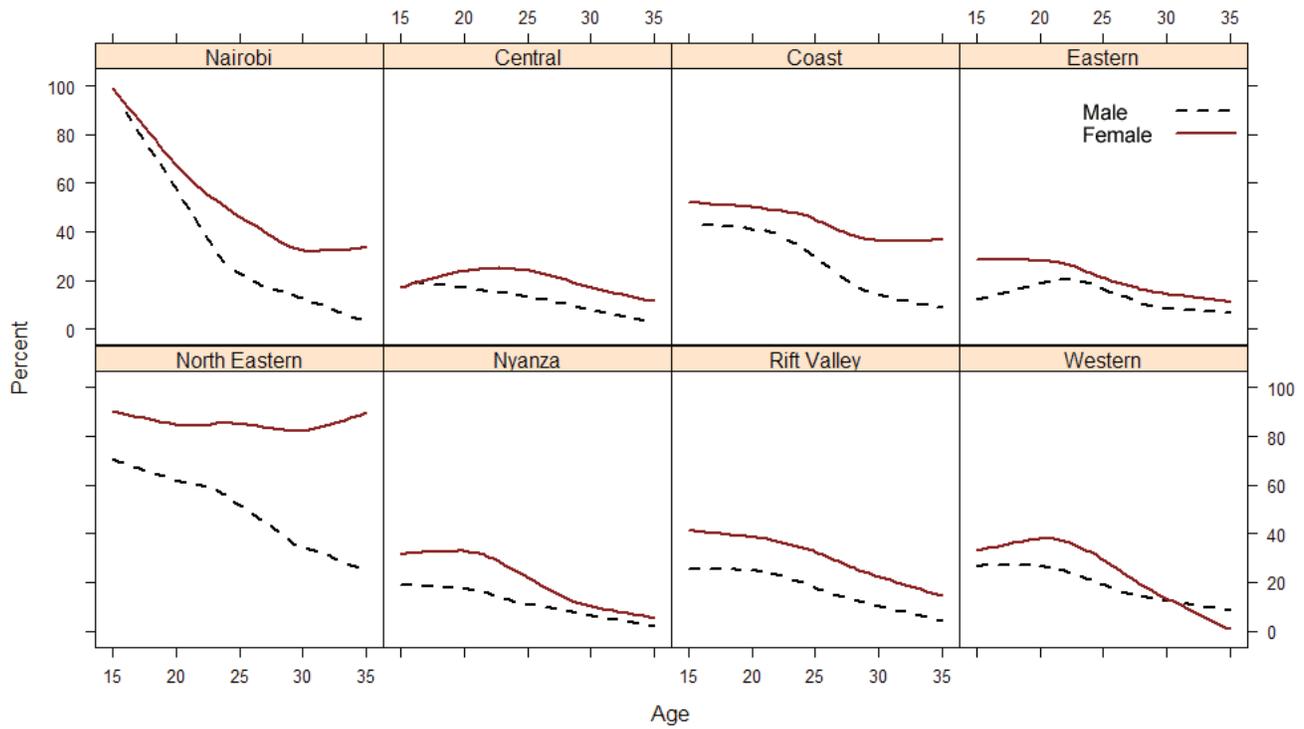
Female unemployment rates are higher than male rates in all provinces, but differences by age vary across regions. There are three types of differences that might be relevant for policy considerations. First, in the Central and Rift Valley provinces, female unemployment rates are higher than male rates for all age groups, suggesting that employment promotion policies targeting females should not pay too much attention to age (Figure 7.9). Second, there are three provinces (Eastern, Western and Nyanza) where female unemployment rates are higher among the younger youth but similar to those of males among the older youth. Promotion policies here should concentrate on very young females. Third, in three other provinces (Coast, North Eastern and Nairobi), the female unemployment rate is higher than the male rate particularly among older youth, suggesting that policies should pay particular attention to older young females in these provinces.

### 7.5 Wages by province

Regions exhibit sharp differences in wages. The highest wages are paid in Nairobi in all worker categories, but the biggest difference is among employees of formal private businesses. In turn, the narrower differences are among employees of informal business (Figure 7.10). Wages are higher in Nairobi than in the rest of provinces for most age groups (Figure 7.11). The exceptions are wages for young people aged 20–24 who are employed in the public sector of the Eastern and Western provinces. Data suggest that the rise of wages with age is strong in Nairobi and weak in all the other provinces. This pattern applies to employees of public entities, formal private businesses and other informal businesses, but not to employees of informal businesses.

