The Dynamics and Trends of Employment in Kenya

Institute of Economic Affairs - Kenya

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ACRONYMS AND ABBREVIATIONS

ALMPs	Active Labour Market Policies
BPO	Business Process Outsourcing
EAC	East African Community
EPL	Employment Protection Legislation
EPZ	Export Processing Zones
GDP	Gross Domestic Product
ICT	Information Communication Technology
IEA	Institute of Economic Affairs
ILFS	Integrated Labour Force Survey
ILO	International Labour Organization
KKV	Kazi Kwa Vijana
KNOCS	Kenya National Occupational Classification Standards
LMIS	Labour Market Information Systems
MDG	Millennium Development Goal
MSEs	Micro and Small Enterprises
MTP	Medium Term Plan
NACOSH	National Council for Occupational Safety and Health
NARC	National Rainbow Coalition
NEB	National Employment Bureau
NESC	National Economic and Social Council
NHIF	National Hospital Insurance Fund
NLB	National Labour Board
NMS	National Manpower Survey
NSSF	National Social Security Fund
OECD	Organization for Economic Cooperation and Development
OEE	Overall Equipment Effectiveness
OLE	Overall Labour Effectiveness
PCK	Productivity Centre of Kenya
SAPs	Structural Adjustment Programmes
SSA	Sub-Saharan Africa
TPM	Total Productivity Measure
TPMG	Total Productivity Measure Growth

FOREWORD

Since the mid-eighties the creation of employment has been one of the major economic challenges that Kenya faced. Therefore, creation of employment has had a deservedly high priority in policy discourses by policy makers, academia and other Kenyan professionals. Most of the policy documents drawn provide space for policy response to the issue of creating new employment outside of the public sector. And yet in spite of comparatively higher rates of growth for four consecutive years starting in 2003, formal employment rates barely improved.

This intractable problem of economic policy calls for empirical investigation to find out what the historical trends to employment in Kenya have been in addition to the available policy choices that may be taken to drive employment growth. This study demonstrates that major policy documents in Kenya premised employment and overall economic growth to grow in tandem. While this was true in the first two decades after independence, the empirical facts show that the nexus between growth and employment has considerably weakened. The implication therefore being that if employment creation is to be taken seriously, then an assessment of the dynamics in the paper would be necessary because the mere targeting of high rates of economic growth will not suffice.

The Institute of Economic Affairs (IEA-Kenya) publishes this study in order to create an understanding of the dynamics and trends in employment for Kenya and to inform decision-making and policy debate in the future. We hope that our report helps to achieve that understanding. There will be need for further research into appropriate policy mix to spur wider employment opportunities for the current and future labour force taking into account that Kenya's population shall remain relatively young in the foreseeable future.

Margaret K. Chemengich
Chief Executive.

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We also thank the staff of the IEA-Kenya at programme and administrative levels whose assistance with the peer review, management and other efforts facilitated the conception, editing and the conclusion of this study.

In conclusion, IEA-Kenya acknowledges it's the financial assistance from the DFID Kenya office that enabled this study to be conducted to address an important issue in Kenya's economic policy landscape.

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CHAPTER ONE

INTRODUCTION

1.1 Background

Since independence the creation of productive and sustainable employment opportunities has remained a central policy priority of the Kenya government. A number of policy interventions have been formulated and variously implemented in that period. Key among these policies is the growth-oriented development strategy augmented by a high wage and Kenyanization policies adopted at independence (Republic of Kenya, 1964). It was believed that long-term and sustained high rates of economic growth would facilitate generation of employment opportunities at rates higher than the proportionate increase in the labour force (Republic of Kenya, 1969). High wages were also expected to stabilise the labour force, lead to rapid growth in labour productivity and enhance industrial competitiveness and employment creation. On the other hand, the Kenyanization strategy entailed a deliberate effort by the government to increase employment opportunities for Kenyans through replacement of non-citizens (Republic of Kenya, 1983). Measures used to achieve this included exclusion of foreigners in rural trade, use of work permits to control employment of expatriates, redistribution of large agricultural farms and increased investments in human capital formation.

The government also undertook to engage in direct employment creation, regulate wages, operate employment exchange programmes, improve labour market information systems and to re-orient education and training systems to vocational and technical training areas as a means of promoting employment creation. Other measures also implemented to address the country's employment problem included promotion of growth and development of the informal and jua kali sector, adoption of fiscal and short-term measures such as tripartite agreements, among others (Republic of Kenya, 1969; 1973). The tripartite agreements were particularly entered into by government, employers and organised labour (trade unions) in 1964, 1970 and 1979. Under the agreement, employers were to increase their employment levels by at least 10 percent per annum. In return, workers were to observe a wage freeze and strike free environment during the period.

In the 1990s and early 2000s, government employment interventions targeted enhancing the acquisition and promotion of efficient use of labour market information, reliance on market forces to mobilise resources for sustained growth, provision of public infrastructure, industrial policy, enhancement of private sector investment and participation in the economy, promotion of industrial harmony and productivity and liberalization of the labour market (Republic of Kenya, 1994a; 1994b; 1997a; 1997b; 1999; 2002).

In 2003, the government of the National Rainbow Coalition (NARC) formulated a five-year development strategy (Economic Recovery Strategy for Wealth and Employment Creation, 2003-2007). This strategy was anchored on the principles of democracy and empowerment (Republic of Kenya, 2003). The strategy put a case for empowerment of the people through creation of employment and other income earning opportunities.

Despite all these interventions, creation of adequate, productive and sustainable employment continues to be the greatest economic challenge for Kenya. The employment challenge has been aptly recognised in the country's long-term development blueprint: Vision 2030, the Medium Term Plan (2008-2012), and Labour, Youth and Human Resource Development Sector Plan (2008-2012). According to these policy documents, the country's employment problem is manifested in slow growth of formal sector employment vis-à-vis a burgeoning informal and jua kali sector offering high and increasing number of precarious jobs; a 12.7 percent open unemployment rate; increasing number of the working poor; rapidly changing forms of employment with limited job security; high youth unemployment, majority (90 percent) of whom lack appropriate vocational and professional training to effectively participate in the labour market (Republic of Kenya, 2008a; 2008b).

1.2 Objectives of the Study

The broad objective of this study was to document the dynamics and trends of employment in Kenya. Specifically, the study sought to:

(i) Identify and analyse the trends in both formal and informal sector employment in Kenya over the last two decades

(ii) Correlate the identified trends in formal and informal sector employment to economic growth patterns over the same period
(iii) Establish the determinants of employment in Kenya
(iv) Interrogate the foundations of employment creation proposals in Vision 2030 and other related policy documents, and ascertain the extent to which they are able to facilitate achievement of the stated employment creation goals
(v) Comment on wages and wage determination policy and its effects on productivity and employment growth in Kenya and
(vi) Suggest appropriate policy options and reforms required to facilitate sustained employment growth in Kenya

1.3 Methodology

Development of this Report followed an integrated and participatory approach, involving analysis of secondary information, and interactive peer review sessions with a team of experts constituted by the Institute of Economic Affairs (IEA). The study relied on secondary information collected through review of relevant literature, government policy documents and other publications and reports published by international agencies such as the International Labour Organization (ILO) and World Bank. The time-scope of the study was the period 1963-2008. Both qualitative and quantitative approaches were used in analysing and interpreting data.

1.4 Organization of the Report

This Report is structured into five (5) Chapters. The present Chapter has provided a brief background of the employment problem in Kenya. It has particularly highlighted the employment creation policies that have been pursued by the Kenya government since attaining political independence in 1963. The Chapter also highlighted the study objectives, and methodology. Chapter Two provides situational analyses in terms of the nature of employment problem in Kenya, past employment creation policies, and trends in employment and economic growth rates overtime. The Chapter also examines the employment and economic growth nexus for Kenya. Chapter Three looks at employment determination in Kenya. An employment model is also estimated and results presented therein. Chapter Four undertakes a critical analysis of employment-targeted interventions contained in Vision 2030 and other policy documents related to employment. The purpose is to ascertain the extent to which the proposed interventions are likely to promote sustained employment growth in the country. The final Chapter contains conclusions and policy recommendations.

CHAPTER TWO

SITUATIONAL ANALYSES

2.1 Nature of the Employment Problem in Kenya

For more than four and a half decades now, the Kenya government has continuously articulated the need to create sufficient employment opportunities to absorb the country's growing labour force. Unemployment and underemployment have been identified as Kenya's most difficult and persistent problems (Republic of Kenya, 1969; 1983; 2008a&b). One of the earliest attempts to identify the nature and causes of unemployment in Kenya was stated in the 1970-74 Development Plan (Republic of Kenya, 1969). In this Plan, the government identified three "kinds" of unemployment namely: "urban unemployed, rural unemployed, and educated unemployed and underemployed". The causes of such unemployment were identified as high labour force growth rates, use of modern capital-intensive technology and attendant increase in labour productivity in addition to high wages and salaries, which triggered adoption of labour-saving techniques of production. According to the Plan, the identified causes of Kenya's unemployment were linked to inadequate training and consequent lack of skills, shortage of land and other resources, rapid expansion in school enrolment, skills mis-match and rural-urban migration.

Another stab towards understanding the nature and causes of unemployment in Kenya was made in 1983 in the Report of the Presidential Committee on Unemployment (1982/83) and the Sessional Paper No. 2 of 1985 on Unemployment, which provided the government's official response to the Committee's Report. The Committee's Report considered the problem of unemployment as one of lack of access to income earning opportunities, whether in wage or self-employment. Both the Report and the Sessional Paper identified the major causes of unemployment in Kenya as rapid growth of the labour force, low economic growth rate, job selectiveness, seasonality of some of the industries and skills imbalance. Others were inappropriate technology and failure of development programmes to focus on areas with greater employment potential.

The latest government policy document, The Sector Plan for Labour, Youth and Human

Resource Development Sector (2008-2012) contends that unemployment in Kenya is both structural and frictional in nature. According to the Plan, Kenya's unemployment is mainly attributed to the slow growth and weak labour absorptive capacity of the economy, mismatch in skills development and demand, imperfect information flow and inherent rigidities within the country's labour market.

One of the critical issues in policy formulation is clear understanding and definition of the policy problem or concern. It is clear from the preceding discussions that part of the weak policy response to the employment problem in Kenya is inappropriate definition. Our understanding is that urban unemployed, rural unemployed, and educated unemployed and underemployed are not kinds/types of unemployment but categories of the unemployed. It is also granted that capital-intensive technique of production is inappropriate for labour surplus economy such as Kenya. However, contrary to the observations put forth in the 1970-74 Development Plan, increased labour productivity should lead to enhanced organizational competitiveness and creation of productive and sustainable jobs and not a reduction in labour demand. A less productive workforce is not a desirable option for increasing employment. Slow economic growth has always been cited as a cause of unemployment in Kenya. However, economic growth per se may not necessarily lead to job creation. If anything, capacity of economic growth to create employment depends on the structure of the economy, the drivers of such growth, the rate of growth and the period over which it is sustained, in addition to the employment responsiveness of the growth itself.

Economic theory identifies several types of unemployment. The main ones, which are also relevant to Kenya are structural, frictional, seasonal, cyclical, and wage rigidity unemployment. Structural unemployment is caused by changes in the structure of demand, technology and problems of labour mobility that characterises the Kenyan labour market. Frictional or search unemployment is the unemployment due to skills mis-match, imperfect information flow within the labour market, difficulties and long time lags experienced in changing or finding alternative jobs and other rigidities within the labour market. It is noted that the Kenyan labour market, just like in other countries, is always in a state of flux with people leaving and changing jobs while others are joining. With the information asymmetry that characterises the Kenyan labour market, it generally takes quite some time for job seekers and employers to match. Seasonal unemployment occurs due to seasonal variations experienced in the various sectors of the economy such as agriculture, fishing, tourism and manufacturing. The variations are attributed to changes in the climatic conditions, and time-variant consumption patterns and demands. Cyclical unemployment or demand-deficient unemployment is associated with the downswings of the trade cycle. It explains much of the redundancies that have been witnessed in the Kenyan labour market especially with the onset of SAPs, economic liberalization and globalization.

Wage rigidity unemployment is unemployment that results from existence of relatively high real or nominal wages. This may be occasioned by inappropriate wage determination/ compensation mechanisms, including inefficient wage fixing policies and institutions. At the same time, unemployment may also arise due to workers pricing themselves out of jobs because of high reservation wage. In Kenya, existence of such unemployment may be examined within the framework of effectiveness of minimum wage regulation, collective bargaining, and administered system of wage determination to employment creation and poverty reduction. Similarly, the efficiency, competitiveness promotion ability and degree of adherence to the widely used wage compensation parameters may need to be re-examined.

2.2 Past and Current Employment Creation Policies and Programmes

Employment creation policies in Kenya have been seen as part and parcel of the basic policies for economic growth and development (ILO, 1995; Republic of Kenya, 1964). The underlying premise, in this case, has been that faster economic growth would lead to employment creation and that income generation through employment would lead to improvement in the standards of living and eradication of poverty. Table 1 gives a summary of the focus of employment creation policies and programmes that have been formulated by Kenya since independence.

