Special Focus: Creating Jobs

3. The jobs landscape

The nature of work in Kenya is changing. In the past twenty years, Kenyans have moved away from family farming towards jobs that pay wages or to start small businesses outside of agriculture. As this transition continues for new and larger generations of Kenyan workers, their future will be determined by whether the country succeeds in generating good jobs. Today, young Kenyans face considerable hardship, discrimination and inequality of opportunity in accessing good jobs. Meanwhile, economic instability, weaknesses in infrastructure and pervasive corruption limit business growth and job creation. The analyses in this report point to a job creation strategy focused on boosting industrial activity and wage jobs through better management of economic and political shocks, new investments in transport and electricity and serious action to reduce corruption.

3.1 Why jobs matter

Jobs are essential to the well-being of Kenyans, and the typical profile of a job is changing. Twenty years ago, most Kenyans of all ages worked on family farms. Today, young Kenyans are more likely to be working in wage jobs or in self-employment outside agriculture. This change is part of the larger transformation taking place, that is renewing the aspirations for a generation of Kenyans and bringing new meaning to the concept of work.

Kenyans look to their government to help create jobs. The 2011 Afrobarometer survey asked Kenyans what they saw as the most important problems facing this country that government should address. "Unemployment" was the second most common response, after "management of the economy."

Like people everywhere, Kenyans want good jobs to ensure a better future for themselves and their families. In a focus group study conducted for this report, Kenyans described their hopes for good jobs:

> *"I aspire a better future with a well-paying job as a senior driver (earning above 15,000 shillings) so that I can afford all basic needs, own a house and [provide] better schools for my children"* ***(employed man in peri-urban area of Mombasa)***

> *"I like to be successful—some kind of business. At least somewhere I will be earning my own money so that I can be able to support my own kid. So at least I won't be a burden to anyone. Yeah. Coz you know it is not that easy. When you know you have a kid and your sister as well. And the other kid has to go to school. So if I can at least have something [to] live a good life, so if only I can get something I can have a successful business that is what I want"* ***(unemployed woman in Nairobi)***

There are three ways to think about why jobs are important. These include living standards, productivity, and social cohesion.[7]

First, on an individual level, jobs are what determine living standards. Fundamentally, people work to make a living—to earn either cash income or food on which to survive. For most people, work is the main source of income, and people escape from or fall into poverty because family members get or lose a job. Higher yields in agriculture, access to small off-farm activities, and transitions to wage employment are milestones on the path to prosperity. As earnings increase, individual choices expand—household members can choose to stay out of the labor force or to work fewer hours and dedicate more time to education, to retirement, or to family.

[7] This framework is used by the World Development Report on Jobs (World Bank 2012).

Second, on an economy-wide level, jobs are about productivity. Economic growth happens as jobs become more productive, but also as the economy creates more productive jobs and less productive jobs disappear. New goods, new methods of production and transportation, and new markets may ultimately drive these gains, but they materialize through a constant restructuring and reallocation of resources, including labor.

Third, jobs matter for social cohesion. Jobs influence how people view themselves, how they interact with others, and how they perceive their stake in society. Unemployment and job loss are associated with lower levels of both trust and civic engagement. Countries that can generate "good jobs" for a wide swath of citizens, may be better able to avoid the social fragmentation and violence that can accompany economic change.

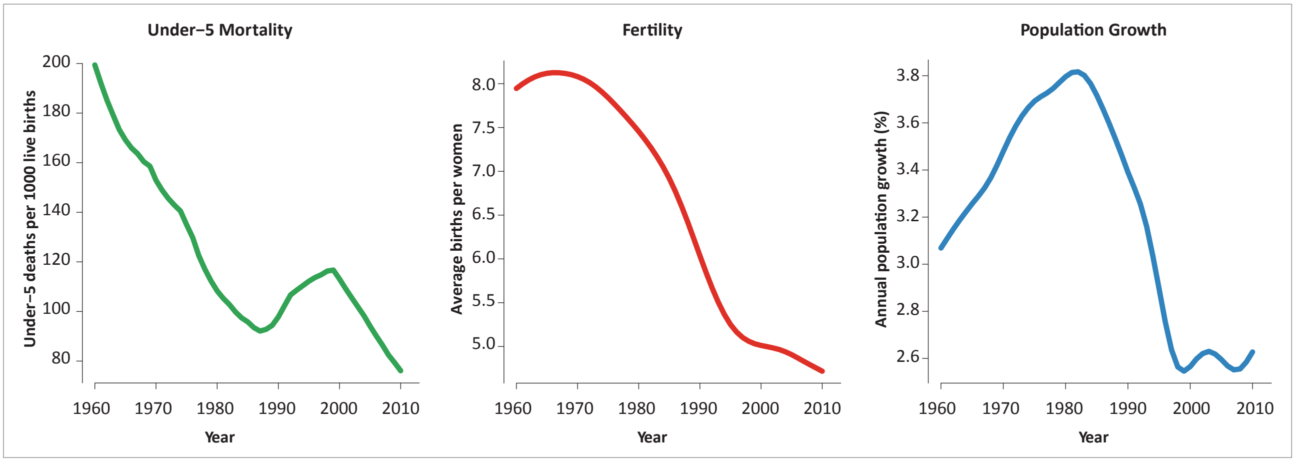
3.2 The changing face of jobs

The nature of jobs in Kenya is evolving, as the country experiences the long-run change common to every country that has moved up the ladder of economic development. Sometimes called structural transformation, this change brings both new challenges and opportunities to the country. Structural transformation has three components: (i) the demographic transition as death and then birth rates fall; (ii) migration to towns and cities; and (iii) a sector shift in output and employment from agriculture to industry and services.