# Youth Unemployment by Province

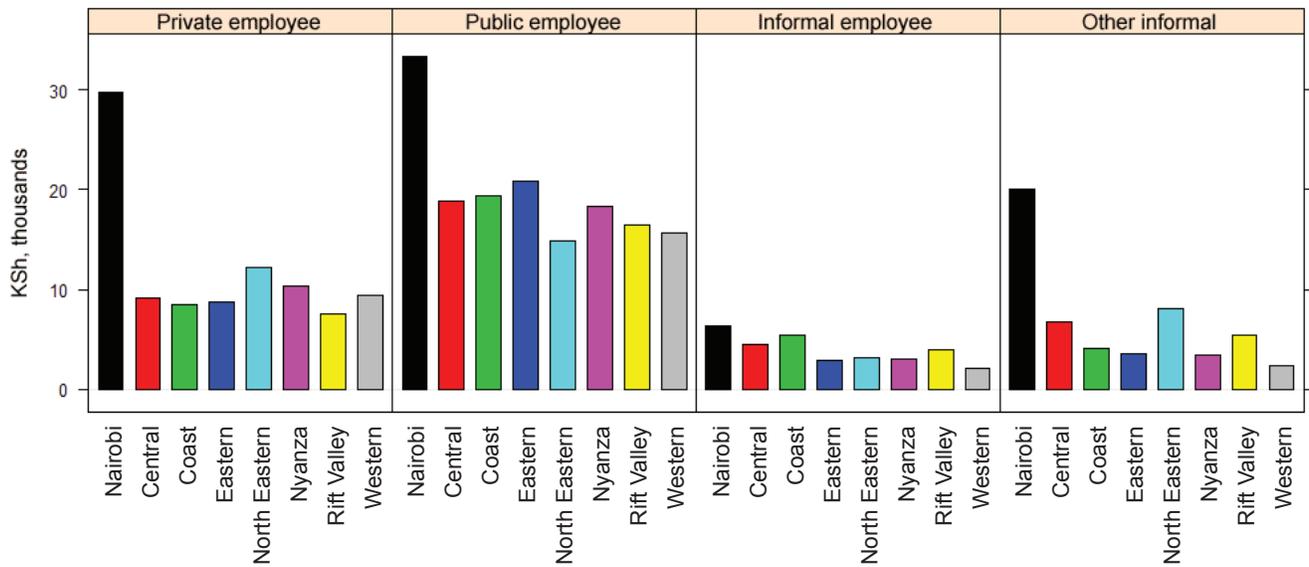
**Figure 7.9: Unemployment rates by province, gender and age**



**Source:** authors' calculations based on KIHBS 2005/06.

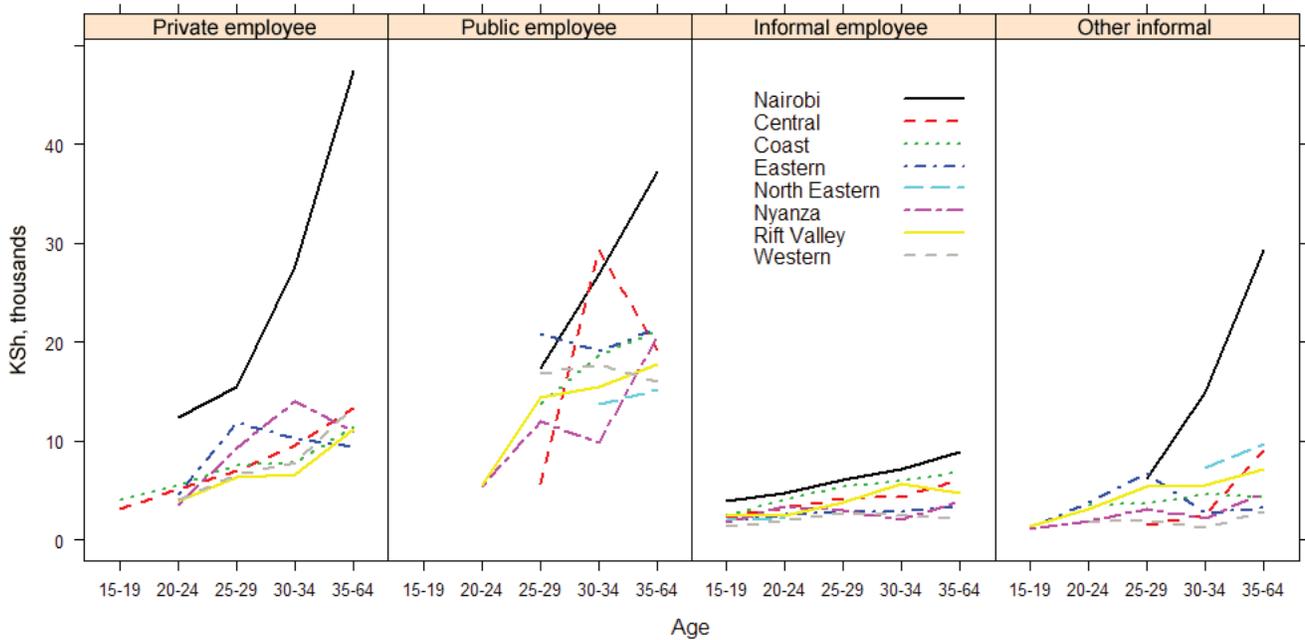
**Note:** plotted data correspond to the mean rate for age groups 15–19, 20–25, 25–29, 30–34, and 35–64 years.