Table 1: Kenya's Employment Creation Policies and Programmes (1964-2008)

Policy Document	Period	Policies and Programmes
Development Plan	1964-1970	• Growth oriented development strategy • High wage policy • Equitable income distribution • Population control • Kenyanization • Investment in education and training • Tripartite agreements (1964) • Redistribution of large agricultural farms
Sessional Paper (No. 10 of 1965)	1965-	• Kenyanization policy • Income redistribution
Development Plan	1966-1970	• Rapid economic growth and development • Income policy • Kenyanization Increasing role of government; expansion of co-operative movement; promotion of self-help schemes; respect for private ownership; education and training; adapting technological and economic knowledge; social characteristics (productivity, disciplined labour force and saving habits) • Wage restraint • Tripartite agreements (1970) • Deepening agriculture (increasing capital intensity, improved organization and provision of infrastructural facilities) • Back-to-land policy • Rural industrialization

Sessional Paper (No. 10 of 1973)	1973-	• Economic growth • Fiscal measures (aimed at changing the relative factor prices in favor of labour) • Provision of infrastructure and other amenities • Rural works programmes • Reorientation of education and training systems to vocational and technical training areas • Improvement of labour market information and administration • Productivity promotion • Wage restraint (Wage Guidelines) • Tripartite agreements (1979) • Promotion of informal and jua kali sector
Sessional Paper (No. 2 of 1985)	1985-	• Economic growth • Equitable distribution of income • Productivity growth • Promotion of informal and jua kali sector • Promotion of national philosophy (popularise concept of democratic African socialism and its application in Kenya) • Investment in education and training • Reorientation of education and training systems to vocational and technical training areas • Promotion of agriculture and manufacturing sector • Private sector development • Provision of supportive environment by public sector • Public works and community programmes • Employment and labour market policies

Development Plan	1984-1988	• District Focus for Rural Development Strategy • Active labour market policies • Economic growth and equitable distribution of income • Efficient utilization of resources (land, labour and capital) • Focus on agriculture • Export-oriented industrialization
Sessional Paper (No. 2 of 1992)	1992-	• Small enterprise and jua kali development • Facilitating access of MSEs to credit, non-financial promotion programmes, markets and marketing information; enhancing legal and regulatory environment, and promoting technological development and transfer amongst the MSEs
Sessional Paper (No. 1 of 1994)	1994-	• Measures for accelerated economic growth and development • Macroeconomic framework • Enhancing acquisition and efficient use of labour market information

Development Plan	1994-1996	• Job creation in the rural economy, especially agriculture and urban informal sector • Macroeconomic management • Reliance on market forces to mobilise resources for high and sustained economic growth • Government role limited to provision of infrastructure and regulatory framework
Development Plan	1997-2001	• Rapid Industrialization for Sustainable Development • Macroeconomic management • Industrialization through private sector investment • Promotion of the MSEs • Improvement of working conditions • Enhancing participation of employers and workers in promoting industrial harmony • Liberalization of the labour market (removal of wage guidelines)
Sessional Paper (No. 2 of 1997)	1997-	• Industrialization • Promotion of growth and development of MSEs • Infrastructural development • Private sector participation • Productivity promotion

Development Plan	2002-2008	• Macroeconomic interventions and fiscal measures for high and sustained economic growth • Productivity promotion • Growth and development of the MSEs
Economic Recovery Strategy Paper	2003-2007	• Private and foreign investment for high and sustained growth • Sound macroeconomic framework / macroeconomic stability • Good governance and rule of law • Infrastructure development • Investment in human capital through education, training and healthcare • Legal and legislative reforms
Vision 2030	2008-2030	• Macroeconomic framework • Prudent fiscal policies • Public expenditure management • Private sector investment • Revitalization of agriculture • Infrastructure development • Governance reforms • Policy, legal and institutional reforms • Sound human resource management • Productivity promotion • Promotion of life-long training and education • Establishment of human resource database • Establishment of new technical training institutions • Enhancement of closer collaboration between industry and training institutions

Medium-Term Plan	2008-2012	• Macroeconomic framework • Prudent fiscal policies • Public expenditure management • Private sector investment • Revitalization of agriculture • Infrastructure development • Governance reforms • Policy, legal and institutional reforms • Sound human resource management • Productivity promotion • Promotion of life-long training and education • Establishment of human resource database • Establishment on new technical training institutions • Enhancement of closer collaboration between industry and training institutions
Sector Plan	2008-2012	• Macroeconomic framework • Prudent fiscal policies • Public expenditure management • Private sector investment • Governance reforms • Policy, legal and institutional reforms • Productivity promotion • Harnessing of local talents and cultural diversity • Gender mainstreaming • Promotion of MSEs • Promotion of industrial democracy

Source of Information: Government Policy Documents (various)

The summaries in Table 1 show that the main focus of Kenya's government since independence has been attainment of rapid economic growth as an avenue for employment creation. Within this context, long-term measures such as management of macroeconomic fundamentals such as savings, investments, incomes and population have been pursued to facilitate job creation. At the same time, medium and short-term measures such as public works programmes and tripartite agreements have also been implemented to create jobs on a more intermediate basis.

2.3 Employment Outcomes of the Policies and Programmes

Three broad employment creation policy approaches may be identified from the summary given in Table 1. These approaches are the Kenyanization policy, which was pursued during the first and part of second decade after independence; active labour market policies undertaken in the second decade; a return to macro measures aimed at creating an enabling environment, and private sector-led economic growth for employment creation, which have been followed from the third decade to date. These policy interventions have had varied employment outcomes as discussed in the sections that follow.

2.3.1 Kenyanization Policy

The Kenyanization programme was aimed at increasing employment opportunities for Kenyans through replacement of non-citizens (Republic of Kenya, 1983). Mixed results were recorded from the strategies adopted under this broad policy framework. As for the Kenyanization policy, between 1964 and 1972, Kenya's GDP grew by about 6 percent per annum in real terms; wage employment increased by approximately 2.8 percent per annum with most of the jobs being created by the government as the "Employer of last resort". The emergency measures of employment creation (tripartite agreements) pursued in 1964, 1970 and 1979 did not create any meaningful employment. This is because while workers and their trade unions generally observed and delivered on their part of the bargain of a wage and strike restraint, employers did not increase their employments by at least 10 percent as "agreed". Instead, majority of employers opted to convert their existing casual, contractual and temporary workers into more permanent workers. Thus, the tripartite intervention only had marginal and temporary effect, and did not increase the size of the payroll, by at least 10 percent, as was envisaged under the policy (Omolo, 2002).

It is important to note that emergency employment policies, such as the tripartite employment frameworks pursued by Kenya in 1964, 1970 and 1979 are highly unpredictable and unsustainable means of employment creation. This is because such policies only tend to "force" rather than facilitate employment creation. Given that the demand for labour and thus employment is derived, interventions for creation of productive and sustainable employment opportunities must be facilitatory in nature and not decreed. In the circumstance, establishment and maintenance of a conducive and pro-employment business environment would be more effective in growing employment than decreeing employment. In any case, what is required is not relief of unemployment as such but creation of employment.

Another outcome of the Kenyanization employment intervention was that labour productivity of wage employees increased by an estimated 2.9 percent per annum. At the same time, capital-labour ratio increased by 6.8 percent, implying that the economy grew more capital intensive than labour intensive (Omolo, 2002). This outcome when contrasted with the labour surplus nature of the Kenyan economy shows that the policy intervention was not appropriately targeted and did not yield the expected employment outcomes. It is noted that the Kenyanization policy, which targeted replacement of whites and Asians with Africans (Kenyans) was successful to the extent that it increased overall employment within the public service. Between 1964 and 1971, for example, the percentage of Africans in the public service increased from 14.6 percent to 97 percent in 1971 (ILO, 1995). It is noted that by the end of 1981, Kenyanization in the private sector had reached 95 percent (Republic of Kenya, 1983). It is important to clarify that this intervention did not result in creation of new employment opportunities but was a mere realignment of the job holders. Hence it can be stated that overall, growth occurred without sufficient employment being created during the period.

2.3.2 Active Labour Market Policies

The Active Labour Market Policies (ALMPs) were intensely implemented in Kenya during the second decade of the country's political independence. Active labour market policies sought to address the imbalances existing between population growth, growth of the labour force, mis-match in skills, provision of labour market information, and the problem of job selectiveness particularly amongst the youth as compared to available employment opportunities. Measures that could be grouped under the ALMPs came into existence as a consequence of recommendations of the ILO employment advisory mission of 1972. The report identified the existence of an informal or Jua Kali sector, which was considered instrumental in facilitating employment creation and income generation, especially among the lower-income segments of the population (ILO, 1995). In the context of this paper, informal and Jua Kali sector employment refers to self and non-wage employment. It is characterised by labour market insecurity such as low job tenure, absence or weak enforcement of core labour and employment regulations, weak framework for social protection and high levels of employment flexibility. This definition includes typical forms of employment such as small scale consultancies, which are unregulated but are at the same time highly paying and are the depositories of some of Kenya's highly skilled workforce.

Kenya's employment data for the period 1975-1985 shows that formal sector employment increased from 0.819 million persons in 1975 to 1.174 million persons in 1985, depicting an annual average growth of 3.6 percent. During the same period (1975-1985), employment within the informal sector grew by more than double, from 0.131 million persons in 1975 to 0.288 million by 1985. This represented an average annual growth of 8.4 percent. The employment data further reveals that while there was a general job churning in both formal and informal sectors of the economy in 1975 amounting to 0.85 and 0.76 percent respectively, employment within the informal sector grew more rapidly than that of the formal sector. At the same time, the economy grew at an average of 4.9 percent during the decade.

It warrants emphasis that the purpose of active labour market policy is not to create more jobs, but it does provide important pre-conditions for the creation of jobs. Active labour market policies generally contribute to a highly effective supply of labour by ensuring that the unemployed part of the labour force is actively seeking jobs and has the qualifications needed to fill new positions. The intervention also provides a targeted effort towards preventing marginalization and long-term unemployment by ensuring that the unemployed maintain their qualifications. Training is a key component of the active labour market policy. Training is important regardless of employment status, and it plays a separate and vital role in improving the employability and productivity of the labour force. This is underscored by the fact that education and training in Kenya is fairly of a general nature, with curricula which are more often than not poorly aligned to the needs of industries. This explains the perennial problem of skills mismatch in Kenya and the situation of the educated unemployed.

The Kenya government has overtime attempted to improve labour market information and its flow. One of such attempts was establishment, in 1986, of the National Employment Bureau (NEB). The NEB was established and remains, a Department within the Ministry responsible for labour matters. Part of the mandate of the NEB is provision of employment services in terms of registration and placement of job seekers. Inbuilt in this mandate is the collection, analysis and dissemination of labour market information. Currently, the NEB has 21 offices in some of Kenya's urban centres. At the same time, a number of private employment bureaux have sprung up possibly to fill the void left by the NEB, and the growing levels of unemployment. Equally, the private bureaux are concentrated in the main urban centres, leaving the rural areas largely uninformed of the employment trends and dynamics.

A major pre-requisite of the employment services mandate of the NEB is the willingness and ability of employers to report vacancies and terminations to the NEB, and at the same time source suitable job seekers from the Bureau to fill existing positions. Effective execution of the mandate also requires the Bureau to have capacity to obtain, analyse, document, update and store in a retrieval form the profiles of job seekers, identify vacancies in organizations, and popularise their mandate and functions. These fundamentals require a strong legal and institutional setting, which has largely been lacking at the NEB. Hitherto the enactment of the Employment Act (2007) and Labour Institutions Act (2007), the NEB only relied on the Legal Notice No. 156 of 1977, which made it mandatory for all employers to report vacancies (Republic of Kenya, 1983). The legislation did not, however, bestow any power on the employment officers to facilitate execution of their registration and placement mandate. Thus, the NEB would only get employers to declare vacancies and terminations through moral persuasion. The legislation was hardly enforced by government nor adhered to by employers. At the same time, the NEB continues to suffer from human, financial and physical resources capacity limitations, with considerable impact on the effectiveness of their services and outreach. Compounded with this is the unavailability of national skills and industry demands database.

2.3.3 Macroeconomic Measures for Renewed Growth

The Kenya government has, since late 1980s, pursued a number of macroeconomic interventions targeting renewed economic growth and employment creation. These include fiscal framework, which seeks to ensure that the bulk of government expenditures are met from tax revenue. It also intends to manage overall government deficit by ensuring discipline in government spending. Also implemented is the monetary policy which targets containing inflation to single digit levels and maintaining positive real interest rates; flexible exchange rate policy regime; promotion of savings and investments, including domestic funding of the bulk of the investments to reduce over-reliance on foreign financing; and prudent management of external financing portfolio, through gains from increased public and private sector investments, and the increase in exports.

Table 2 gives a summary of the formal and informal sector employment and the rate of growth in real GDP in Kenya over the period 1986-2008.