Kenya is in the middle of a demographic transition with an ongoing drop in both death and birth rates. During the 1960s, the typical Kenyan mother could expect to have 8 children and see at least 1 and often more not surviving to the fifth birthday. Child death rates have since fallen by more than half, and the average Kenyan woman now has fewer than 5 children (Figure 3.1). At the same time, Kenyan adults are living longer. The consequences of these trends are two-fold: an overall decline in population growth rates, and an increasing share of the population in the working ages (Figure 3.2). Today, more than 55 percent of the population is between 15 and 64 years of age—up from 47 percent in 1990.

These shifts are creating an opportunity known as the demographic dividend. The proportion of the population who are of working age is steadily increasing. This means that the dependency ratio—the number of children and elderly supported by each working age person—is dropping. In other countries, this bulge of people of working age has generated a period of high growth. It is contingent, however, on creating new jobs to absorb the bulge of potential workers.[8]

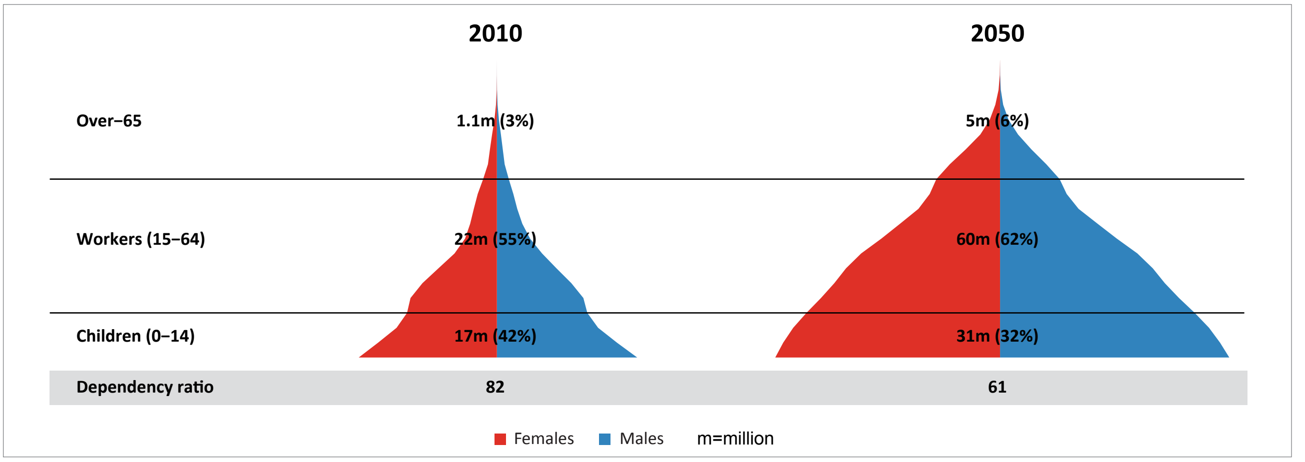
Figure 3.1: The continuing demographic transition in Kenya



Source: World Bank computation based on World Development Indicators

[8] *For a full discussion of Kenya's demographic dividend see Kenya Economic Update, Turning the Tide in Turbulent Times, June 2011.*

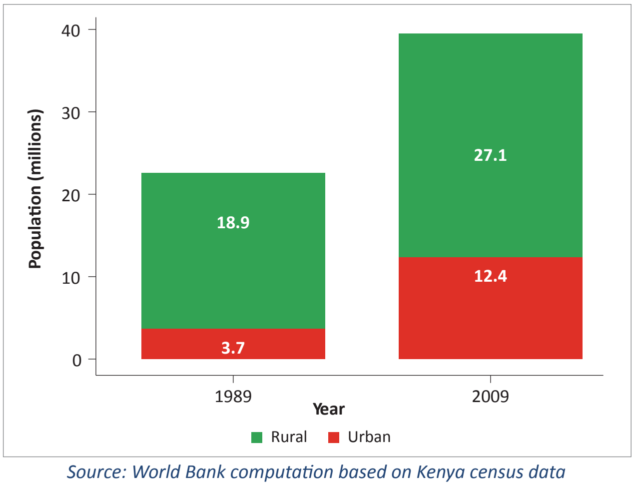
Figure 3.2: The coming bulge in the working age population



Source: World Bank computation based on UN projections

The second component of Kenya's structural transformation occurs as people migrate from rural areas to towns and cities. Kenya is still an overwhelmingly rural country, with more than 2 out of 3 Kenyans living in the countryside. At the same time, the country is urbanizing, and the nexus of job generation is increasingly towns and cities. Over the last 20 years, the urban population grew more than twice as fast as the country overall (Figure 3.3). The increase in the urban population reflects both the growing density of towns and cities, and the conversion of previously rural areas into towns following higher rural densities.