**Figure 7.10: Mean wages by province and type of employer (KSh '000s)**



**Source:** authors' calculations based on KIHBS 2005/06.

**Figure 7.11: Mean wages by type of employer, age group and province (KSh '000s)**



**Source:** authors' calculations based on KIHBS 2005/06.

## 7.6 Concluding remarks

The entry of young people in labour markets follows different patterns in different regions, as the natural, social and economic conditions of provinces vary significantly. This underscores the importance of designing employment promotion policies for young people that are flexible enough to take into account regional conditions and sufficiently decentralized to incorporate the necessary local knowledge to arrive at a well-functioning employment promotion scheme. This does not mean that each province is unique and there is no room for a national policy — far from it. While significant, the differences across regions are not as large as to make the formulation of a national policy useless. This section highlighted some of the most visible specificities of provincial unemployment conditions to assist the formulation of national youth employment policies that are relevant to provinces.

## 8. Employment and Youth Policies

Kenya has a long record of implementing employment policies. Forty years ago, for example, the 1970–74 Development Plan (Republic of Kenya, 1969) featured employment and unemployment as important policy matters. Later, in the mid-1980s, the Report of the Presidential Committee on Unemployment (1982/83) and the Sessional Paper No. 2 of 1985 on Unemployment are important contributions to the accumulated experience on employment policy development. More recently, The Sector Plan for Labour, Youth and Human Resource Development Sector (2008–2012) looks into unemployment as a structural issue, explicitly adding the youth dimension. In 2009 the government launched the youth-focused Kazi Kwa Vijana (KKV) programme, aiming to create 200,000 to 300,000 jobs in labour-intensive public works. In 2010, this programme was further extended to include training and internships, with an intense focus on infrastructure projects. This section briefly reviews Kenya’s employment policy record and pays special attention to the main recent initiatives addressing youth employment issues. It also quickly reviews some international employment generation policies.

**Table 8.1: Typology of Kenya’s employment creation interventions (1963–2011)**

Employment Creation Interventions	Period		
	1963–1979	1980–1989	1990–2011
Infrastructure Development	√√	√√	√√√
Rural Development		√	√√√
Kenyanization	√√√		
Industrial Policy	√√	√	√√
Informal Sector Development	√√	√√	√
Productivity Promotion	√√	√√	√
Agricultural Promotion	√√	√√	√√
Public Works	√√√	√	√√√
Wage Restraint	√√	√√√	√
Active Labour Market Policies	√√	√√√	√
Tripartite Agreements	√√√		
Education and Training	√√	√√	√
Employment and Labour Market Policies	√	√	√
Economic Growth	√√	√√√	√√√
Macroeconomic Management		√√√	√√√
Legal and Legislative Reforms			√√
Fiscal Measures	√		√

**Source:** author’s elaboration based on government documents.

**Note:** Rows in yellow represent structural policies, those in green correspond to active labour policies, and grey rows identify macroeconomic or horizontal policies. The emphasis that these policies have in each of the three periods is represented by the number of the check mark in the corresponding box. Three check marks indicate that the specific initiative is a top policy, two marks indicate a measure that has medium importance, one mark indicate that the policy was complementary; finally, a blank indicates that the particular intervention was not present or had a marginal importance.

### 8.1 *Employment policies since independence*

Over the years, Kenya has experimented with a broad set of employment policies. Between 1963 and 2011, more than 17 policy measures have been implemented at one point or another. Despite this large number, there has been some continuity, since 10 of these 17 measures have been a constant in the policy menu throughout the entire period.

To facilitate the review of these policies, we group the 17 policy measures into three types (structural policies, active labour policies, and macroeconomic or horizontal policies) and divide the timeframe into three periods, namely 1963 to 1979, 1980 to 1989, and 1990 to the present (Table 8.1).

The most important insights are the following: macroeconomic management can be considered the predominant policy from 1990 to 2011; active labour market policies, with a certain emphasis on macroeconomic measures, were the predominant instrument from 1980 to 1989; and structural and Kenyanization policies were the predominant instrument from 1963 to 1979. In each of these periods, policies were augmented with various short-term interventions that aimed at addressing particular issues of employment generation. On the other hand, interventions such as wage restraint, economic growth, industrial and agricultural promotion, public works programmes and active labour market policies are present in all three periods.