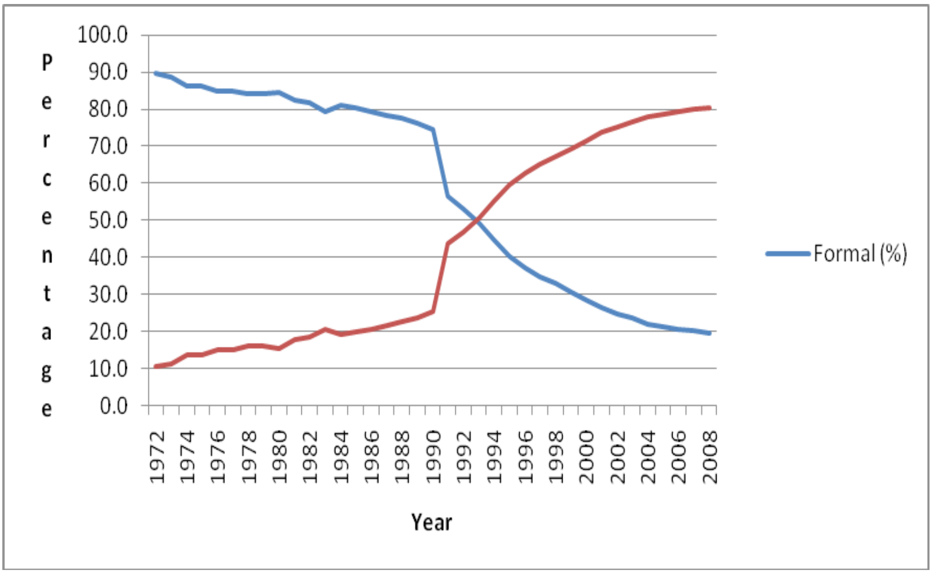
Table 2: Trends of Employment and GDP Growth in Kenya (1986-2008)

Year	Total Employment (Millions)	Proportion of Total (%)		Employment Growth (%)		Real GDP Growth (%)
		Formal	Informal	Formal	Informal	
1986	1.537	79.4	20.6	4.00	9.72	4.8
1987	1.615	78.3	21.7	3.60	10.76	5.5
1988	1.736	77.5	22.5	6.40	11.43	4.9
1989	1.796	76.2	23.8	1.63	9.74	5.1
1990	1.894	74.4	25.6	3.07	13.08	5.0
1991	2.557	56.4	43.6	2.27	130.37	4.3
1992	2.753	53.1	46.9	1.39	15.78	2.3
1993	2.998	49.2	50.8	0.96	17.89	0.4
1994	3.356	44.9	55.1	2.03	21.55	3.0
1995	3.859	40.3	59.7	3.39	24.43	4.8
1996	4.314	37.3	62.7	3.21	17.59	4.6
1997	4.707	34.9	65.1	2.22	13.20	2.4
1998	5.100	32.9	67.1	2.17	11.66	1.8
1999	5.493	30.7	69.3	0.63	11.18	1.4
2000	5.912	28.7	71.3	0.36	10.86	0.2
2001	6.367	26.3	73.7	-1.06	11.22	1.2
2002	6.852	24.8	75.2	1.37	9.85	0.5
2003	7.330	23.6	76.4	1.65	8.73	2.9
2004	7.999	22.1	77.9	2.14	11.28	5.1
2005	8.505	21.3	78.7	2.66	7.36	5.7
2006	8.993	20.7	79.3	2.54	6.60	6.1
2007	9.479	20.1	79.9	2.80	6.08	7.1
2008	9.946	19.5	80.5	1.78	5.72	1.8

Source of Data: Republic of Kenya, Economic Survey (various)

Figure 1 schematises the changing importance of the formal sector to total employment in Kenya over the period 1972-2008.

Figure 1: Formal and Informal Sector Employment to Total Employment in Kenya, 1972-2008 (%)

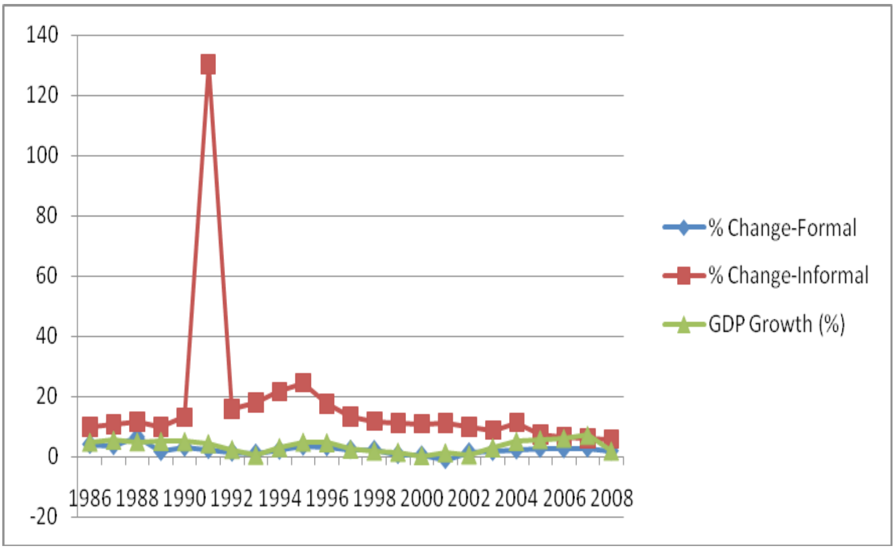


Source of Data: Republic of Kenya, Economic Survey (various)

The data presented in Table 2 and the schematization of the data in Figure 1 reveals a decreasing importance of formal sector employment and growing significance of informal sector employment to total employment in Kenya. Table 2 and the Figure 1 both show that jobs in Kenya have increasingly become informal, moving from less than a quarter of total jobs in the country in 1986 to slightly more than four-fifths of total employment in 2008. The greatest leap in the growth in informal sector employment was witnessed as from 1991. This period of rapid growth in informal employment in Kenya (1991 onwards) coincided with the period when the Kenyan labour market started suffering formal sector employment losses triggered by liberalization policies, renewed government strategy towards promotion of growth and development of the informal and "Jua Kali" sector (1992), and broadening of the definition and more consistent capturing of informal sector data in the national statistics. This also explains the spike in Figure 2.

Figure 2 shows the trends in formal and informal sector employments, and rate of growth of the country's economy over the period 1986-2008.

Figure 2: Trends in Employment and GDP Growth, 1986-2008 (%)



Source of Data: Republic of Kenya, Economic Survey (various)

The trends in formal and informal sector employment depicted in Table 2 and Figures 1 and 2 shows that the employment creation interventions implemented by the country facilitated growth in informal sector employment more than it did to formal sector jobs. Over time, the rate of growth in formal sector employment in Kenya has been low averaging 2.23 percent per annum compared to 17.22 percent per annum for the informal sector. During the period under analysis (1986-2008), the country's economy grew at an average rate of 3.52 percent.

Even though no reliable statistics are available on the dynamics of the jobs, it may as well be true that much of the informal sector jobs may have been accounted for by relocation or switching of workers from formal to informal sectors of the economy due to the negative effects of Structural Adjustment Programmes (SAPs), which were implemented in the 1980s; liberalization policies, which were deepened in 1990s; and increased globalization. Figure 2 also reveals that while informal sector employment grew rapidly, growth in formal sector employment was subdued and mirrored the dismal performance of the economy over the period. This does not, however, provide succinct information on the causal relationship between the rate of growth of the economy and employment in Kenya.

2.4 The GDP-Employment Nexus in Kenya

Since attaining political independence in 1963, Kenya has always premised employment creation on economic growth (Republic of Kenya, 1964; 2008a). Virtually all the country's development plans, sessional papers on employment, the current long-term development blueprint: Vision 2030, and related medium-term and sector plans have promoted economic growth as the panacea to employment creation.

Economists have often used employment elasticity as a numerical measure of how employment varies with growth in economic output (GDP). This measure (employment elasticity) serves as a useful way to examine how growth in a country's GDP and growth in employment evolve together over time. Employment elasticity can also provide insights into trends in labour productivity and employment generation for different population subsets in a country, and assist in detecting and analysing structural changes in employment. Table 3 gives a summary of the world and regional estimates of employment elasticities over the period 1992-2008.

Table 3: World and Regional Estimates of Employment Elasticities (1992-2008)

Region/Country	Employment Elasticities				Average Annual GDP Growth			
	1992-1996	1996-2000	2000-2004	2004-2008	1992-1996	1996-2000	2000-2004	2004-2008
World	**0.3**	**0.4**	**0.3**	**0.3**	**3.1**	**3.7**	**3.3**	**4.4**
Developed Economies & European Union	0.3	0.3	0.2	0.5	2.4	3.3	1.9	2.2
Central and South Eastern Europe	0.2	0.2	0.2	0.2	-5.5	3.2	6.0	6.7
East Asia	0.1	0.2	0.1	0.1	10.2	7.0	7.8	9.3
South East Asia and the Pacific	0.3	0.1	0.3	0.4	7.8	1.6	4.9	5.8
South Asia	0.3	0.4	0.4	0.3	6.0	5.4	5.5	8.4
Latin America and the Caribbean	0.6	0.9	0.8	0.5	3.3	3.0	2.3	5.0
Middle East	1.1	1.5	0.7	0.7	2.9	3.3	5.1	5.7
North Africa	0.8	0.6	0.8	0.7	2.3	4.3	4.3	5.6
Sub-Saharan Africa	0.7	0.7	0.5	0.5	2.9	3.0	6.0	6.1
East African Community								
Burundi	-0.15	0.41	1.52	1.18	-6.5	0.8	2.5	3.5
Kenya	1.28	1.77	1.03	0.5	2.7	1.6	3.1	5.3
Rwanda	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Tanzania	1.04	0.64	0.23	0.27	2.7	3.9	7.0	7.2
Uganda	0.34	0.51	0.54	0.4	8.8	5.7	6.8	8.8

Source: ILO (2009)

Table 3 shows that globally, the world's aggregate employment elasticity ranged between 0.3 and 0.4 during the period 1992-2008. This implies that for every one percentage point of additional GDP growth, total world employment grew by 0.3-0.4 percentage points during the period. It is also noted from Table 3 that the elasticities of employment were relatively high in the Middle East (0.7-1.5), Latin America and the Caribbean (0.5-0.9), North Africa (0.6-0.8) and Sub-Saharan Africa (0.5-0.7). Within the East African Community (EAC), Burundi had the highest employment elasticity (0.15-1.18) followed by Kenya (0.5-1.28), Uganda (0.34-0.54) and Tanzania (0.23-1.04). Employment elasticity statistics for Rwanda were unavailable.

According to the ILO (2009), there is no universally accepted or benchmark figure against which a country's historical employment elasticities should be compared. It is argued that employment intensity required by a country depends on several variables. These include the country's rate of economic growth, amount of surplus labour and labour force growth rate, the unemployment and labour force participation rates, the level and growth rate of labour productivity, and the poverty rate, particularly amongst workers (ILO, 2009). From Table 3, it is clear that the employment elasticity for Kenya has been declining, particularly since 1996. It declined from 1.77 in 1996-2000 to 1.03 and 0.5 in 2000-2004 and 2004-2008, respectively. This means that the employment yield of the country's growth in GDP has declined over time. The statistics show that while a one-percentage increase in the country's GDP in the period 1996-2000 triggered an increase in employment of 1.77 percentage points, a similar growth in GDP would only yield a 0.5 percentage increase in employment in 2008. This shows the declining responsiveness of Kenya's employment to growth in GDP. Within the context of Kenya's employment dynamics, the low employment elasticity and the rapidly growing labour force, only phenomenal growth rates in GDP would lead to meaningful generation of jobs in Kenya. However, Kenya's growth rate has been dwindling over time with very little promise of a desired level of 7.5 percent per annum sustained over a long period of time.

Empirically, changes in GDP growth are equal to the sum of changes in employment growth and changes in labour productivity growth. Kenya has had positive GDP growth over the period 1992-2008 and employment elasticities ranging between 0.5 and 1.77 (see Table 3). Thus Kenya's GDP growth over the period has been attributable to positive employment growth interspersed with negative growth in productivity. For example, in the period 1992-2004, Kenya registered a positive GDP growth and employment elasticity greater than one. This corresponded with positive employment growth of 3.456, 2.832 and 3.193 percent in 1992-1996, 1996-2000 and 2000-2004, respectively. During the same periods, the country realised negative productivity growth of 0.756, 1.232 and 0.093 percent, respectively. The interpretation is that during the 1992-2004 period, the country's growth was more employment-intensive and less productivity-intensive. This has a lot of negative implication for a country's competitiveness and capacity to sustain the jobs created. However, the period 2004-2008 was marked by a positive GDP growth and employment elasticity of 0.5. A positive GDP growth and an employment elasticity of between 0 and 1 presents the ideal growth-employment-productivity balance, whereby job growth occurs hand-in-hand with gains in productivity. An ILO study by Khan (2001) argued that employment elasticities in developing countries should ideally be around 0.7 until these economies attain upper-middle income status.

2.5 Kenya's Employment Status: Mass Employment or Quality Jobs?

Kenya's development policies have always emphasised the role of employment creation in promoting income generation, poverty reduction and general improvement in the socio-economic welfare of the society. Employment creation has, therefore, consistently remained as the goal of the country's labour market and other national development policies. The employment creation interventions have incorporated short, medium and long-term strategies.

One of the measures that have permeated through the country's employment creation regimes is the public works programme (see Table 1). Currently, the government is implementing numerous public works programmes. One such programme is the Kazi Kwa Vijana (KKV) programme, which was launched in March 2009. The objective is to facilitate income earning opportunities amongst the youth. The KKV programme encompasses many projects, each running between 3–6 months. These projects include Trees for Jobs; Rehabilitation of Irrigation Schemes; and the Nairobi River Basin Rehabilitation and Restoration.

Public works programmes have also been used extensively in developing countries as a social safety net and short to medium-term means of employment creation. As reported in Martin (2003), one of the most ambitious of such programmes is India's National Employment Assurance Scheme. This programme seeks to give employment to a maximum of two adults per family, assuring unskilled manual work for 100 days during the agricultural off-season, and concentrating on drought-prone, desert, tribal and flood-prone areas. Another large-scale public works programme is operated by the Social Fund for Development in Egypt, with projects covering productive infrastructure (irrigation, drainage, protection of agricultural land), economic infrastructure (roads, channels), social infrastructure (public building restoration, potable water provision) and health and education. NGOs are involved in managing and the private sector in implementing the programme's construction and maintenance activities. A minimum of 25 per cent of a project's budget has to be spent on labour, and at least half of the workers should be locally recruited. Salaries are no higher than in local labour markets. The design of such programmes in Kenya should, however, take into account the existing laws and regulations guiding the labour market (for example minimum wage regulations and its impact on effectiveness of the programme), regional inequalities and pervasive tendencies for sloppy management.