Figure 3.3: Kenya's urban population is growing rapidly



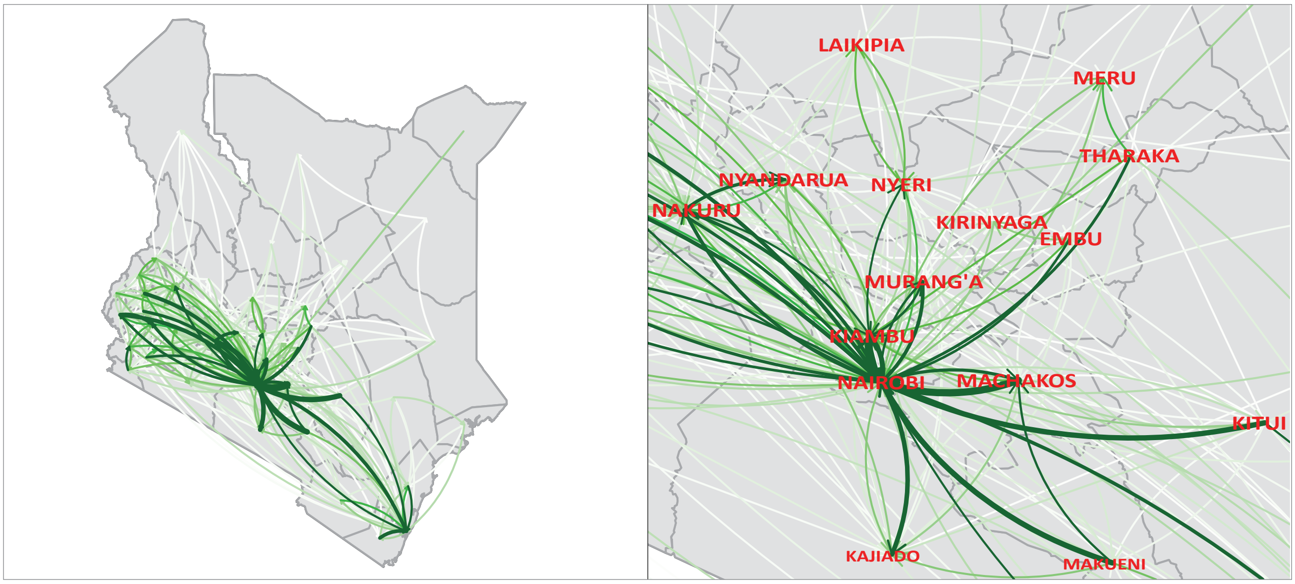
Source: World Bank computation based on Kenya census data

Notes: The increase in the urban population reflects a combination of growth in the population of areas previously designated as urban, as well as the classification of areas as urban that were previously considered rural. In particular, in 2009, people living in "peri-urban" areas—which previously would have been considered rural—were considered to be urban residents. Thus part of the apparent increase in the urban population reflects a change in the definition of urban

The country's urbanization fundamentally reflects a quest for opportunity, as Kenyans move to the towns and cities seeking jobs and better lives for themselves and their families. A map of year-to-year migration based on the 2009 census shows that the overwhelmingly flows are to and from Nairobi, and to a lesser extent other cities, principally Mombasa and Kisumu (Figure 3.4).

The shift out of agriculture into services and industry comprises the third element of Kenya's structural transformation. The shift is seen clearly in the overall pattern of GDP changes in Kenya (Figure 3.5). Since independence, the Kenyan economy has experienced ups and downs, with an initial period of rapid growth through the mid-1970s, followed by stagnation up until the turn of the millennium, and then growth during the most recent decade. Over that long period, farming's importance in the Kenyan economy has fallen, and agriculture now accounts for just 25 percent of GDP, down from 40 percent at independence. The decline in the share of agriculture has been mirrored by an increase in the services sector. In many countries, the structural transformation has involved a shift to manufacturing. In Kenya, however, the share of industry—which includes manufacturing as well as mining, construction, electricity, water, and gas—has remained stable at just 20 percent of output while manufacturing has consistently constituted about half of industrial

Figure 3.4: Migration is primarily from highly populated rural areas to major urban centers