Although there has not been a lack of policy initiatives regarding the employment challenge, it can be argued that policies have been inadequate, given the continuous and difficult employment situation. That said, it is difficult to assess whether these policies failed because of their focus and/or the manner in which they were implemented or because of the contextual factors present at the time. The question is, therefore, whether well-designed and implemented policies would result in an improved employment situation, given the strong demographic pressures and faltering economic growth. Although one might be inclined to answer the question negatively, the issue remains that it is difficult to give a clear answer, because policies have not been adequately evaluated. The most that can be said at this level of generality is that the Kenyan policy experience calls for the explicit consideration of three aspects: policy focus; scale of the interventions; and adequate learning from evaluations.

### 8.2 *Youth employment policies in the 2000s*

The last 10 years have seen the implementation of major youth employment policies with an emphasis on public works, entrepreneurial development and skill enhancement. It should also be noted that there have been attempts to formulate policies promoting employment of Kenyans in foreign countries.

A key Kenyan institution for youth skills development is the National Youth Service (NYS). The NYS was established in 1964 to offer young people training in vocational, technical and professional skills. It also acts as a reserve force for the Kenya Armed Forces, as it undertakes rehabilitation and training of disadvantaged and orphaned young people (Republic of Kenya, 2008c). The NYS enrolls an estimated 3500 servicemen and -women per year on artisanal, craftsmanship and other diploma courses which run for a period of one, two and three years, respectively. It also offers training to young people aged between 18 and 22 years. The minimum qualification criteria are a Kenya Certificate of Secondary Education (KCSE), with a mean grade above D+. In addition, trainees must be unmarried and without dependants. NYS recruitment is carried out in 285 centres at district level, and there are 16 training institutions spread throughout the country with a capacity of 10,000–15,000 trainees at any given time.

Up to the late 1980s, the NYS had a compulsory pre-university programme. This programme targeted successful graduates of the Kenya Advanced Certificate of Education (KACE) for six-month pre-university training. The goal was to inculcate in students the right attitude towards work and instil a culture of tolerance and nationalism. This programme was discontinued in 1990, probably due to its limited impact and sustainability challenges. Since then, the NYS training has been voluntary with a market-driven focus.

## Employment and Youth Policies

The NYS is financed through a national budgetary partition, with internally generated income and external funding from development partners. The external financiers are the governments of Japan, Germany, the Netherlands and the United Kingdom. Kenyan government funding is provided through the Ministry of Youth Affairs and Sports (MOYAS). Although in recent years there has been a small increase in its budget, mainly in the development budget (see Table 8.2 in the appendix<sup>30</sup>), in general, funding for the NYS is tiny, representing less than 1 percent of the national budget.

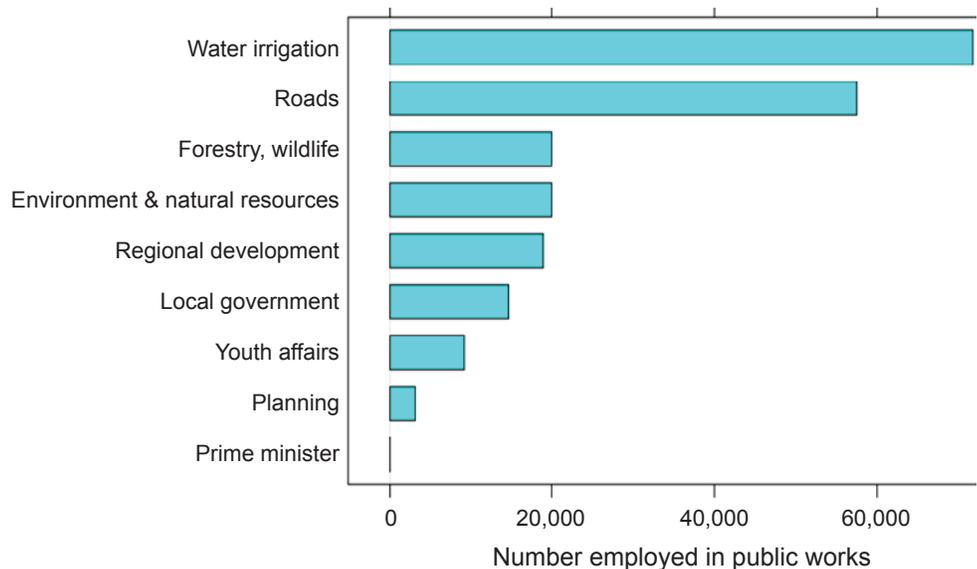
The Kenyan government launched the KKV programme in April 2009. This is a nationwide public works programme that aims to employ between 200,000 and 300,000 young people annually in rural and urban areas in labour-intensive public works projects (Republic of Kenya, 2010). The programme is implemented by different government ministries (Office of the Prime Minister, 2011). KKV projects last between three and six months. The KKV creates employment by implementing manual-based small projects in communities. In rural areas these activities include building dams and irrigation, repairing boreholes and access roads, clearing bushes, sowing organic fertilizers and seeds and planting trees. In urban centres, they include building and operating water kiosks, developing and implementing waste management systems and repairing and maintaining access roads. The KKV uses low wage rates as self-targeting criteria for young people, allowing for task-oriented and daily payments. According to the KKV Manual, daily wages are based on national minimum wage guidelines issued by the Ministry of Labour, while the task rates are pegged at KSh 250 per task for the KKV employees in cities and municipalities and KSh 150 for those in all other areas.<sup>31</sup>

