POLICY BRIEF

Employment Creation Potential for Youth of Growth Sectors in the Kenyan Economy

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Overview

Despite Kenya's strong economic growth, expansion of employment in the formal sector has been slow over the last two decades. There has been limited structural change in the composition of recorded employment and the share of the informal sector remained at nearly 83 per cent of total employment in the last two decades. Further, although the country has implemented various policy interventions to address youth employment, the interventions have not resulted into adequate job creation in various sectors for the youth. This policy brief provides an evaluation of the sectors with high potential of creating employment opportunities for the youths in Kenya using an Input – Output approach which was based on the 2015 Social Accounting Matrix (SAM). We find that agriculture, transport; trade, construction and education have the highest potential to create jobs for the youth. The agriculture sector has the highest employment multipliers in which livestock, vegetables (horticulture), rice production value chains have the greatest potential to create jobs. We also find that economic sectors in Kenya are interdependent such that expansion of one sector has backward and forward linkages with the other sectors. It is therefore important to adopt a comprehensive multisectoral approach in job creation strategy for the country. Indeed, economic activities vary across counties hence need to stimulate activities where each County and economic bloc has comparative advantage to ensure sustained job creation for the youth.

Context

Although job creation is a key development objective for most economies including in Africa, it is not in tandem with the rapidly expanding working age population in the continent. In Africa, youth unemployment and under-employment continue to be major obstacles to full utilization of human resources despite relatively strong economic growth. Kenya's Economic performance has markedly improved in the recent years, with GDP growth averaging about 5.4 percent between 2013-2016 and 5.5 percent between 2017 and 2019. In contrast, the country has recorded mixed experiences in the labour market, characterized by expansion in labour force, increased employment in absolute numbers, coexisting with various forms of labour market underutilization such as inactivity, underemployment, and unemployment, among the youth.

Research problem

Youth unemployment is attributed to the inability of the economy to create sufficient jobs during erratic economic growth. Moreover, youth access to employment has over the years been hindered by social factors ranging from relatively limited work experience, under-developed personal and professional networks, and limited knowledge of the labour market (Chari et al., 2017). Youth unemployment is associated with poverty and inequality, which in turn causes armed conflict, instability, irregular migration and constrain social cohesion among communities (World Bank, 2018). These observations indicate that there is need to create not only more but also decent jobs if the country is to succeed in addressing youth unemployment. Unemployment can be addressed through full exploitation of the opportunities and addressing various barriers hindering growth of various sectors of the economy. Therefore, creation of productive and sustainable employment opportunities remains the core of employment policy interventions in Kenya (Omolo, 2012).

Background

It is estimated that close to 500,000 to 800,000 youths are entering the Kenyan job market annually. With total unemployment rate in the country at 9.7 per cent and unemployment rate for 15-24 age cohort at 13.7 per cent in 2015/16, the absorption rate of the youth has been low. Unemployment rate has been increasing since the global financial crisis of 2008/2009 and the outlook for the medium term is worsening. The country needs to create 900,000 new every year between 2015 and 2025 as a way of absorbing the high number of youths joining the job market (World Bank, 2015). The government with support from various stakeholders has undertaken short, medium, and long-term measures for employment creation. The short- and medium-term interventions include programs such as the "Kazi kwa Vijana or jobs for the youth", infrastructure and rural development. Other measures taken to create jobs for the youth have been through the Youth Employment Scheme Abroad (YESA), Youth Enterprise Development Fund (YEDF) and Kenya Youth Empowerment Programme (KYEP). These measures have not fully tackled the unemployment challenge as the country continues to face unemployment and underemployment challenges.[1]

The Kenya Vision 2030 identifies priority sectors that can spur growth including tourism, agriculture, manufacturing, and business process outsourcing (BPOs). The Medium-Term Plan III prioritizes investment in manufacturing sector for job creation under the Big Four Agenda. Even so, the choice of these sectors/industries need to be informed by robust research that can identify (and rank) high employment generating industries/sectors. Studies on employment creation in the country majorly adopted value chain approach with bias on qualitative analysis (Kyule and Nguli 2020; and Tunje and Yogo, 2020). The authors did not use robust quantitative approaches to identify sectors that have the potential to create the most jobs. This current study seeks to overcome this gap by applying quantitative analyses which involve analysis and policy simulations using the Kenya Input-Output Table of 2015 produced by the Kenya National Bureau of Statistics (KNBS) across sectors.

The I-O framework assumes that the inputs used in production process of a given product are linearly correlated to the industry outputs and that the production coefficients are fixed in the short run (European Commission, 2008). In the table form, the I-O framework is presented as a square industry-by-industry table, consisting of equivalent number of columns and rows. We also use employment multipliers and elasticities for a more robust estimation. The employment multipliers give additional information about employment potential of the various sectors or industries of an

1 Sessional Paper No.4 of 2013 on employment policy and strategy for Kenya

economy. They account for both direct flows of job creation in own sector; and indirect or induced effects of job creation generated by sectoral linkages. Thus, more sectoral linkages imply more complexity of the economy and hence greater employment creation potential.

Results, discussion, and conclusion

The multipliers results show that the average employment multiplier is 1.71 suggesting that about 1.7 units of jobs are created for every unit increase in demand for output. The sectors with the highest level of employment multipliers are Agriculture, fishing, and forestry (2.10); Finance, real estate, and business services (2.04); and Trade (1.89). Similar findings have been reported by (Mainar Causapé et al., 2018), who found that the agriculture sector, with backward linkages to agro-processing has the highest potential for job creation. Notably, the study further identifies specific value chains with the highest output multiplier. These include the vegetable, fruits livestock and dairy (ibid).

A study in Kenya by Munga et al. (2021), find that the horticultural value chain has the greatest job creation potential. Further, the study finds that smallholder farms absorb a large proportion of unskilled labour compared to other scales of production. Notwithstanding, the potential for job creation is not without challenges. Among other issues, poor coordination between exporters, imposition of non-tariffs trade barriers, and stringent cross-border trade measures create bottlenecks to expansion of different value chains.

However, the relationship between output and employment is not straightforward in developing nations like Kenya and care should be taken in interpreting the results of the input output model. This is because of several factors. These include: more demand for output may increase number of hours worked due to high levels of underemployment; there is also widespread informality and self-employment suggesting difficulty in fully capturing output and employment.

Comparison between employment multipliers and elasticities indicate different findings on sectors with the highest potential to create employment. The multipliers are highest within the agriculture, finance and business-related sectors, elasticities show that some service activities such as water supply, sewerage, waste management and remediation activities had the highest positive employment elasticity (2.00) followed by construction (1.13) while professional, scientific, and technical activities had the highest negative employment elasticity (1.22) in 2016.

It is therefore important to ensure that all sectors of the economy are stimulated to grow at a higher and sustainable rate to ensure creation of quality and productive jobs. Whereas the government and private sector have initiated various programmes aimed at creating employment, most of the jobs have been created in the informal sector.

Existence of forward and backward linkages across the various depicts that there is a need to adopt a comprehensive multisectoral approach in job creation strategy for the country as well as early investments in areas such as training, technology, education, and infrastructure development; supported with strong institutions and regulatory frameworks.

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Mission

To strengthen local capacity for conducting independent, rigorous inquiry into the problems facing the management of economies in sub-Saharan Africa.

The mission rests on two basic premises: that development is more likely to occur where there is sustained sound management of the economy, and that such management is more likely to happen where there is an active, well-informed group of locally based professional economists to conduct policy-relevant research.

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