Irrespective of the employment creation intervention, questions abound as to whether developing and labour surplus economies such as Kenya should give priority to fixing employment in terms of quantity (numbers) then address quality, or that both quantity and quality of jobs should move in tandem. A number of employment targeted policy interventions pursued in Kenya have tended to give credence to having a quick fix in employment in terms of numbers with very little emphasis on the quality of the jobs. Within a practical context, mass employment should be used as a stop-gap measure to curb against labour market wastages. However, as much as possible, quality jobs should be the priority.

Kenya is a signatory to the ILO's Decent Work Agenda (Republic of Kenya, 2008b). With this, Kenya appears to be committed also to creation and maintenance of decent jobs. The ILO's framework of the decent work agenda brings quality aspects of employment into the picture. The primary goal of decent work, in this context, is to promote opportunities for women and men living both in urban and rural areas to obtain decent and productive work, in conditions of freedom, equality, security and human dignity. The pillars of decent work as propounded by ILO are employment opportunities, worker rights, social protection and representation (Republic of Kenya, 2005b).

The ILO has developed employment indicators, which can be used to capture the characteristics of employment and facilitate assessment of the decency of employment (ILO, 2009). Examples of such indicators are employment-population ratio, status in employment, employment by sector, part-time workers, hours of work and informal sector employment. Table 4 gives a summary of selected employment indicators for Kenya.

Table 4: Selected Employment Indicators for Kenya (2000-2008)

Indicator/Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Employment-Population Ratio*									
Working Age	73.2	73.1	72.9	72.8	72.7	72.8	72.9	72.9	73.0
Males	79.2	78.9	78.8	78.6	78.6	78.6	78.8	78.7	78.7
Females	67.4	67.3	67.1	67.0	67.0	67.0	67.2	67.2	67.3
Youth	61.1	60.5	60.0	59.6	59.3	59.2	59.2	58.8	58.7
Status in Employment									
Wage Employees	28.49	26.16	24.75	23.58	22.06	21.30	20.66	20.15	19.54
Unpaid Family Workers	1.10	1.02	0.95	0.9	0.83	0.79	0.75	0.71	0.68
Self Employed (Informal)	70.42	72.82	74.29	75.52	77.11	77.91	78.60	79.14	79.78
Employment by Sector									
Agriculture	18.73	18.94	18.76	18.61	18.48	18.38	18.34	18.13	17.87
Industry	33.01	33.15	33.57	33.99	34.48	35.36	36.38	37.43	37.47
Services	48.26	47.90	47.67	47.40	47.04	46.26	45.28	44.44	44.66

*Source of Data: * ILO (2009) and Republic of Kenya (2005a; 2009)*

2.5.1 Employment-Population Ratio

Employment-population ratio is one of the indicators that are used to assess the ability of an economy to create employment. It is defined as the proportion of a country's working age population (15+) that is employed. A high employment-population ratio means that a large section of the country's population is employed, while a low ratio means that a large proportion of the population is not involved directly in market related activities.

Such a scenario could be because the section of the population that are not engaged are either unemployed or out of the labour force altogether. It is also important to clarify that even though a high employment-population ratio is typically considered as positive, the indicator alone is not sufficient for assessing the level of decent work or the level of decent work deficit. This is because the ratio could be high for reasons that are not necessarily positive. Where education options are limited, for example, young people opt to take up any work available rather than staying in school to build their stock of human capital. It is within this context that the employment-population ratio for Kenya is interpreted.

Table 4 shows that while the employment-population ratio for Kenya remained almost constant at 73 percent over the nine-year period between 2000 and 2008, the ratio exhibited marginal declines between 2000 and 2004, before increasing dismally to reach 73 percent in 2008. During the period 2004-2008, the global employment-population ratio averaged 60 percent while that of Sub-Saharan Africa (SSA) was 65 percent (ILO, 2009). Table 4 also reveals that the employment-population ratio has been higher for males than for females, while the youth have continued to bear the greatest brunt of unemployment. The implication of Kenya's employment-population ratio is that even though the Kenyan economy may have realised net employment creation (after taking into account the new jobs and job churning) over time, the rate at which the net jobs were created was almost the same as the rate of labour force growth. This effectively meant that more job seekers, both the new labour market entrants and those out of employment through the various labour separation mechanisms, ordinarily remained out of employment for a longer period hence swelling the ranks of the discouraged job seekers. The other implication for Kenya as may be derived from Table 4 is that there continues to be differences in participation of men, women and the youth in the country's economic activities. These negative differences in access to employment opportunities by women and the youth are reflections of decent work deficits in the country.

Table 4 confirms gender inequities in access to employment opportunities in Kenya. However, gender equality is a key component of decent work. Consideration of gender issues in development has been identified as the greatest good by many countries (Hafkin, 2002). This is because gender disparities create inefficiencies, hampers growth and lowers the potential well being of society. Accumulated empirical evidence demonstrates the centrality of gender equality for equitable economic growth and poverty reduction. Table 5 gives a summary of the level of participation of women in modern sector employment in Kenya. It shows that the proportion of women employed in the formal sector increased marginally from 26.2 percent in 1995 to 29.5 percent in 2000, depicting a 3.3 percentage point increase over the five-year period. The proportion of women in formal sector employment remained constant at 29.6 percent in the period 2001-2004 but declined to 29.4 percent in 2005. It then increased marginally to average 30.2 percent over the 2006-2008 period.

Table 5: Wage Employment in Modern Sector by Sex, 1995 – 2008 (000s)

Year	Women	Men	Total	Women (percent)
1993	341.0	1,133.9	1,474.9	23.1
1994	347.6	1,156.8	1,504.4	23.1
1995	407.8	1149.2	1157.0	26.2
1996	461.3	1157.5	1618.8	28.5
1997	473.4	1174.0	1647.4	28.7
1998	487.1	1177.8	1664.9	29.3
1999	490.5	1183.1	1673.6	29.3
2000	500.6	1194.8	1695.4	29.5
2001	496.7	1180.4	1677.1	29.6
2002	503.4	1196.3	1699.7	29.6
2003	511.2	1216.1	1727.3	29.6
2004	521.3	1242.4	1763.7	29.6
2005	532.3	1275.4	1807.7	29.4
2006	562.7	1297.0	1859.7	30.3
2007	575.5	1334.3	1909.8	30.1
2008	586.8	1356.7	1943.5	30.2

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

Trends exhibited in Table 5 shows that even though there were some gains in employment during the period, the opportunities were not accessed by women and men equally as would be expected under the decent work framework. The negative impact of such inequity in employment is worsened by the fact that on average, men earn more than women. Results of the 1998/99 Integrated Labour Force Survey (ILFS), for example, showed that the mean monthly earnings from paid employment for males is about 1.5 times that of females (Republic of Kenya, 2005b).

Analysis of the employment data for Kenya shows, for example, an increasing trend in the engagement of workers on casual terms of employment. The data shows that the proportion of casual workers in the formal sector gradually increased from 17.9 percent in 2000 to 21.2 percent in 2005, 29.7 percent in 2006 and 32.2 percent in 2008 (Republic of Kenya: Economic Survey, various). The increase in formal sector employment between 2002 and 2003, for example, was wholly attributed to the increase in the number of casual workers. While the number of workers on regular terms remained constant at 1,381.1 thousands in 2002 and 2003, the number of casual employees increased by some 27.6 thousands, out of whom about 32 percent were women. In 2008, there were 625.6 thousand workers on casual terms out of whom, 36.6 percent were women.

It is noted that most employers in Kenya, particularly those within the private sector have resorted to the increasing use of casual, temporary, part-time, contract, sub-contracted and outsourced workforces to ostensibly reduce labour costs, achieve more flexibility in management and exert greater levels of control over labour. This trend allows the de-politicization of hiring and dismissal that makes it easier for companies to avoid labour legislation and the rights gained by trade unions. The trend is mainly observed within the textile and garment manufacturing, especially in the Export Processing Zones (EPZs), and the plantation sector (tea, sugarcane and horticulture) where such problems are fuelled by weak enforcement of the labour legislations. The nature of employment of casual workers do not enable them to enjoy the fundamental rights of workers such as freedom of association and collective bargaining, right to paid leave (sick, maternity and annual leave), and the right to social protection as provided under the National Social Security Fund (NSSF) and the National Hospital Insurance Fund (NHIF). This revelation contrasts sharply with the country's desire to reduce poverty and enhance social protection. Overall, the casual relationships between employers and workers have impaired labour relations, eroded worker protection and transferred additional responsibilities, such as social and trade union protection, job security, and wage negotiations to the worker. This leads to lack of motivation and increases shirking, which decreases effort. This could partly explain the persistently low levels of labour productivity, low enterprise competitiveness and the slow economic growth rates in Kenya.

2.5.2 Status in Employment

This indicator distinguishes between three categories of the employed. These are the wage and salaried workers, self-employed and the unpaid family workers. The basic criteria used to define the status groups are the types of economic risk that the workers face in their work, an element of which is the strength of institutional attachment between the person and the job. It also reflects the type of authority over establishments and other workers that the jobholder has or will have as a result of the employment contract, whether implicit or explicit.

Data in Table 4 shows that the proportion of wage and salaried employees in Kenya is low and shrinking. The importance of this group of workers to total employment in the country declined from 28.49 percent in 2000 to 19.54 percent in 2008. This represented an average decline of one percentage point per year. Effectively, the wage and salaried employees have accounted for less than a quarter of total employment in Kenya since the year 2000. By contrast, the proportion of the self-employed (informal sector workers) have continued to swell. The size of this group of workers increased from 70.42 percent in 2000 to 79.78 percent in 2008, an increase of 9.36 percentage points over the period. A closer scrutiny of the data reveals manifestations of relocation of workers largely from the wage and salaried sector to the self-employed sector. This is an indication of the worsening welfare position of the workers given the relatively low pay and precarious nature of employment in the informal sector.

World and regional estimates of status in employment show that the proportion of wage and salaried employees in the globe increased from 44 percent in 1998 to an estimated level of 48 percent in 2008. This was compared to 12.5 percent and 17.3 percent in 1998 and 2008 respectively for SSA countries. Contrary to the relatively high proportions of own account (informal sector) workers in Kenya, the global levels for this category of employees was 35.5 percent in 2008 as compared to 44.2 percent for SSA. In 2008, the proportion of unpaid family workers in total global employment was 16.5 percent compared to 38.5 percent for SSA (ILO, 2009).

The relatively low and declining proportion of wage and salaried workers in Kenya signifies low levels of economic development. The high proportion of the self-employed signifies existence of decent work deficits in the country. The self-employed and the unpaid family workers have a lower likelihood of having formal work arrangements, and are more likely to lack elements associated with decent employment such as adequate social security and social protection and a voice at work. Generally, informal sector employment in Kenya is known to be precarious in nature with manifestations of low pay, job insecurity, poor safety and health standards and absence of worker rights and representation among others.

The growing proportion of the self-employed combined with the low but important size of the unpaid family workers means that Kenya is generating an increasing amount of vulnerable employment. Vulnerable employment has been adopted as one of the indicators of the Millennium Development Goals (MDGs) employment target (ILO, 2009). Other than the vulnerable employment, other MDG employment indicators include employment to population ratio, proportion of the employed population living below the poverty line and growth of labour productivity. Thus, the high and fast increasing level of vulnerable employment in Kenya shows that the country is quickly drifting away from meeting the employment targets under the MDGs.

2.5.3 Employment by Sector

Sectoral distribution of employment is useful in understanding the shifts in employment over time and stages in development. Table 4 gives the wage employment by sectors. The employment figures thus exclude the self-employed and the contributing family members, which explain the underrepresentation of the employment share of agriculture. It is evident from Table 4 that contrary to the popular belief that agriculture is the backbone of Kenya's economy in terms of revenue generation, employment creation and poverty reduction, the wage employment component does not appear to be supported by data. Table 4 reveals that the contribution of agriculture to total wage employment has exhibited a declining trend, moving from 18.73 percent in 2000 to 17.87 percent in 2008. During the same period, wage employment within the industrial sector increased marginally from 33.01 percent in 2000 to 37.47 percent in 2008, depicting an annual average increase of less than 1 percent over the period. The greatest increase in the proportion of the sector's employment was registered in the 2003-2006 period. Employment within the services sector has been declining since 2000. The sector's contribution to total wage employment in the country declined from 48.26 percent in 2000 to 44.66 percent in 2008. This represented an average decline of 0.45 percent per year.

According to economic theory, labour flows from agriculture and other labour intensive primary activities to industry and finally to the services sector as a country develops. In the process, workers migrate from the rural to urban areas. The sectoral employment trend summarised in Table 4 and discussed in the preceding paragraph shows that the demand for labour is focused in the manufacturing sector. However, manufacturing sector growth has also been dampened, hardly increasing more than 10 percent per year. This shows that the prospects of the manufacturing sector generating much of the jobs required to absorb the fast growing labour force is remote.

CHAPTER THREE

DETERMINANTS OF EMPLOYMENT IN KENYA

3.1 Introduction

Employment creation remains one of the greatest challenges in Kenya and indeed in many other countries of the world. The ILO (2009) estimated that in 2008, about three billion people were employed around the globe. This figure represented a 1.3 percent growth over the 2007 employment levels, and compared unfavourably with the 1.6 percent annual average growth rate in world employment over the past ten years. In Kenya, the employment challenge has been increasing with the low absorptive capacity of the formal sector vis-à-vis the relatively high level of growth of the labour force. Even though the informal sector has been growing in terms of job creation, the jobs are generally precarious in nature and cannot provide the required employment security, social protection, payment of wages compatible with poverty reduction dynamics, and facilitation of the fundamental principles and rights at work as advanced by the ILO.