The KKV programme is implemented under the overall supervision and guidance of a national steering committee that is chaired by the Prime Minister. The committee comprises Ministers and Permanent Secretaries with KKV projects, with programme coordination and monitoring being the responsibility of the Office of the Prime Minister (OPM). The KKV programme, which is funded through the national budget, has seen a significant increase from KSh 3.4 billion (US\$43 million) in the 2008/2009 fiscal year to KSh 6.6 billion (US\$84 million) in the 2009/2010 financial year (Republic of Kenya, 2010).

Most of the jobs created under the KKV programme were implemented by the Ministry of Water and Irrigation, followed by those by the Ministry of Roads (Figure 8.1). Other jobs were contributed by the Ministry of Environment and Natural Resources and the Ministry of Forestry and Wildlife.

To increase the scale and consolidate the gains made under the KKV, the Kenyan government launched the Kenya Youth Empowerment Project (KYEP) in July 2010. The KYEP is a USD 60 million, four-year project funded by the World Bank and

**Figure 8.1: Number of young people employed in KKV public works by Ministry**



**Source:** official data available at [www.kkv.go.ke](http://www.kkv.go.ke).

<sup>30</sup> [www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Appendix\\_Kenya.pdf](http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Appendix_Kenya.pdf).

<sup>31</sup> The wage for young people working as employees in informal business ranges between KSh 2,000 and KSh 3,000 per month in rural areas and between KSh 3,000 and KSh 5,000 in urban areas. Expressed in daily rates, considering 22 working days per month, wage rates come to KSh 90–140 in rural areas and KSh 140–230 in urban areas. Attention must be paid to ensure the adequacy of wages paid in employment creation programmes.

coordinated by the OPM. It aims at enhancing the KKV by providing internships and youth training and enhancing the capacities of MOYAS. The KKV enhancement programme focuses on promoting community participation in identifying projects; establishing clearer project selection criteria; and optimizing the labour content of the KKV. The initiative also aims to improve target-setting and develop a monitoring and evaluation system. The renewed KKV gives priority to projects in road maintenance, small-scale water supply and sanitation, water harvesting, forestation and waste collection.

The internship and training component of the KKV aims at increasing the employability of young people by facilitating the provision of skills through internships and training in the private sector. It targets 10,800 young people aged 15–29 years with a minimum of eight years of schooling for those who have been out of a school/work environment for at least one year. Internships are programmed to last for between four and six months, with the time split evenly between the workplace and with an identified training provider. The interns are placed in key Kenya Vision 2030 growth sectors such as energy, tourism, information and communication technology, manufacturing and micro and small enterprises.

Under this arrangement, each intern is given a monthly stipend of KSh 6,000, while employers get a monthly reimbursement of KSh 3,000 per intern. According to the programme, young people aged 15–17 years can only take an internship in the informal sector.<sup>32</sup> The component will link with existing interventions such as the Youth Enterprise Development Fund (YEDF) and institutions such as the Kenya National Federation of Jua Kali Associations (KNFJKA). The third component of the KYEP will target provision of analytical support to the government in key areas that are relevant to young people. It will also support capacity-building in youth-oriented institutions within government, provide financial studies in critical-to-youth policy and labour market issues and promote institutional capacity-building in institutions such as the MOYAS.

### 8.3 Youth policies in developing countries

An assessment of Kenya's youth employment policies is beyond the scope of this study. What follows are some preliminary comments on recent policies that aim to promote youth employment.

A key component of any employment strategy is solid economic growth. The foreseeable international macroeconomic context does not, however, inspire highly optimistic views about economic prospects. As such, employment promotion policies should concentrate on increasing the capacity of the economy to enhance the efficient and sustainable creation of jobs for any given economic growth rate.