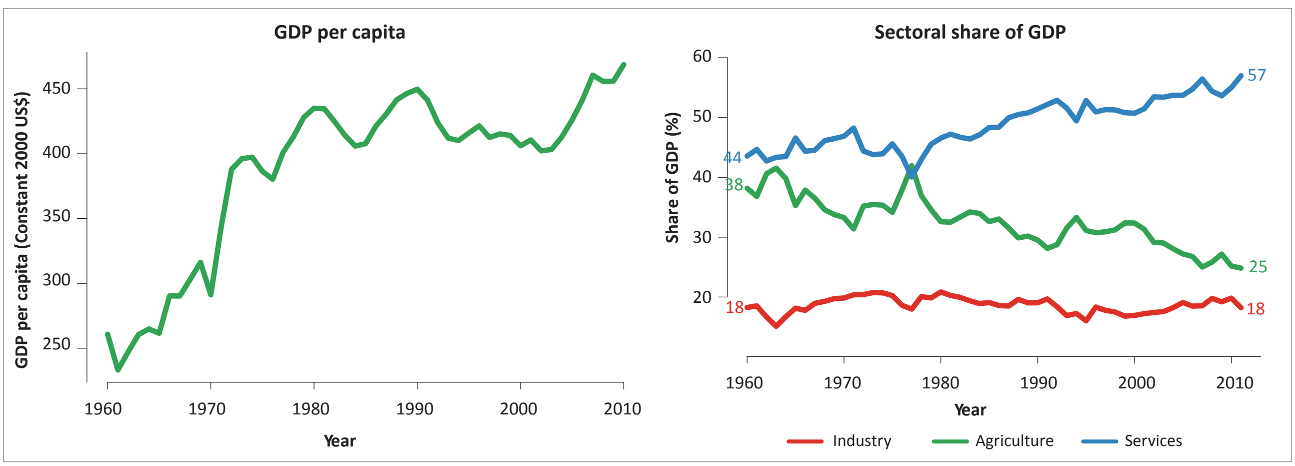


Source: World Bank computation based on Kenya census data
Note: Lines show flows of migration between 2008 and 2009, and the thickness of lines is proportional to the number of migrants

output, and remained stagnant throughout the last decade.

A change in the composition of jobs has accompanied the shift in GDP. Employment can take many different forms. When some people think of a job they may imagine wage employment in the modern sector, such as an engineer with a mobile telecommunications company in Nairobi, a line worker with a cut flower firm in Naivasha, or a worker at the port in Mombasa. More broadly, a job is whatever someone does to make a living. Using the census data, jobs can be divided into three main categories: family farming, non-agricultural self-employment, and wage work.[9] At the time of the 1989 census, the large bulk of Kenyans were working on family farms. The number working in family agriculture grew slightly through 1999 and then remained constant. Meanwhile, the growth in the numbers of non-agricultural self-employed and those holding wage jobs reflects the steady growth in the services sector (Figure 3.6).

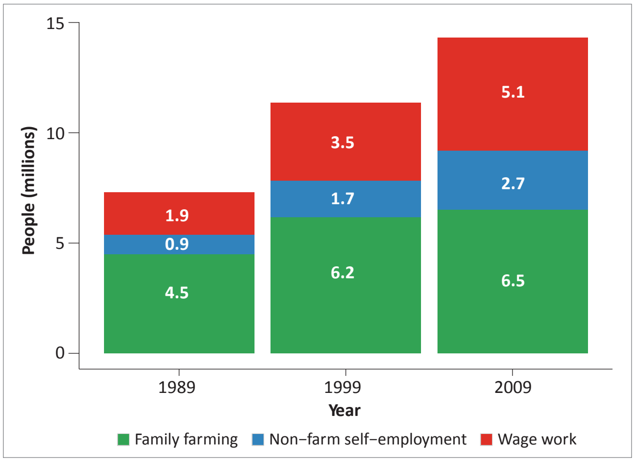
Figure 3.5: Through ups and downs since independence, economy has shifted from agriculture to services



Source: World Bank computation based on World Development Indicators and Kenya National Bureau of Statistics data

[9] *See Annex 1 for a detailed description of how these categories are defined. Non-agricultural firm owners are included in the non-farm self-employment category.*

Figure 3.6: Wage jobs and self-employment outside agriculture have increased, while employment on family farms has remained constant



Source: World Bank computation based on Kenya census data

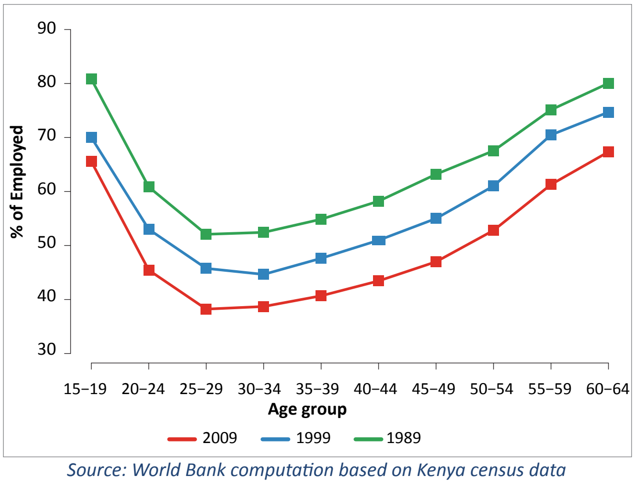
Figure 3.7: Major job categories by gender and urban-rural in 2009

Source: World Bank computation based on Kenya census data

Men are much more likely than women to hold wage jobs, and women are more likely to work on family farms. Figure 3.7 shows breakdowns of employment in 2009 by gender and urban vs. rural areas. Twice as many men as women hold wage jobs, and more men work principally in wage jobs than on family farms. Likewise, more than twice as many women as men report that their principal activity is family farming. Rates of non-farm self-employment are roughly equal for men and women. The urban-rural breakdown shows that even in areas designated as urban, a significant number (17 percent) report that they are working in family farming. Additionally, while urban residents are much more likely to work in wage jobs or non-farm self-employment, rural areas are home to most (55 percent) of the non-farm self-employed and a significant fraction (42 percent) of wage workers.