Government policy documents have, over time, explained the low levels of employment creation in Kenya in terms of low levels of economic growth. Other analysts have linked Kenya's employment challenge to high cost of labour, low labour cost competitiveness, weak productivity growth and institutional weaknesses and rigidities of the economy's labour market.

3.2 Past Studies on Employment

A number of studies have been conducted on the determinants of employment. Nickell (1990) explained that employment is a function of the level of activity and wages and, as a consequence, differs markedly from one model to the next. Nickell (1990) argued that employment equations can include variables such as wages, the level of prices, income taxes, employment taxes, output, and population of working age. Ikiara and Ndungu (1996) on their part linked employment changes to nominal wage earnings, inflation, recurrent government expenditure and the exchange rate while the Organization for

Economic Cooperation and Development-OECD (1994) attributed the persistent high level of global unemployment to inflexible labour markets. The OECD's view has been supported by Nesporova (1999) and Bertola et al (2000). Bertola et al (2000), for example, found several links between employment protection legislation and other labour market institutions.

Gomez-Salvador et al (2004) established that strictness of employment protection and the extent of wage bargaining coordination have a negative effect on job creation and the pace of job reallocation in an economy. Forni and Giordano (2003) further established that degrees of coordination in decisions affecting the labour market do impact on hiring and wage setting outcomes differently. According to Forni and Giordano (2003), cooperation in unions' behaviour, for example, results in wage increases and employment reduction in the private sector, whereas it induces wage moderation and employment expansion in the public sector. According to Winfried and Prat (2007), the correlation between Employment Protection Legislation (EPL) and unemployment has an ambiguous sign and is not significant, as suggested by theory.

Darby and Wren-Lewis (1991), Michl (1986) and Sadter (1960) are all in agreement that labour productivity is an important variable that explains employment growth in an economy. Kahn (1994) found that greater union coverage and membership lead to higher relative pay and lower relative employment for less-skilled workers. Gamrat and Haulk (2006) established that the higher the percentage of workers who are covered by collective bargaining agreements, the slower the rate of job growth. Clarke (2000) argued that when it comes to expenditure on active labour market policies, the consequences of failure are devastating chronic unemployment.

The reviews undertaken in Chapter Two on employment policies and interventions implemented by the Kenya government since independence, and reviews of relevant studies on determinants of employment conducted in the preceding section brings to the fore some key issues. These are that wage employment is influenced, among others, by labour productivity; growth of output; wage levels; level of union membership and union bargaining power; the degree of coordination among employment and wage setting institutions namely government, employers and trade unions; the level of public spending on labour market policies; and degree of employment protection.

3.3 Estimating Employment Model

Based on the review of literature, wage employment in Kenya was modelled as a function of the growth of output as measured by the GDP growth rate, labour productivity as measured by the value added per employee, wage levels, level of union membership and union bargaining power, the degree of coordination, public spending on labour market policies as a proportion of the country's GDP and degree of employment protection legislation. After taking care of all the data problems and performing model specification tests (Appendix 1), the relationship below was estimated using time series data for the period 1970-2008 (see Regression Results in Appendix 2):

$$\square\square Emp_t = \beta_0 + \beta_1 GDP_t + \beta_2 \square\square \mathrm{PROD}_t + \beta_3 \square\square \mathrm{UM}_t + \beta_4 Cord_t + \beta_5 PubExp_t + \beta_7 \square\square \mathrm{Wage}_t + \beta_8 Empro_t + \square_t$$

3.3.1 Economic Growth

The results of the analysis shows that even though employment creation in Kenya has been deemed to be explained by growth in the country's GDP, the same is not supported by available data. According to the estimation results, the responsiveness of Kenya's wage employment to changes in the country's GDP is about 0.5. This is consistent with the estimates discussed in Chapter 2 on the GDP-Employment Nexus. However, it is important to explain that the parameter estimate of this variable is not statistically significant. This means that even though the level of GDP growth has some influence on the level of wage employment within the economy, the influence is not strong enough to cause noticeable changes on the latter. As noted by Dantwala (1990), GDP growth, though necessary, is not sufficient for solving the employment problem.

It is safe to say that even though Kenya has historically relied and continues to rely on economic growth to deliver the much needed employment opportunities, achievement of this will continue to be elusive. This is largely explained by the inability of the country to register a high and sustained economic growth rate compatible with meaningful employment creation (Omolo, 2002; World Bank, 2008b). According to the World Bank (2008b), meaningful GDP growth-targeted employment creation can only be achieved if an economy registers at least a 7 percent growth rate and sustains it over decades. As much as this task is daunting, achievements of some 13 economies of the world show that it is surmountable. The economies that have managed to register a GDP growth rate of 7 percent and over, and the period during which this was realised are: Botswana (1960-2005); Brazil (1950-1980); China (1961-2005); Hong Kong, China (1960-1997); Indonesia (1966-1997); Japan (1950-1983); Republic of Korea (1960-2001); Malaysia (1967-1997); Malta (1963-1994); Oman (1960-1999); Singapore (1967-2002); Taiwan (1965-2002); and Thailand (1960-1997). The World Bank (2008b) notes that two other economies, India and Vietnam, may also join the group. The sample given is diverse, consisting of countries from Africa, Asia, Latin America, Middle East, and emerging Europe. A closer look at the 13 economies reveals five points of resemblance. These are that they:

(i) Fully exploited the world economy
(ii) Maintained macroeconomic stability
(iii) Mustered high rates of savings and investments
(iv) Let the markets allocate resources
(v) Had committed, credible and capable governments

The performance of the Kenyan economy since independence has been mixed. In the post-independence era, Kenya transited from a high economic growth path in the 1960s (6.6 percent average annual growth over 1964-72) to a declining path (5.2 percent over 1974-79, 4.0 percent over 1980-1989, and 2.4 percent over 1990-2002). However, following the implementation of prudent policies spelt out in the Economic Recovery Strategy for Wealth and Employment Creation, the economy began to recover after 2002, registering 2.9 percent growth in 2003, 5.1 percent in 2004, 5.8 percent in 2005, 6.4 percent in 2006, and 7.0 percent in 2007. The GDP growth then dipped to 1.7 percent in 2008 and is projected to have regained slightly to 2.3 percent in 2009. Clearly, it has been difficult for Kenya to attain and sustain a high economic growth rate. Whenever the country attained a relatively high economic growth rate, the same has not been sustained over time. The growth rates recorded and their non-sustainability are outrightly incompatible with the at least 7 percent annual growth rates sustained over decades required for growth-driven employment.

Other than the inability of the country to realise a high and sustained growth rate, the weak causal relationship between GDP and wage employment in Kenya can also find an explanation in the different employment regimes that have been pursued by the country since independence. As discussed earlier, in the first two to three decades of independence, Kenya pursued Kenyanization policies, tripartite agreements, ALMPs and public sector employment (employer of last resort) as the key strategies of employment creation. While the Kenyanization policy was successful in increasing the level of absorption of Kenyans into wage employment sector, this did not translate into creation of new jobs. The programme involved a mere replacement of non-citizens with citizens. Also, the tripartite agreements did not lead to meaningful increase in employment. Besides "forcing" employment, they did not have inbuilt mechanisms for ensuring compliance, monitoring and evaluation, and sustainability. In addition, ALMPs, though adopted by the government as an employment creation strategy, are in real sense not meant to create more jobs, but do provide important pre-conditions for the creation of jobs in terms of enhancing the link between the supply and demand sides of the labour market.

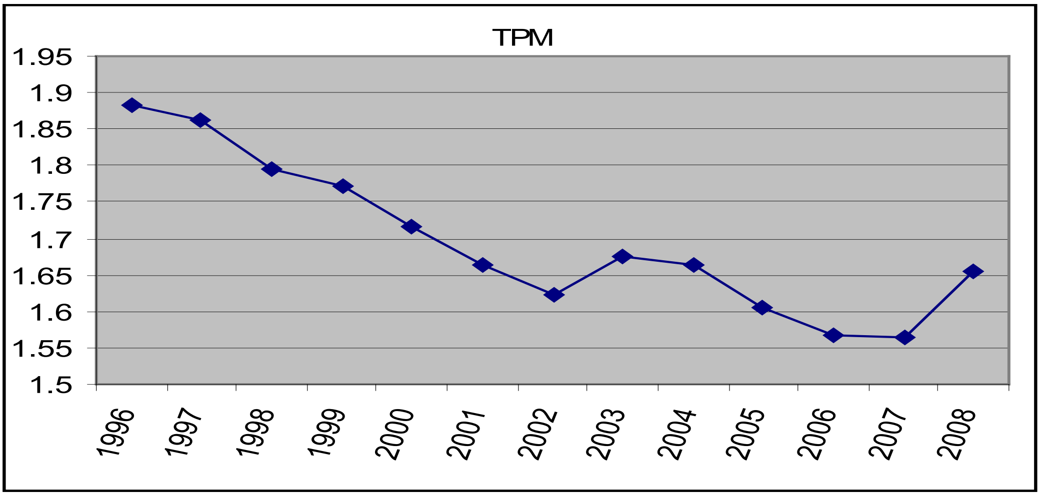
3.3.2 Labour Productivity

Productivity is a major determinant of competitiveness as it enhances the capacity of firms to become viable, profitable and create sustainable jobs. Indeed, the Kenya Vision 2030 acknowledges that productivity improvement is critical to enhancing growth and economic prosperity. The study results reveal a positive and statistically significant relationship between wage employment and the level of labour productivity.

It is noted, however, that despite the significant role of productivity in promoting enterprise competitiveness, economic growth and employment creation, the same has not been mainstreamed in all sectors of Kenya's economy. In addition, productivity as a factor for wage compensation and determinant of labour cost competitiveness has not been effectively integrated into the country's wage determination systems. While Kenya's Wage Guidelines (2005) identify productivity as a wage compensable factor, not many parties to collective bargaining have productivity clauses in their collective bargaining agreements (Republic of Kenya, 2008a&b). This state of affairs may be attributed to absence of a generally agreed productivity measurement and compensation criteria, and the absence of a national policy on productivity to give strategic direction on productivity management and its supporting systems in the country.

Data from Kenya's national accounts show a declining trend of the country's Total Productivity Measure (TPM) as illustrated in Figure 3.

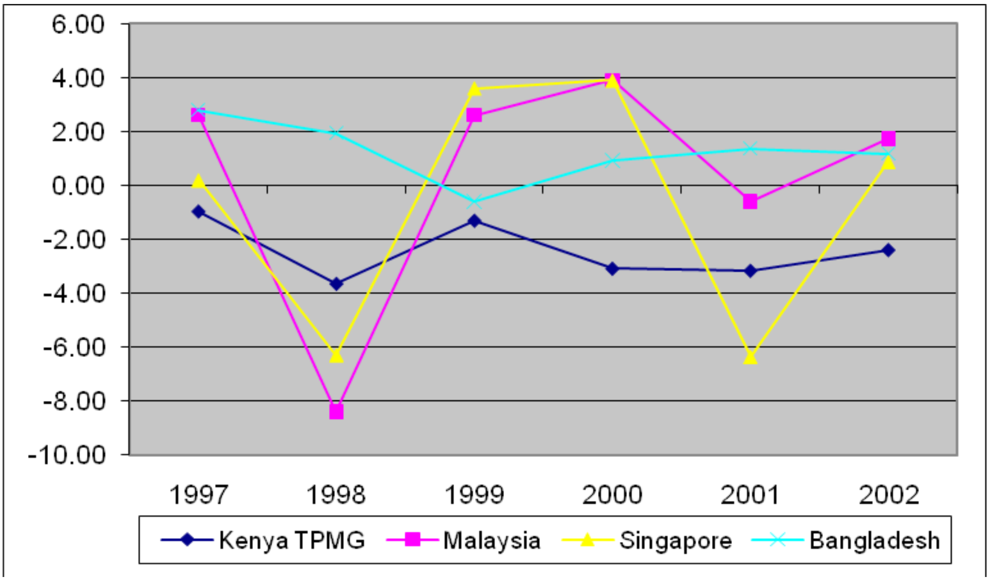
Figure 3: Trends in Total Productivity Measure (1996-2008)



Source of Data: Republic of Kenya, Economic Survey (various)

Figure 3 shows that the TPM was highest in 1996 but declined steadily from that point on up to 2002, picking up again after 2003 before returning to decline, reaching the lowest ebb in late 2007. Compared to TPM growth for Malaysia, Singapore and Bangladesh over the period 1997 to 2002, the comparative figures reveal that whereas Kenya registered negative TPM growth over this period, the comparator countries registered mixed results (Figure 4).