A host of actions have been tried or considered. Among them, industrial policies that promote sectors with high labour intensity might be worth reconsidering. Even within the much narrower margin for macroeconomic manoeuvring of today's troubled international financial markets, it might be worthwhile to review some of the measures proposed by the UNDP-sponsored Employment-Based Economic Strategy for Kenya. Of course, active labour policies should also be considered, particularly in specific market conditions such as those for young people with mid and high skill levels.

Beyond these actions, evidence reviewed in this study suggests that it is appropriate for Kenyan policies to maintain their focus on skill enhancement and the promotion of employment in informal activities. Reading the KKV and KYEP provisions in light of the evidence presented in this study invites some cautionary and preliminary observations:

- Focusing public works on low-skilled workers has the merit of addressing the unemployment problems of the most impoverished groups. However, it does not address the employment needs of young people with more pressing unemployment problems.

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<sup>32</sup> The wage is thus just above the mean rate for employees in informal businesses.

- The involvement of community stakeholders in the implementation of public works incorporates some of the lessons that have been learned from the long-standing experience with public works. It is also consistent with the recommendation made in this study in the sense of adopting flexible employment creation schemes that can be adequately adapted to local labour market conditions.
- The wage rates fixed by KKV appear to be aligned with the findings of this study. However, this is an area that requires continuous evaluation to ensure that labour markets are not unduly disrupted and that wages provide an adequate income to poor households.
- The training and internship provisions added by the KYEP carefully avoid creating incentives for young people to drop out of school to join the programme. By limiting access to young people with at least eight years of education who have also been out of school for at least 12 months prior to joining the programme, policies avoid establishing incentives for young people to drop out of school.
- These same provisions, however, open the question of what options are left for young people who cannot afford to finish eight years of school and happen to need a job. Similarly, it might add the burden of having to wait 12 months for young people who have finished eight years of schooling but who cannot afford to continue education even if they would prefer to do so.
- Linking public works to building infrastructure is an important aspect of the programme, since these projects may have significant multiplier effects in communities and urban areas.
- The involvement of communities in the design and implementation of infrastructure projects also incorporates lessons learned from extensive public works programmes in other developing countries.

### 8.4 Concluding remarks

The quick review of youth employment policies in Kenya indicates that recent policy interventions are, in general, in accordance with the accumulated experience of policies aimed at promoting youth employment across developing countries (see Box 2). It also suggests that policies are in line with the international experience with public works programmes.<sup>33</sup> None of these, however, waive the need for continuous evaluation of such policies and discussion among development stakeholders.

Three important issues will perhaps need a more thorough discussion:

- scale of policy intervention;
- harmonization of youth employment promotion; and
- improvement of education and fine-tuning of policies to address the most pressing employment needs of young people.

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<sup>33</sup> For recent reviews of public works programmes, see Devereux and Solomon (2006), Lal et al. (2010), McCord (2009), del Nino et al. (2009) and Zepeda and Alarcon (2011).

### Box 2. Youth promotion policies in developing countries

Several developing countries have designed and implemented programmes aiming to address youth employment challenges. Despite the variety of policies and programmes, four intervention areas are common to a number of countries: a) promoting entrepreneurial skills; b) acquisition of skills and work training; c) direct job creation in public works programmes; and d) facilitating self-employment.

The following is a selective list of such youth programmes.<sup>34</sup>

#### Africa

**Ghana** has a programme that targets the mobilization of deposits, granting loans and providing financial services to micro and small businesses operated by disadvantaged young people in the informal sector. The programme also offers vocational training, group formation dynamics and basic managerial training. The programme has been credited with facilitating mobilization of savings, empowering groups and removing young girls from streets and placing them in better occupations.

**Nigeria** operates a National Open Apprenticeship Scheme that targets unemployed young people. It utilizes production facilities (such as workshops) and technical instructors of private industries, government institutions, and craftsmen and tradesmen in the informal sector to offer vocational education and training in various occupations. Under the programme, the unemployed young people and school leavers are trained for between six months and three years. The programme has been credited with training over 600,000 unemployed young people in over 80 different trades. More than 400,000 of them have started their own micro-enterprises.

**South Africa** addressed youth unemployment through a partnership between the public education sector and multiple stakeholders. Under the programme, schools provide their premises and teachers who serve as advisers or facilitators. Young men and women, community leaders, educators and business leaders create awareness and interest in free market entrepreneurship as a career option for young people. The programme targets students in grades 7 and above, promoting the acquisition of skills and an entrepreneurship culture among young people.

#### Eastern Europe

The **Czech Republic** implements a wage subsidy programme that targets young people aged between 14 and 30 years. Wage subsidies are granted to companies to hire entitled unemployed young people during a specified time period. An evaluation that was conducted showed that the programme improved employment outcomes, with net employment increases of 12–16 percent, with young women and participants with low educational attainment being the greatest beneficiaries.