Kenyans of every age have shifted out of family farming. The pattern of work on family farms follows a U-shaped pattern. Among those working, the very young (age 15-19) are most likely to be working on family farms. These numbers decline significantly for workers in their 20s and gradually increase for workers 30 and older. In 1989, a majority of working Kenyans at every age worked on family farms, but by 2009, only very young workers and those above 50 had majorities of their age group working on family farms (Figure 3.8).

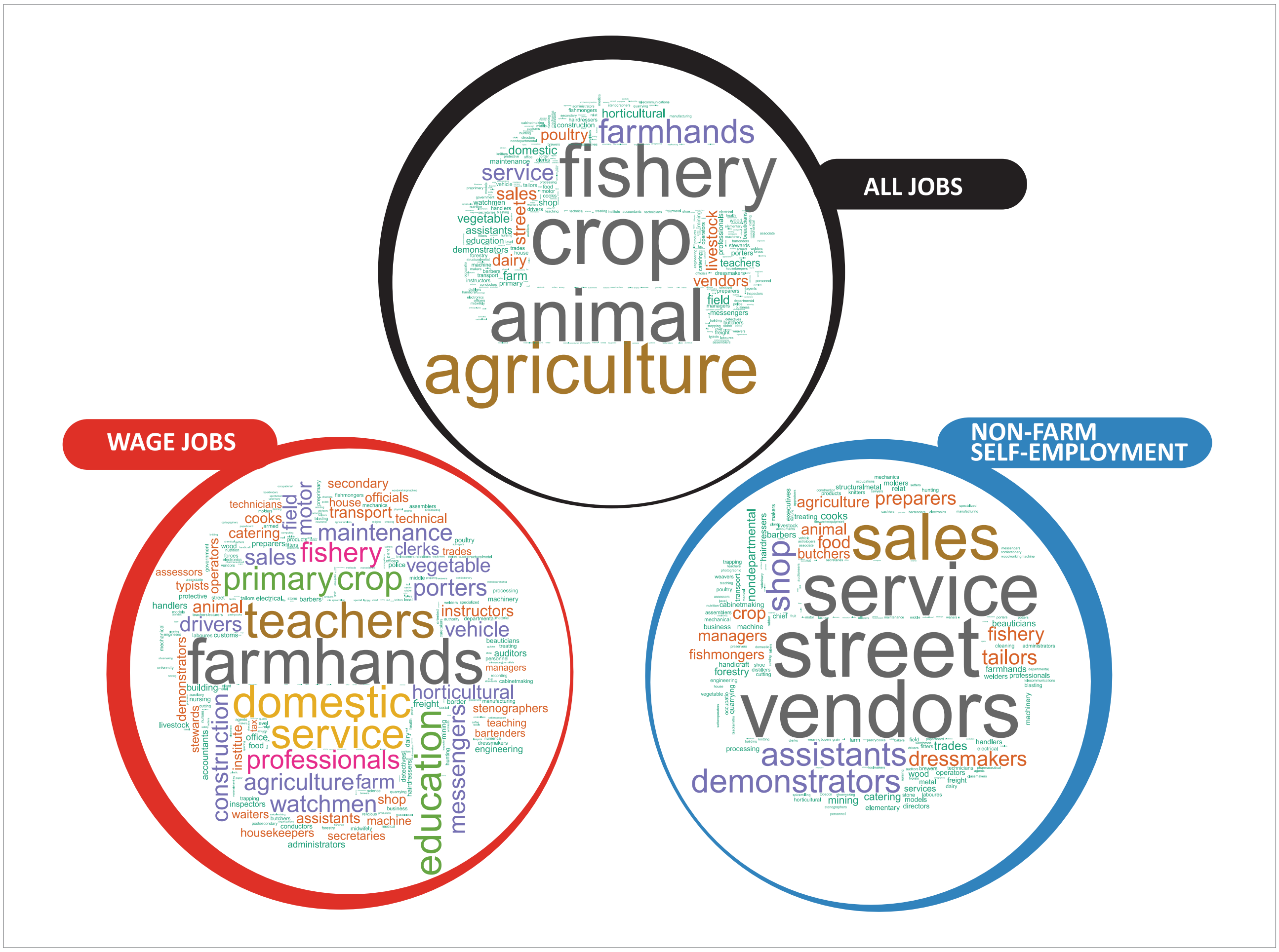
Figure 3.8: The percent of Kenyans Working on family farms has fallen for every age group



Source: World Bank computation based on Kenya census data

Despite the relative decline of agriculture, farming is still the dominant way of life for much of the population. Figure 3.9 shows the most common words associated with jobs based on an analysis of the 2005-06 Kenya Integrated Household Budget Survey, with the size of the words proportional to how many have jobs involving those words. The figure on top shows such a "word cloud" for all jobs. The largest words reflect the dominance of agriculture and related activities. Below that are word clouds for wage jobs and for non-farm self-employment. Farmhands comprise the largest single category of wage jobs. Other prominent categories are service related, such as domestic workers, while smaller categories include the