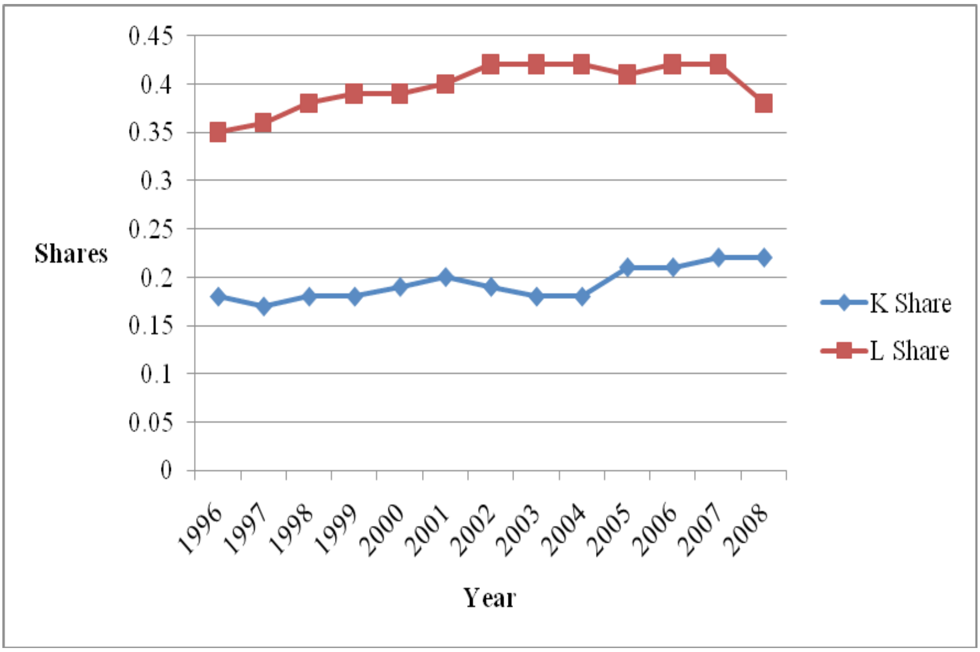
Figure 4: Comparative TPMG Trends



Source: Republic of Kenya (2010)

Proper and effective productivity policy targeting requires determination and appreciation of the contribution of the key factors of production namely, capital and labour, to overall productivity. This is achieved by computing the factor shares in production. Figure 5 represents the factors shares of capital and labour per unit of output over the period 1996-2008.

Figure 5: Trends in Factor Shares (1996-2008)

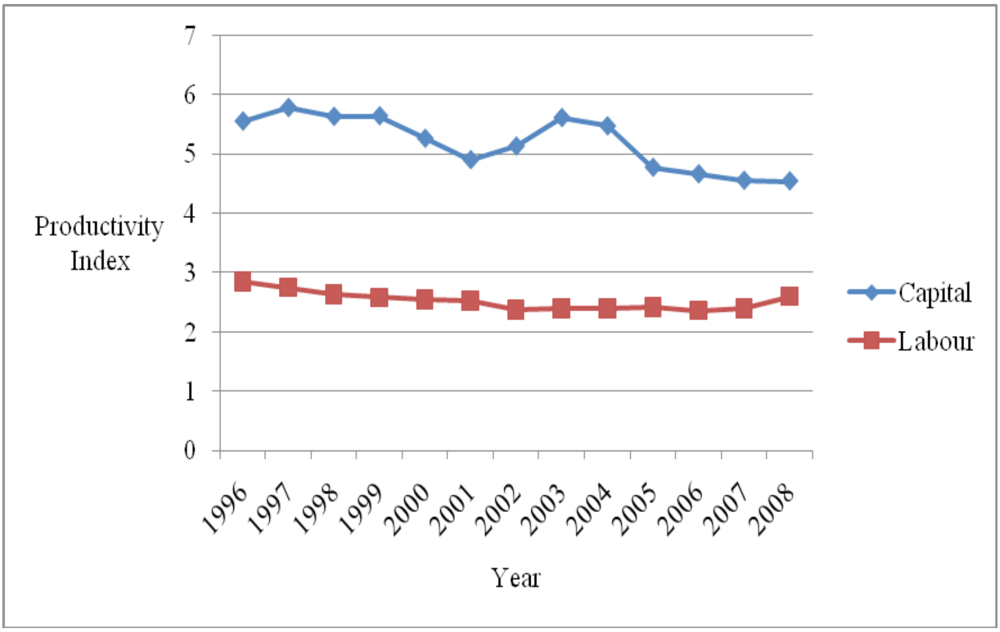


Source of Data: Republic of Kenya, Economic Survey (Various)

The results reported in Figure 5 show that the share of capital in production varied between 0.17 and 0.22 while the share of labour varied between 0.35 and 0.42 over the 1996-2008 period. On average, the share of labour was at least double that of capital for most of the years under consideration. The implication is that a unit of capital used in production generated more output than a unit of labour. At the same time, the trends exhibited in Figure 5 shows an overall increase in the factor shares of both labour and capital in production, with labour showing more consistent increase. This means that over time both factor inputs are becoming more inefficient.

Discussions on partial factor productivity, especially labour productivity indicators in Kenya has gained increasing attention as the country faces multiple problems related to quality of its workforce. The quality of the Kenyan workforce and attendant labour productivity has also received considerable mention given the continued commitment of the government and other players within the labour and employment sector to promote labour productivity as a wage compensable factor. Figure 6 shows the trends in partial factor productivity over the period 1996-2008. Partial factor productivities show the efficiency with which factor inputs are utilised.

Figure 6: Trends in Partial Factor Productivity (1996-2008)



Source of Data: Republic of Kenya, Economic Survey (Various)

The illustrations in Figure 6 show an overall declining trend of partial factor productivities (except for the period 2002-2003) for capital while that of labour is generally subdued. Over the period, capital shows higher productivity levels, almost double that of labour. The implication is that labour is less productive, a trend which is likely to inhibit employment.

Evidence exists to show that quality of the workforce, achievement of the optimal mix of managerial-technical-support staff, management skills and manpower issues are some of the areas with the greatest potential to affect productivity. As much as the foregoing factors are critical drivers of productivity, the Overall Labour Effectiveness (OLE), as a measure of utilization, performance and quality of the workforce and impact on productivity has not been given deserving attention in Kenya. The OLE helps organizations to understand the interdependence and trade-offs of shop floor productivity and profitability by measuring the contributions of the workforce. It also presents organizations with the opportunity to analyse the cumulative effect of these three workforce factors on productive output, while considering the impact of both direct and indirect labour inputs into the production process.

Another productivity challenge in Kenya that is related to the quality of the workforce is non-measurement of the Overall Equipment Effectiveness (OEE) by firms. This problem permeates through the enterprise, sectoral and national levels. The OEE measures availability, performance and quality in terms of the percentage of time employees spend making effective contributions; the amount of product delivered; and percentage of perfect or saleable product produced, respectively. The OEE measure is critical as it helps organizations to be sure that they have the person with the right skills available at the right time by enabling organizations to locate areas where providing and scheduling the right mix of employees can increase the number of productive hours. It is therefore almost fallacious to expect to promote organizational competitiveness and peg wage adjustments and collective bargaining to productivity if the country has not given due consideration to OEE.

3.3.3 Expenditure on Active Labour Market Policies

From the regression results, the coefficient of the variable on public sector expenditure on active labour market policy is positive and statistically significant. This result is consistent with theory since the higher the expenditure on ALMPs, the higher should be the level of wage employment within the economy. This result is also consistent with that of Clarke (2000) and Kluve (2007) who established that public spending on labour market policies helps improve skills and competences as well as job search, which effectively increases the employability of labour market participants besides facilitating job matching. Public expenditure on ALMPs include expenditure on areas such as employment services, health and safety surveillance in workplaces, labour administration and inspectorate services, social dialogue, education and training, industrial attachment, and labour market information systems. Such expenditures also help redistribute employment opportunities among the unemployed.

The coefficient for this variable is 0.159, which implies that a 10 percent increase in public sector expenditure on ALMPs is likely to lead to an increase in wage employment by about 1.6 percent, and the reverse is true. It is noted, however, that even though the Kenya government has over the period identified ALMPs as important determinants of employment dynamics in the country, the budgetary provisions on such policies have been relatively low. Specifically, the budgetary allocation to the Ministry of Labour has remained dismal despite its significant role in implementing policies and legislations that are supportive of employment creation in the country. Equally important is the low esteem with which the Ministry of Labour is held in Kenya. It may be recalled that during the formation of Kenya's Grand Coalition Government in early 2008, both Coalition partners were reluctant to "take the Ministry of Labour", as it is ostensibly less important and non-strategic!

3.3.4 Wage Levels

The level of wages obtaining in a country is another important factor that determines the labour cost competitiveness of a country. When the proportion of the wage rate or broadly labour cost to the value added per employee is low and declining, it means that the labour cost competitiveness is low. This has an effect of dampening organizational competitiveness, ability to expand, and create durable and productive jobs. In Kenya, wage levels seem not to have the conventional negative relationship with employment. This may be attributed to the system of wage determination in Kenya, which in most cases is not in tandem with the employment creation priorities. In Kenya, apart from the wage increments being based on changes in the consumer price indices, and in most cases surpassing the rate of growth of the economy, wage outcomes are also influenced by political factors (Omolo, 2007).

Wages in Kenya are mainly determined through minimum wage regulation, administrative and collective bargaining approaches. These approaches introduce elements of rigidity within the labour market, thereby dampening the responsiveness of the country's level of employment to the wage rates. The regression coefficient for the wage variable was 0.053. This means that a 1 percent increase in annual average wage would cause an increase in wage employment by 0.053 percent. Theoretically, this is only likely if employers can pass the increased cost to its customers and if the resultant impact of the increased wages would be enhanced productivity. Empirical evidence from Card (1992a, 1992b) all claim that wage increases may actually lead to an increase in employment, a prediction that is totally at odds with the vast majority of theoretical models used.

3.3.5 Degree of Coordination

The regressions results also show that the coefficient of index of degree of coordination in employment is negative and statistically significant. The negative coefficient of the variable implies that a higher level of degree of coordination would result into a lower level of wage employment. This is particularly true within the context of the Kenyan labour market where collective bargaining is mainly centred on wage and other monetary issues with little focus, if any, on other conditions of employment that would add towards improved welfare of workers and their general productivity. Consequently, collective bargaining agreements impose greater labour costs on employers and this limits employment creation. In addition, work disruption as measured by the number of strikes, lock-outs and go-slows affects production in terms of reduced output, damages, layouts and overall increase in the cost of production. This finding is supported by empirical results of Forni and Giordano (2003) who present a model that focused on how different degrees of coordination in decision-making processes affect hiring and wage setting outcomes. Their findings were that cooperation in unions' behaviour results in wage increases and employment reduction in the private sector, whereas it induces wage moderation and employment expansion in the public sector.

3.3.6 Employment Protection Legislation

The regression results also show that coefficient of the index of employment protection legislation is negative and statistically significant. From the estimation results, a unit increase in the employment protection legislation index reduces wage employment by 0.17 percent. The negative coefficient implies that the stricter the employment protection legislation, the lower the wage employment. The finding is consistent with theory since the higher the level of protection within the labour market, the lower the level of flexibility or managerial discretion exercised by employers. This leads to low levels of investment and employment expansion. Stringent labour market regulations reduce both firing and hiring of workers and thus employment flows.

According to the World Bank (2008), Kenya ranks 68 out of a possible 181 countries in rigidity of employment. The Report notes that Kenya has a difficulty of hiring index of

22, rigidity of employment index of 30[1] and firing cost of 47 weeks of salary. This means that any organizational restructuring that would lead to loss of employment, including use of firing as a worker disciplining device, especially for workers caught shirking, is greatly restricted by the high firing lead times and costs. According to Winfried and Prat (2007), less skilled individuals bear most of the adverse consequences of labour market rigidity in form of employment protection legislation. Winfried and Prat (2007) also argue that high employment protection legislation seems to drive small or less efficient firms out of the market.

3.3.7 Union Membership

The parameter estimate of registered collective bargaining agreements (as a proxy for union membership) is positive and statistically significant[2]. The positive sign of the coefficient of this variable implies that the higher the number of collective bargaining agreements negotiated between trade unions and employers and registered at the Industrial Court, the higher the level of wage employment, and the reverse holds. This finding is consistent with theory and practical employment dynamics when considered within the context that successful negotiation of collective bargaining agreements is a manifestation of improved dialogue between unions and employers, and enhanced industrial harmony. With this, there is likely to be improved employee productivity, enterprise competitiveness and employment creation.

The regression results also show that the proportion of union membership to wage employment is positively related to the level of employment. The positive coefficient of this variable may be explained from the perspective that Kenya operates under an open shop arrangement system and the right to manage model. In this case, while there is freedom of association and the right of workers to join trade unions, upon employment, workers have the right to choose whether or not to belong to a union. Thus the decision of the employer to engage employees is not affected by the decision of the employees to join the union. In addition, the collective bargaining practice in Kenya is such that the union and the employers negotiate over wages and other terms and conditions of employment, and the employer retains the discretion to determine the optimal level of employment at the negotiated wage.

1 This index ranges between 0-100 with 0 being the least rigid/difficult and 100 being the most rigid/difficult.

2 At 10 percent level of significance.

3.4 Overview

The analysis conducted in Section 2.3.3 coupled with the summaries presented in Table 1 on Kenya's employment creation policies and programmes from 1964 to 2008 exhibit some level of consistency. However, even though there is some agreement between some of the employment creation policies and programmes implemented and the factors established empirically in Section 2.3.3, the employment challenge in Kenya has been persistent. This observation may be rationalised on grounds that: while the employment creation policies pursued by the country since independence have emphasised on economic growth as a means of employment creation, empirical evidence show a weak GDP growth-employment nexus. This may be explained by the low and cyclical nature of the country's GDP growth. Since attaining political independence in 1963, Kenya has experienced fluctuations in her GDP growth rates. It has been difficult, overtime, for the country to attain and sustain a GDP growth rate of 7.5 percent per annum over a long period of time (at least 15 years), a target that is compatible with effective employment creation (Omolo, 2002; World Bank, 2008b).