**Bulgaria** implements temporary employment, self-employment and retraining programmes that target young people aged 14–35 years. Temporary employment is based on public works programmes mainly in the public sector. Although not youth-specific, it may be tailored to target young people. The self-employment programme is anchored on entrepreneurship schemes offering basic training on managerial skills and the development of business plans and accounting, internship programmes and the provision of start-up loans. The retraining programme provides informal vocational skills training via public–private alliances that design and provide services and create cost-sharing structures. The programme has a built-in framework for ensuring consistency between courses and skills demanded by the labour market. The temporary employment programme has increased employment probability by nearly 6 percent, while the retraining programme increased the likelihood of employment among young people by between 6 and 57 percent.

#### Latin America

**Brazil** focuses on informal vocational skills training via public–private alliances that also design and provide services, creating cost-sharing structures. The programme has also built a framework to ensure consistency between courses and skills demanded by the labour market.

**Peru** has a youth-targeted employment programme that offers entrepreneurship schemes and basic training on managerial skills, development of business plans and accounting, internship programmes and provision of start-up loans to young people aged 14–35 years.

<sup>34</sup> Note: Review draws from Betcherman, et al. 2007, Economic Commission for Africa (2002), Godfrey (2003) and Puerto (2007).

### 9. Concluding Remarks

Kenyan demographic trends have resulted in a population structure that is eminently young. Long-term population changes and long-lasting economic stagnation in turn resulted in a large informal sector and strong pressures on the labour market, which took the form of a large youth unemployment challenge. High youth unemployment is a problem affecting many developed and developing economies, but in Kenya as well as in many other developing countries youth unemployment is particularly severe. Relatively few of the young people joining the labour market can find a job in the formal sector, and many cannot readily find an adequate occupation in the informal sector. This study has documented that Kenya's youth unemployment rates are the highest of all age groups and that young people represent, by far, the bulk of Kenya's unemployed people.

The review of demographic trends and forecasts undertaken in this study makes clear the important role that population growth has played in shaping the youth employment challenge Kenya is facing today. The same review suggests, however, that the peak of the relative pressure that young people exert on labour markets has already passed and that there is now an opportunity to start to improve labour market opportunities for young people.

The detailed analysis of youth unemployment in this study suggests that policies need to focus on certain age groups within the national Kenyan definition of youth. Policy interventions should target the most pressing challenges—the unemployment of:

- young people aged 18 to 25 years;
- young people aged 15 to 18 and 25 to 29 years; and
- young people aged 30 to 34 years.

The analysis provides insights that might help define the focus of policies for both rural and urban areas. Youth unemployment rates are certainly higher in urban areas, but the number of unemployed young people is larger in rural areas. Creating rural jobs does not necessarily counter the wheel of progress and development. While rural-to-urban migration runs along the development process, it does not mean that all of it is fundamentally necessary. When it is prompted by economic distress and poignant poverty, policy interventions are in order. Tackling rural youth unemployment cannot fundamentally change the economic attractiveness of cities, but it can contribute to a more rational and human rural-to-urban migration and development process. The study showed that some of the urban youth unemployment can be traced back to rural-to-urban migration, and, while providing a job in urban areas might be less costly than providing a job in rural areas, due consideration has to be given to the social cost of migration. Improving employment opportunities in rural areas can lead to more humane and long-term rational choices. Policy interventions need to carefully consider the need to reduce unemployment and poverty in the short term while promoting long-term development.

It is worth insisting that youth employment promotion policies need to keep a strong female focus; the study provides ample evidence to do so, as female youth unemployment rates and numbers are often the highest. Policy designers will need to look carefully into the issue of female participation in labour markets. They might consider, for example, including minimum participation quotas for females. Policies also need to go further than mechanical quotas. The cost of taking a job is not equal for males and females. Employment promotion policies need to accompany interventions with measures that reduce the cost to females when they actively participate in labour markets.

Youth unemployment is clearly linked to poverty. Unemployment rates are consistently higher for young people belonging to households in the bottom 40 percent of income distribution. Targeting poor people should be an important component of employment promotion policies. Incentives and employment promotion programmes should consider that the lowest wage paid in rural and urban areas is that of employees in informal businesses. Policies will have to weigh how to use this wage as a reference at the same time that an adequate minimum income is provided by such policies. Pressures from high-income households to gear

## Final Remarks

employment promotion policies towards their constituency can be strong, as, for certain age groups, there is also a large number of unemployed people from these households. Policies might respond to these pressures by issuing adequate active labour policies.

An analysis on the level of education as it relates to youth employment suggests that policies must consider a variety of potential factors influencing performance in labour markets. The study confirms the well-known fact that improving education leads to better employment outcomes. The study also suggests that policies aiming to reduce youth unemployment should be carefully targeted.