Figure 3.9: Words associated with the most widely held jobs in Kenya



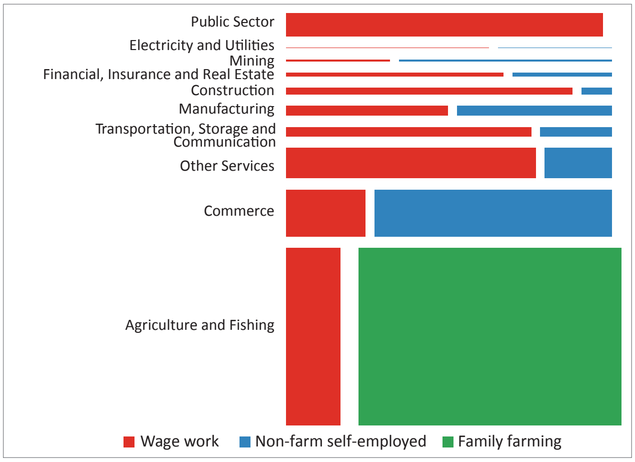
Source: World Bank computation based on the 2005-06 Kenya Integrated Household Budget Survey

words engineering and technical in reference to the industrial sector. Street vendors make up the largest single category in non-farm self-employment, which also includes skilled trades like dressmakers and butchers.

The overwhelming majority of non-wage jobs are in agriculture, while wage jobs are spread across sectors. Figure 3.10 shows a breakdown of the three major job categories by sector. The agriculture and fishing sector consists of some wage work, but mainly (non-wage) family farming. Work in other sectors is broken down into wage work and self-employment. Similar to the word cloud, this figure illustrates the great diversity in wage work. Almost all public sector jobs are wage jobs, but wage jobs are also found across other sectors, including agriculture and fishing. Non-farm self-employment is principally commerce—largely street vendors and other retail sales—but also includes a substantial number in other services as well as manufacturing.

In Kenya, approximately two out of five wage jobs are modern (or formal). These modern wage jobs are a subset of overall wage employment and correspond to what many would view as a "good job." The Economic Survey produced by the Kenya National Bureau of Statistics (KNBS) estimates that total modern sector wage employment was 2.1 million in 2011 (compared to 5.2 million total wage jobs recorded in the 2009 census). These figures are based on firm surveys conducted by KNBS. Modern wage jobs include approximately

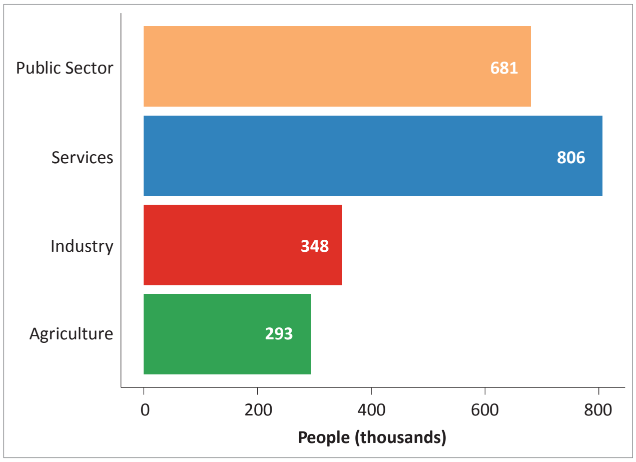
Figure 3.10: Most non-wage jobs are in agriculture, while wage jobs are in a diverse set of sectors



Source: World Bank computation based on Kenya census data

Note: Economic sectors are shown on the vertical access. Areas are proportional to the number of jobs in each combination of economic sector and job category (wage work, non-farm self-employed, family farming.)

Figure 3.11: Most modern wage jobs are in services and in the public sector



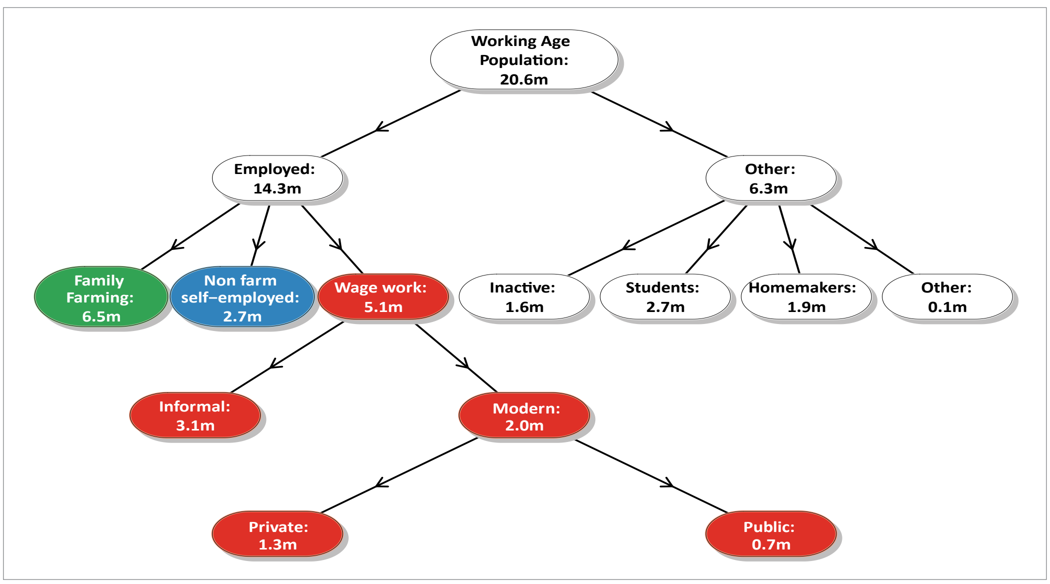
Source: World Bank computation based on Kenya National Bureau of Statistics, 2012 Economic Survey

800,000 in services, 350,000 in industry, 290,000 in agriculture, and 680,000 in the public sector (Figure 3.11).