Further, despite the importance of productivity promotion in enhancing organizational competitiveness and employment creation being well established, the same has not been effectively mainstreamed in all sectors of the Kenyan economy to produce meaningful employment payouts. Besides, public expenditure, especially budgetary allocation, on ALMPs have been dwindling with the Ministry of Labour being among one of the least funded and capacitated government Ministries. This state of affairs has impacted negatively on employment inspection and promotion services, workplace safety and health surveillance, productivity promotion and improvement campaigns, and establishment and maintenance of comprehensive, accurate, timely and up to date labour market information to guide manpower planning, development and utilization in the country.

More importantly, Kenya does not have a wage and incomes policy (Republic of Kenya, 2008), an instrument that is critical for promotion of productive and durable employment. Kenya has, since independence, relied on minimum wage regulation, administered, unionised and to some extent near-market approaches of wage formation. These approaches have resulted into increased rigidities in the labour market, ineffective pay and benefit administration, and limited linkages between wage payment and productivity. All these have had a dampening effect on industrial harmony, organizational competitiveness and creation of productive and sustainable employment opportunities (Republic of Kenya, 2008).

CHAPTER FOUR

ANALYSIS OF VISION 2030 AND MEDIUM-TERM PLANS

4.1 Introduction

The Kenya government has unveiled Vision 2030 as the blueprint to steer the country's long-term development over the period 2008-2030. Through this, the government aspires to make Kenya a newly industrializing, middle-income country providing high quality life for all its citizens by the year 2030. The Vision is anchored on three pillars: economic, social and political. The economic pillar aims at ensuring prosperity of all Kenyans through an economic development programme. This programme seeks to achieve a high and sustained economic growth rate averaging 10 percent per year up to 2030. The social pillar seeks to build a just, cohesive and equitable society living in a clean and secure environment while the political pillar aims at actualising an objective and democratic political system, respect for the rule of law, and the protection of the rights and freedoms of all the individuals in the society. The economic, social and political pillars of Vision 2030 are anchored on macroeconomic stability; governance, security, public sector and land reforms; enhanced equity and wealth creation opportunities for the poor; infrastructure development; energy; science, technology and innovation; and human resource development (Republic of Kenya, 2007).

To operationalise Vision 2030, the government developed and launched a medium-term plan (MTP 2008-2012) to provide medium-term framework for achieving Vision 2030 goals. In addition, sector-specific plans have been formulated to facilitate actualisation of Vision 2030 and MTP goals. In this respect, the Sector Plan for Labour, Youth and Human Resource Development (2008-2012) has been unveiled. The Plan emphasises the role of labour; industrial relations; industrial training; productivity management; micro and small scale enterprises; human resource planning, development and utilization; safety and health in workplaces; youth; gender and other vulnerable groups; and social protection in contributing towards realization of Vision 2030 goals.

4.2 Analysis of Vision 2030 Foundations for Employment Promotion

4.2.1 Background

Vision 2030 recognises that employment would have to increase significantly if the goal of poverty reduction is to be achieved. According to the policy document, additional jobs required to absorb the idle and increasing labour force will be realised from the targeted economic growth of 10 percent over the Vision horizon. Within the context of the MTP (2008-2012), it is projected that the economy will grow at an average rate of 8.2 percent annually over the 2008-2012 period. With this, a total of 3.5 million new jobs are expected to be generated. This works out to an average of 703,000 new jobs per year. Table 6 gives a summary of the GDP growth and employment projections over the medium-term (2008-2012).

Table 6: GDP Growth and Employment Projections (2008-2012)

	2003-07		2008	2009	2010	2011	2012	2008-12	
	Total	Average	Projections					Total	Average
GDP growth (%)		5.3	4.7	8.4	8.7	9.1	10.0		8.2
Total Employment (000)	2,344	469	425	759	787	823	904	3,518	703

Source: Republic of Kenya (2008a)

The basic idea as propounded by Vision 2030 and the MTP (2008-2012) is that economic growth will generate the required jobs. Mechanisms proposed in Vision 2030 for increased employment are developing a more flexible labour market, and generating employment opportunities for the highly educated workforce by promoting Business Process Outsourcing (BPO), Information Communication Technology (ICT)-related industries as well as agricultural value-addition industries. According to the MTP (2008-2012), it is expected that most of the jobs to be created will be transformed into formal and semi-formal employment through strategies to formalise the wholesale and retail sectors, and revitalization of agriculture. This means that the bulk of the jobs will continue to be created in the informal sector. The key employment promotion strategies identified and earmarked for implementation in the Sector Plan for Labour, Youth and Human Resource Development (2008-2012) are development of an employment policy; ratification and domestication of ILO Convention No. 22 on Employment; formulation and implementation of diaspora policy; development of a labour export policy; establishment and upgrading of regional employment offices; youth employment programmes, such as trees for jobs; and enactment and enforcement of an anti-trafficking in persons Act.

4.2.2 Economic Growth

It is clear that the bedrock of the projected 10 and 8.2 percent annual GDP growths in Vision 2030 and MTP (2008-2012) is positive performance of the productive and service sectors of the economy. It is noted, however, that these sectors were highly affected by the post-election violence and are yet to recover fully. Already, the 4.7 percent GDP growth projected for 2008 was missed by three percentage points. There are all indications that the targeted growth rate of 8.4 percent for 2009 has also been missed. This is based on the estimated 2.3 percent growth reported for the year. Furthermore, all the sectors identified to be key drivers of the Vision are highly vulnerable to poor infrastructure, insecurity and institutional risks related to corruption, weak information and communications technology, high cost of production, low total factor productivity and subdued domestic demand occasioned by considerable erosion in the purchasing powers of the Kenyan public.

Even though Kenya was able to scale up her economic growth from 0.5 percent in 2002 to 7 percent per annum in 2007, it is recognised that scaling this further to 10 percent per annum over the long-term and 8.2 percent in the medium-term will be a formidable challenge. Few countries, other than those endowed with substantial natural resources such as Equatorial Guinea or fast reformers like China, have been able to scale up growth to 10 percent and to sustain it for a long period. Kenya being a country committed to an export-led private sector-driven growth strategy, faces several challenges in raising its growth rate to the 10 percent level. Furthermore, for the economy to grow on a sustained basis and pass on to a higher growth regime, it must mobilise larger amounts of resources and enhance efficiency in the utilization, raise total factor productivity, embrace value addition and efficiency in all sectors of the economy, and enhance private sector participation in all spheres of national development.

Promotion of productivity and embracing productivity culture in all sectors of the economy is imperative for the success of employment creation targets contained in the Vision 2030, the MTP (2008-2012) and the Sector Plan for Labour, Youth and Human Resource Development. However, there is no systematic effort to facilitate the nurturing, mainstreaming and promotion of productivity in the country. Even though a productivity centre was established in 2001 (through tripartite arrangement involving workers, employers and government), the centre is still poorly staffed, under-funded and lacks the focus to lead the productivity movement in the country.

4.2.3 Employment

As outlined in Vision 2030, employment (unemployment) is a function of economic growth. This follows the traditional economic thinking which predicts a positive relationship between economic growth and employment. Even though this may have worked for developed countries, the same is not proven for Kenya. In addition, the economic growth-employment nexus makes fundamental assumptions, which are out of line with socio-economic realities in the workplaces. The assumptions are that the jobs created from economic growth are productive and durable; identical; equitable in terms of their access and pay; and that the new jobs are in addition to the 'existing ones' with no meaningful provisions for job churning.

It is important to note that the Kenyan labour market is dual in nature: presenting the formal sector alongside the informal sector. The trends and dynamics of employment in Kenya shows that majority of the jobs are created in the informal sector. However, the informal sector jobs are precarious in nature as characterised by job insecurity, poor wages and terms and conditions of employment, lack of social protection, weak safety and health standards and low job tenure. Essentially, formal and informal sector jobs are different. Thus, it is factually wrong to count and add the jobs created in the two sectors as if they are identical! The same argument goes for making of a direct inference on the number of jobs that would be realised from economic growth as this presupposes that the jobs are identical. This assumption is not realistic. At the same time, there appears to be no concrete measures put in place to formalise the informal sector jobs as anticipated.

It is also clear that with low levels of productivity that characterises both the formal and informal sectors of the country's economy, most of the jobs in Kenya are not productive and durable. This means that there is a lot of job churning that takes place in the economy, a fact which is not acknowledged nor addressed in the Vision 2030 document but dismally provided for in the employment projections under the MTP (2008-2012).

The unstable and unproductive employment that manifests informal sector jobs in the country cannot be relied on to deliver the critical socio-economic milestones contained in Vision 2030. Social equity would require that both men and women equitably access the 'new jobs'. This is not always the case in Kenya, and should be addressed if the said jobs are to create any impact. Lastly, economic growth can still be achieved even if most of the jobs at outsourced. Outsourcing of jobs is slowly getting into Kenya with considerable unintended effects, especially on the representational rights of workers.

4.2.4 Wage Inequality

The aspirations contained in Vision 2030 cannot be achieved if the persistent and growing wage inequality in Kenya is not effectively addressed. Vision 2030 does not contain any specific policy measure to address the widening wage inequalities that is quickly threatening the country's social cohesion, industrial harmony, productivity promotion and overall improvement in welfare of the workers and their families. The employment creation measures in the policy documents may not lead to significant improvement in the welfare of workers and their families, poverty reduction, and organizational competitiveness and sustainability if appropriate measures are not taken to address inequities in wage administration.

4.2.5 Labour and Social Dialogue Institutions

Labour and employment sector is critical towards achievement of Vision 2030 goals. This is more so when considered from the perspective that attainment of global competitiveness and high quality of life of a country's population hinges greatly on the extent to which a country nurtures, develops and utilises her human resources, and the degree of efficiency of its labour market. Strong institutions of labour and social dialogue are critical for achievement of industrial democracy, productivity and labour market efficiency. A number of social dialogue institutions are already in place. These include the National Economic and Social Council (NESC), National Labour Board (NLB), National Council for Occupational Safety and Health (NACOSH) and a host of wage boards and sector specific wage councils. The NLB is the apex labour and employment policy body in the country. The Board, therefore, has the task of linking with the NESC on labour and employment policies in the country, shaping the country's labour market, ensuring its dynamism and responsiveness to the needs and aspirations of the Kenyan workers, employers and investors. It also has the responsibility of developing and implementing appropriate policies and programmes to promote efficiency and competitiveness of the country's labour market. However, the institutional and organizational framework for the NLB is still weak to make it efficient and effective in discharging its mandate.

While the NLB was launched in mid 2009, it still does not have an operational secretariat. In addition, the stand-off between the social partners (Federation of Kenya Employers and Central Organization of Trade Unions) on certain provisions of the new labour laws, and the disagreement over the heavy representation of the government in the Board[3] have continued to impact negatively on the operations of the Board. Overall, even though the establishment of the Board was legislated with the enactment of the Labour Institutions Act in 2007, the Board is yet to develop a strategic framework to steer its operations. Besides the inadequate capacity of the NLB and other labour market institutions, there exists a weak link between the NLB and the NESC to facilitate effective feedback and follow-on actions.

4.2.6 Labour Market Information Systems

The Kenya government has pursued active labour market policies as a means of promoting employment creation since the early 1970s. These policies have been targeted towards addressing the imbalances existing between population growth, growth of the labour force, stock of skills, industry demands and trends of such demands, skills mis-match, and general challenge of employment particularly amongst the youth. However, one of the critical ingredients of effective labour market policies is existence of a comprehensive and coordinated mechanism for collecting reliable, adequate and timely data on all facets of the labour market. A National Manpower Survey (NMS) is one of the inputs that provides baseline information required in formulating and implementing effective labour market policies. Such a survey would be expected to provide a national skills inventory

3 Section 6(1) of the Labour Institutions Act (2007) provide for representation of federations of workers and employers by three persons each while the government side is represented by the Commissioner of Labour, Director of Employment, Director of Micro and Small Enterprises Development, Director of Occupational Safety and Health, Director of Industrial Training, Registrar of Industrial Court, and Registrar of Trade Unions.

on stock, types, distribution, levels of skills available, industry skill needs and trends and projections.

The last time that Kenya undertook a NMS was in 1986-88 period. This followed the manpower surveys of 1964, 1967 and 1972. Since the 1986-88 survey, the country has continued to rely on piecemeal, ad hoc, uncoordinated and less comprehensive sectoral surveys to generate labour market information. More importantly, there exists no current data on the stock of skills in the country, characteristics of such skills, the supply base of the skills and the extent to which the skills supply side responds to the skill needs and requirements of the demand side (industry). Without an updated stock of skills and all its facets, the country's occupational classification standards (Kenya National Occupational Classification Standards- KNOCS) remains outdated, and is hardly useful or relevant for any meaningful policy formulation and decision making. The outcome has been a labour market characterised by co-existence of trained but unemployed manpower alongside skill shortages in some areas within the market, outdated occupational classifications, poor job matching and classifications, aspects which manifests wastages and inefficiencies within the labour market.

One of the potential areas for employment creation identified in the Vision 2030, MTP (2008-2012) and the Sector Plan for Labour, Youth and Human Resource Development is labour export (foreign employment) to "needy and friendly countries". This aspiration is, however, not tenable without a national skills inventory and relevant policy, legal and institutional frameworks to guide the entire process. It is noted, for example, that the Government through the Ministry of Labour has been grappling with the idea of undertaking a NMS and developing an employment policy and strategy for Kenya since early 1990s. These milestones have not been achieved to date. The closest the Ministry came to achieving the target for the employment policy was in 2006, but the draft policy document did not pass through parliament. The document is yet to be reviewed and resubmitted to the cabinet and legislature for consideration and further action. At the same time, there exists no diaspora policy to provide the necessary framework and supportive environment for foreign employment. Overall, without a skills inventory, it would be difficult to know Kenya's skill supply base, extent to which the country is able to meet her domestic skill demands, and what to export. At the same time, it would be difficult to talk of labour export without putting in place necessary structures and mechanisms to provide the skill needs of the countries in question, and guard against exploitative tendencies on the workers as has already been witnessed. At the same time, it may be counterproductive to target labour export when at the same time arguments are rife that Kenya's pool of talent is small and inadequately trained for integration into the job market.