The study suggests that unemployment policies should focus on young people with primary and secondary education as they comprise a large group of people with high unemployment rates. The analysis might also help put in perspective the commonly held view that a highly pressing problem is the unemployment of young people with tertiary education. At certain ages, the unemployment rates of those with tertiary education are certainly high, but, fortunately, high rates are limited to a few age groups. As these young and better educated people become older, their unemployment rates rapidly decline. Moreover, the number of people with tertiary education is small. The emphasis should be, thus, in order of importance:

- youth with primary and secondary education;
- very young people that are not formally educated; and
- youth with tertiary education.

Special attention, however, must be paid to poor workers— not because of the size of the groups, since this is not the largest unemployed cohort, but because their employment conditions are the worst.

The review of the data in this study suggests that the labour market might be placing a significant premium on secondary and tertiary education. The age pattern of unemployment and employment outcomes as well as the structure of earnings indicates that people with these educational credentials are in high demand. The case of tertiary education is clear, needing no further elaboration. Labour market trends suggest that young people with secondary education have positive employment outcomes when they approach adulthood. This might be evidence of a market premium that only requires a certain amount of education but also requests experience. This suggests that employment promotion policies should support people to acquire the skills and capacities that markets appear to be demanding. In this particular case, this means increasing the pool of people with secondary education and providing work experience.

Nevertheless, it is clear that there is much to be done in this respect. The data suggest that youth employment promotion policies should aim to increase both education and employment at the same time. For example, it might be better in the long term to get very young people back to school to complete primary or secondary education than to provide employment and forsake the increase in education for these people. A mix of incentives towards employment, school attendance and apprenticeship schemes (the recommended characteristics of which are beyond the scope of this study) might be in order.

The analysis of youth unemployment and employment patterns confirms the view derived from long-term demographic and economic trends: promoting informal employment should be an important component of employment policies. High youth unemployment has to do with the scarcity of formal job openings and the incapacity of young people to create an attractive job in the informal market for themselves. The study shows that it takes time for young people with some degree of education to take an informal job. The study also shows that business enterprises owned by young people have a lower earning capacity than those headed by adults, their business locations are not the most advantageous, and that they have less access to credit. Youth employment policies should importantly emphasize the promotion of micro, small or household businesses for young people. When promoting household enterprises, it is important to focus on low-income households.

The promotion of formal employment is a complex topic. Kenya has vast experience in this terrain that other reports have discussed at length. This study limits its scope to point out that the public sector seems to be lagging behind in hiring young people. The

## Final Remarks

study also confirms the well-known fact that women are at a disadvantage in access to formal, paid jobs in both the public and private sectors. Employment promotion policies should seek to design incentives to increase female participation in formal jobs and promote the hiring of young people in the public sector.

The structure of wages confirms that jobs in the formal private, nongovernmental and public sectors are the most attractive occupations. Wages by type of employer suggest that the lowest wage for paid work is the mean wage in informal businesses, slightly higher in urban than rural areas and slightly higher for older youth. Any programme that aims to create jobs should look closely at this wage to determine to what extent it represents a socially satisfactory reward for work that can be offered by employment generation programmes and to what extent a higher wage might inhibit otherwise economically viable activities. The analysis also confirms the need to implement measures to equalize male and female wages.

Because the natural, social and economic conditions of the provinces vary significantly, as expected, the entry of young people into labour markets follows patterns that vary by region. Some regions show high unemployment rates for certain age groups, while others exhibit low unemployment rates for the same age groups but higher for other groups. Regional high unemployment rates do not always correspond with a large number of unemployed people. The main message of the data reviewed in this study is that national employment promotion policies should be flexible enough to incorporate provincial variations and incorporate local knowledge of labour markets. This study, in any case, confirmed the special employment conditions and opportunities that Nairobi offers.

Kenya has a long experience in tackling issues of employment and has already accumulated a lot of experiences in tackling youth employment challenges. The government, for example, has recently launched another important youth employment initiative. This study only touched briefly on policies, however. Its emphasis was on organizing the evidence provided by the KIHBS 2005/06 to inform policies on the employment and unemployment conditions of young people. The overall intuition that emanates from this study is that youth employment policies need to be scaled up and that a strong focus must be kept on certain subgroups of the youth population.

As they are improved and targeted, policies need to remain realistic. The simple exercise on the mechanics of growth and job creation undertaken in this study suggests that, even under reasonably optimistic expectations, the economy will continue to be dominated by informal employment. The optimistic view includes desirable changes in the capacity of the economy to grow and the capacity of this growth to generate formal jobs. An important insight of this study, which is not new, is that policies aiming to make informal activities more productive and rewarding should figure importantly in youth employment promotion strategies.



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