According to the Economic Survey figures, modern sector wage jobs are increasing by about 50,000 per year, while the working age population by approximately 800,000 per year. In other words, at the current rate of job creation in the modern sector, barely 6 percent of those entering working age are finding modern wage jobs. At this rate of modern sector job creation, competition for such jobs is fierce, and modern sector jobs will remain constant and possibly fall as a share of overall employment.

An overall picture of Kenya's working age population is given in Figure 3.12. This figure summarizes information combined from the 2009 census and the Economic Survey publication. The overall total of 20.6 million Kenyans of working age (age 15-64) is based on census data from 2009. Given the ongoing growth of the population, as of 2012, the number of Kenyans of working age has increased to approximately 23 million.

Figure 3.12: Breakdown of Kenya's working age population by employment status



Source: World Bank computation based on 2009 Kenya census data and on 2012 Economic Survey

4. Challenges facing youth in the job market

The scarcity of "good jobs" and modern sector wage jobs in particular means that many young Kenyans have difficulty finding work. Youth unemployment is seen as a major concern in Kenya. There is a perception that inactive youth are particularly at risk for being recruited into criminal activity. High youth unemployment also raises the concern that young people who are currently out of work may face limited longterm job prospects. Consequently, policymakers have often highlighted the need to reduce youth unemployment.

Unemployment is almost entirely an urban phenomenon, while underemployment is more widespread and more prevalent in rural areas. Overall unemployment rates (for all ages) using the conventional definition are not extremely high. The unemployment rate is conventionally defined as the percentage of the labor force that is seeking work. The labor force consists of the sum of those who have jobs and those who are looking for work. Using this standard definition applied to the 2009 census data, 7 percent of urban adults are unemployed, compared to 2.5 percent of adults in rural areas. In rural areas, unemployment rates are low, because most of those without other jobs are working on family farms. Rather than unemployment, in rural areas the more common phenomenon is underemployment—people working at below their productive potential.

Unemployment rates are highest for young people, especially those in urban areas. The overall unemployment rate for Kenyans age 20-24 (rural and urban combined) is 8.1 percent. The unemployment rate for urban residents age 20-24 is 13.2 percent. There is no difference by gender; unemployment rates are identical for urban men and women in this age group.

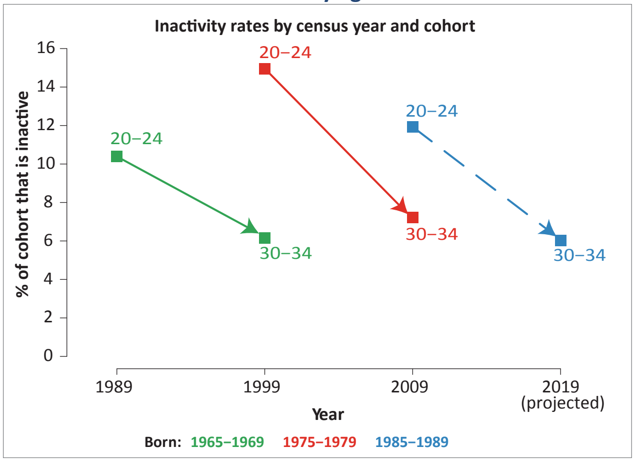
The conventional measure of unemployment can understate the extent of the problem when large numbers of people are not in wage jobs, and consequently a broader "inactivity rate" measure may be more useful. The unemployment rate is highly sensitive to whether people consider themselves to be "seeking work." However, the concept of seeking work is not well-defined for people whose main work option is unpaid work on a family farm or non-wage self-employment. A broader measure is the "inactivity rate," the fraction of the population that is neither studying nor working in any form (including in housework). Inactivity rates in Kenya are substantially higher than conventional unemployment rates. The overall inactivity rate for Kenya is 8 percent—twice the unemployment rate. The inactivity rate is particularly high for Kenyans age 20-24 in urban areas: 15.6 percent.[10]

Inactivity rates fall as individuals grow older. Using multiple censuses, it is possible to track groups by their birth cohort over time. In 1999, inactivity rates for those 20-24 were nearly 15 percent. By 2009, the inactivity rate for those same individuals, then 30-34, had fallen by more than half to 7 percent (Figure 3.13). Similarly, although inactivity rates were high for Kenyans 20-24 in 1989, the same group had much lower inactivity rates when observed 10 years later. If past trends continue, the inactivity rate of those 20-24 in 2009 will fall from 11.6 percent to approximately 6 percent by 2019. These patterns are similar to those seen elsewhere: globally, youth unemployment rates are typically 2-2.5 times those of adults.