4.2.7 Productivity and Competitiveness

The desire for Kenya to attain global competitiveness must be anchored on sound productivity. One of the drivers of productivity is social productivity or productivity consciousness, which is arguably lacking in many sectors of the Kenyan economy. Even though the role of productivity in driving organizational competitiveness and sustainable employment creation is appreciated in the Vision 2030, MTP (2008-2012) and the Sector Plan, it is not clear from these documents how the social productivity aspect is going to be addressed to facilitate attainment of the aspirations contained in the blueprints. As much as the mandate for mindset change and embracing of productivity culture is bestowed on the Productivity Centre of Kenya (PCK), the Centre is ill-equipped in terms of policy, legal and institutional framework to effectively undertake the task. In terms of sequencing, no much progress in productivity mainstreaming and improvement, inclusive of effective implementation of employment policies and programmes can be achieved without having in place the requisite social productivity.

With the experience of diminishing output and relatively high input costs, broad based and productivity-oriented Research and Development (R&D) is critical in providing remedial action to increased productivity. Research and development aspect in Kenya is either left to the government whose funding is relatively low at 0.3 percent of the country's GDP or is no longer practiced by most organizations. There is also no break down effect to promote specialised production within many organizations. In addition, firms in the same line of production are either not willing to pool or share resources for R&D. Preferring to engage in own research work but remain fierce competitors hurting own businesses. Consequently, innovations arising from the organizations' R&D and break down effect is not experienced in the Kenya business cycle.

4.2.8 Policy Implementation, Monitoring and Evaluation

It is noted that Kenya's past has witnessed formulation of a plethora of policy blueprints containing a raft of employment creation measures. However, all these efforts have not resulted in any spectacular achievements over the last forty-six years of the country's political independence. It is also evident that there seems to be a lot of focus on employment policy formulation and legislation in Kenya with non-matching emphasis on policy implementation, monitoring, evaluation and learning. The problem in Kenya is poor implementation of employment policies and strategies, which is partly attributed to inadequate financial, human and physical resource capacities within the implementing agencies such as the Ministry of Labour and its social partners, lack of a strong culture of accountability, and weak levels of preparedness and focus. Currently, the Ministry of Labour that is the locus or major driver of the employment creation initiatives contained in the policy documents remains inadequately staffed, with limited resources for operation and maintenance. The same could be inferred on the social partners and other labour market support institutions in the country.

Further to this, there is little synergy between the state and non-state agencies whose collaboration and participation in implementation, monitoring and evaluation of the employment policies and programmes is critical to achievement of the stated employment goals. While attempts have been made to build-in a mechanism for policy implementation, monitoring and evaluation in the employment and other policy documents, little or no effort is made to inform and raise the awareness of the "collaborators" of the expectations. Overall, without addressing policy implementation, follow-up and learning, the country may not move far with the employment projections contained in the policy blueprints.

Related to policy implementation and monitoring of outcomes is the linkage between industry, public policy making and public policy research and analysis, or more specifically, absorption and relevance of research and policy analysis outputs. Poor linkage between policy making, universities, research institutions and industry is one of the issues that has led to less effective employment policy targeting. This aspect appears not to have been given due consideration and attention in the current and past employment policy blueprints. Research and policy analysis can facilitate better understanding of the labour market dynamics such as exit, entry and duration patterns of employment, and other characteristics of the labour market.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Creation of adequate, productive and sustainable employment opportunities to absorb the growing labour force has remained a major policy challenge for the Kenya government since independence. To address the employment challenge, the government has, over time, developed three broad employment creation policy approaches. These approaches are the Kenyanization policy, which was pursued during the first decade of independence; active labour market policies undertaken in the second and third decades; and a return to macro measures aimed at creating an enabling environment, and private sector-led economic growth for employment creation, which have been followed from the third decade to date. Straddling all the three employment policy generations is the focus on economic growth as the panacea to employment creation. These policy interventions have had varied employment outcomes. However, it remains clear that creating sufficient employment still remains a major problem in Kenya.

The Kenya government has unveiled Vision 2030 as the blueprint to steer the country's long-term development, including employment creation, over the period 2008-2030. Vision 2030 is anchored on human resource development; enhanced equity and wealth creation opportunities for the poor; macroeconomic stability; governance, security, public sector and land reforms; infrastructure development; energy; and science, technology and innovation. To operationalise Vision 2030, the government in collaboration with stakeholders developed and launched MTP (2008-2012) and the Sector Plan for Labour, Youth and Human Resource Development (2008-2012). Both the MTP and Sector Plan contain sector-specific goals, strategic objectives and thrusts for employment creation. As the country continues to implement the Vision 2030, MTP and the Sector Plans, it may be useful to consider the following:

5.2 Recommendations

5.2.1 Ensure Proper and Effective Policy Targeting

Policy responses can be categorised into two: preventive and curative. The unemployment interventions in Kenya appear to have mostly been curative in nature. In this case, the policies have attempted to identify who and where the unemployed are and tried to deal with their problem. This essentially means treating the symptoms of unemployment and not its causes. For effectiveness, there is need for Kenya to shift the emphasis from curative to preventive interventions. This means moving away from treating the symptoms of unemployment to dealing with the causes of the problem. In this case, focus should be on analysing and understanding the causes of unemployment in the country and devising strategies to deal with it. This makes it imperative that the employment challenge facing the country is broken down into its main causes and specific strategies designed and implemented to deal with the specific types of unemployment. This will ensure proper and effective policy targeting and response.

5.2.2 Emphasise on Policy Implementation and Monitoring of Outcomes

Kenya's past has witnessed development of national and sectoral policies aimed at facilitating employment creation. However, while some of the policies have been noble, more often than not, they have not been effectively implemented. In situations where policies have been implemented, not much monitoring and evaluation has been undertaken to assess the achievement of outcomes, identify the strategies that may have worked, isolate the non-viable strategies and learn from the possible mistakes. It is hence, critical that for effectiveness, Kenya should put a little more emphasis on implementation of the identified employment promotion policies, and develop a framework for monitoring, evaluation and learning that incorporates both state and non-state stakeholders. Further, it would be crucial for the country to develop and implement a mechanism or framework to coordinate government and stakeholder interventions and exploit synergies towards employment creation. At the same time, the linkage between policy makers, universities, research institutions and industries should be strengthened to promote relevance of research, trigger uptake of research outputs for improved product development and organizational competitiveness. This intervention could be implemented under the framework of a strengthened and restructured PCK to accommodate participation of the academia and industrialists in its decision-making organs.

5.2.3 Establish Labour Market Information Systems

Active labour market policies, including effective job search and job matching require existence of accurate, timely, reliable and up to date labour market information. For Kenya to achieve meaningful progress in employment creation through active labour market policies, it has to invest in and undertake a NMS. A NMS is necessary as it will facilitate re-orientation of education and training, enhance labour market search and matching, and design of appropriate occupational classification standards. A NMS will contribute to a highly effective supply of labour by ensuring that the unemployed part of the labour force is actively seeking jobs and has the qualifications needed to fill new positions. The intervention will also provide a targeted effort towards preventing marginalization and long-term unemployment by ensuring that both the employed and the unemployed acquire, enhance and maintain qualifications, which are relevant to the labour market and the changing dynamics of industry. A NMS will also facilitate development and delivery of effective curricula by the training institutions. Effective training, which is in synch with industry needs, is a key component of the active labour market policy. Such training is important regardless of employment status. It plays a separate and vital role in improving the employability and productivity of the labour force, besides addressing the problem of skills mismatch and the situation of the educated unemployed. Ultimately, the country will need to have an effective legislation on Labour Market Information Systems (LMIS), and its administration. This is necessary to aid the collection, collation, analysis, retrieval and dissemination of information on all facets of the labour market. This will also aid data-based decision making, policy implementation and enforcement of labour related laws and regulations.

5.2.4 Emphasise on Employment Targeted Growth

Vision 2030 envisages spurring high and sustained economic growth. It is expected, within the framework of Vision 2030, that employment would be an off-shoot of growth. To achieve the set growth targets, the focus is on continued implementation of prudent fiscal, monetary and exchange rate policies; enhanced effort to raise the level of investments and savings; and accelerating structural reforms in order to increase the efficiency of both physical and human capital, and raise total factor productivity. It is, however, important to note that for meaningful employment creation to be realised, the economic policies must change focus and shift to employment-oriented growth and abandon the thinking that growth will lead to employment. Employment targeted growth will lay the foundation for enhanced generation of income, increase in aggregate demand for goods and services, and organizational competitiveness. The solution in this case starts by creating gainful employment, often in export industries, for people who are otherwise under-employed in the traditional or informal sectors of the economy. In the next stage the economy targets creation of better jobs, worthy of more educated more skilful workers. For these stages to unfold, labour must be geographically, occupationally and sectorally mobile. This emphasises the need for more investments in ALMPs and prioritization of the Ministry of Labour in government budgeting and resource allocation. Along the same lines, the political leadership, Ministry of Labour, social partners and other stakeholders must work towards rebuilding the image of the Ministry and changing the general perception that the Ministry is non-important, less strategic and transitional.

At the same time, targeted interventions must be made to withdraw sufficient numbers from agricultural and employ them in the non-agricultural sector. If, with the pace of Kenya's economic growth and development in the past, the economy has not been able to generate sufficient employment in the non-agricultural sector, sufficient numbers must hence be withdrawn from agriculture and held in transitional employment and their burden taken off agriculture. This reinforces the need to formulate and implement well targeted and sequenced massive public works programme as seen in the examples of India, Egypt and other economies that have successfully implemented such programmes.

5.2.5 Promote Productivity and Organizational Competitiveness

There is a strong need for effective nurturing and promotion of productivity and organizational competitiveness at all levels of the Kenyan economy (national, sectoral and individual). To facilitate this, government should, in collaboration with the social partners, development partners and other stakeholders, strengthen the policy, legal and institutional frameworks of the PCK to undertake the task of productivity promotion and management. Along the same lines, a national productivity drive should be established. This should enlist participation of government, employers, workers, and all other stakeholders. A specific month and week should be designated annually for the drive. During this time, the concept of productivity and productivity improvement should be popularised. To recognise organizational and individual productivity improvement initiatives, an award scheme may also be established and implemented.

5.2.6 Develop and Implement a Wage Policy

Effective wage determination and administration approach is necessary if Kenya is to realise meaningful improvements in worker and organizational productivity, attain high and sustainable employment levels, achieve macroeconomic stability and overall global competitiveness. The lack of a comprehensive, consistent and sustainable wage policy is manifest in Kenya. Strategies should hence be focused on ways of formulating a viable and sustainable wage policy supported by an effective and comprehensive social protection mechanism to make workers and other members of the society feel less vulnerable. At the same time, interventions to improve flexibility within the labour market should continue to be implemented and explored. A key area in this regard is initiating and implementing reforms in the labour market. The elements of this should include reforming the institutional framework of wage determination and management, including minimum wages, to favour sustainable private sector participation, employment creation, improved employee welfare and positive labour management partnership. Similarly, the efficiency, competitiveness promotion ability and degree of adherence to the widely used wage compensation parameters in Kenya may also need to be examined. Of necessity, the country's wage determination system must continuously embrace the use of productivity as an additional factor for wage compensation. It is noted that even though this is explicitly stated in Kenya's Wage Guidelines (2005), the same is not being adhered to.

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APPENDICES

Appendix 1: Diagnostic Test Results

Appendix 1a: Results of Unit Root Test

	AUGMENTED DICKEY FULLER			PHILLIPS- PERRON		
	LEVEL	1ST DIFF	I (d)	LEVEL	1ST DIFF	I (d)
Wage Level	-0.5705	-3.5593**	I (1)	-0.1694	-4.3522*	I (1)
Union Membership	-1.7033	-6.5769*	I (1)	-2.9940	-12.8074*	I (1)
Employment Protec	-1.8817	-3.9412**	I (1)	-2.0308	-5.6583*	I (1)
Degree of Coord.	-1.5076	-4.5876*	I (1)	-2.2193	-9.2076*	I (1)
Public Expenditure	-2.4939	-4.5304*	I (1)	-3.2093	-7.7090*	I (1)
Productivity	-1.4355	-4.3111*	I (1)	-1.7066	-6.0617*	I (1)
Wage Employment	-1.5652	-3.1910	I (2)	-1.6815	-5.0405*	I (1)
GDP	-2.6617	-6.3241*	I (1)	-5.6556*		I (0)

* and * * denotes 1 % and 5 % significance levels, respectively

Appendix 1b: Test for Model Specification

Ramsey RESET Test:

F-statistic	0.000691	Probability	0.979235
Log likelihood ratio	0.000940	Probability	0.975542

Appendix 2: Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant Term	0.462758	0.920802	0.502560	0.6093
GDP	0.47241	2.98672	0.15817	0.5863
Productivity	0.270323	0.034783	7.771730	0.0000
Public Expenditure	0.159282	0.057327	2.778495	0.0100
Union Membership	0.000346	0.000209	1.659141	0.1091
Degree of Coordination	-0.000498	0.000986	-0.505041	0.6178
Wage Level	0.053723	0.017755	3.025765	0.0055
Employment Protection	-0.166900	0.060341	-2.765925	0.0103
Adjusted R^2= 0.989385; Durbin-Watson Statistic= 1.732677				

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