This suggests that youth unemployment is high as Kenyans transition from school to work but after some time, most of them find work. In previous generations, inactivity rates for young people have dropped as they aged. Based on a recent focus group study of young men and women, described below, it appears quite normal for youth leaving secondary school to spend one or more years at

[10] *See Annex 33 to 37 for a full breakdown of both unemployment and inactivity rates by age, gender, and urban/rural is given.*

Figure 4.1: High inactivity rates fall for young people as they age



Source: World Bank computation based on Kenya census data. The 2019 inactivity rate is projected based on past trends

home before going to college, or if college does not look likely, to look for wage work or work in the informal sector. In this time they usually live at home or on the farm doing chores and odd jobs. By the time the next census occurs, ten years later, most will have either attended college or received some other training, and found employment of one kind or another. The current generation is likely to repeat the same pattern.

Although high youth unemployment and inactivity rates are in part transitional, focus group interviews with young Kenyans indicate that they have legitimate concerns about their limited job opportunities. The remainder of this section is based principally on interviews conducted in October 2012 with Kenyans age 20-30, including a mix of employed and unemployed young men and women from a variety of walks of life in both rural and urban areas around Nairobi, Nakuru, and Mombasa. In these interviews, young Kenyans illustrate the obstacles they face in obtaining jobs and how unemployment may lead to prostitution, drug dealing, and other criminal behavior.

> *"Since that 100 shillings [I earn doing odd jobs] is not enough I will say I am a woman, I will go out there and get a man who will give me 500 shillings or 1000 shillings on a lucky day and I will sleep with him. That is why prostitution here is very high. If I don't get I will try tomorrow. How can I survive on 100 shillings yet the child needs education, and with the free education he will need books, food, clothes? It is a bad trade because we fear diseases and others will beat you or steal from you. It's not something we want to do, but we are forced by circumstances."* ***(unemployed 30 year old woman, peri-urban Mombasa)***

> *"I say that I have some mix up, and mostly I am stressed when I don't have money and I have to look for ways to get money. There was a time I had started practicing conning. Lack of work actually forces us to steal even chickens from home because we are hungry."* ***(unemployed man in peri-urban area of Nairobi)***

The qualitative interviews show that defining whether someone is employed is often not black-and-white. Many of those who described themselves as unemployed in the initial screening for the focus groups revealed during the discussion that they had some part-time income-earning activity. This shows that many of those who report themselves to be unemployed or inactive in survey and census data may be more properly considered underemployed. A large proportion of those working also have secondary jobs.

> *"I am a broker so I work on the highway, if I get people who want to sell say cereals or diesel I get a buyer for them. Also if a lorry breaks down and they want people to offload cargo and load it to another vehicle we are there. Being a hustler you do not select the type of work you do, just what brings you some daily bread. Oh yes and I also do DJ part time."* ***(unemployed man in rural Nakuru)***

> *"I am a hair dresser and beautician, specializing in beauty. I also hawk, when the business is low, I also sell second hand toys."* ***(employed woman in rural Nakuru)***

Respondents were very conscious of the value that education has in improving their job opportunities. Many had to drop out of school early for lack of money to cover school costs, or in the case of women because of pregnancy. Many hoped to get more education but ended up entering the job market instead.

> *"I first dropped out of school at Form 2. My dad could not afford to pay my school fees and that of my brother, so when he passed and because he was a boy, I was told to first drop out of school so that my brother could be taken to Form 1. I went to stay with my Auntie, helping her to sell clothes."* ***(employed woman in peri-urban area of Mombasa)***

The most common theme in the focus group discussions—among both the employed and the unemployed—was the challenge of breaking into the job market for young Kenyans. Many find that nepotism, tribalism, demands for bribes, and sexual harassment are major barriers to obtaining a job. Young people coming from wealthier and connected families are seen as having large advantages in finding work, regardless of skills and qualifications:

> *"There is a low class, low income earners, if you come from that family bracket, generally known as mwanachi wa kawaida [the general public] it is hard to get a job because you do not have the means but those who came from rich families, they sail through because they have the means and connections so they can corrupt their way through."* ***(unemployed man in urban Nakuru)***

Nepotism is seen as a great obstacle to job access. Most respondents felt that it was almost impossible to access the labor market if one did not know someone to connect him or her to the job environment, and this was cited as the obstacle that prevented the unemployed from getting jobs. Most job seekers felt that it was a waste of time and resources to apply and attend interviews if one did not know someone to push her or him through.

> *"The main problem when we try to get these jobs even when you have the qualifications that is required is that if you do not know someone you cannot get a job, they just employ their own and sometimes those who get the jobs are not even qualified."* ***(unemployed man in rural Nakuru)***

> *"If you want to get a job in Kenya you should either have a godfather or a relative in your area. It is very difficult to get a job if you do not know someone. When I finished Form 4 I went to stay with my parents in Nyahururu where I did my driving course … Then a friend told me that there was a supermarket that needed some drivers and all they needed was a driving license and a form of good conduct from the police … When I went for a test drive the supervisor was very impressed by my driving, and I thought I had got the job. But I was not even shortlisted. I pleaded with them but they kicked me out. Then I came to learn later that the staff had brought their own relatives. I was very disappointed. I rarely go for those interviews any more."* ***(unemployed man in urban Nakuru)***

The youth whose parents were more connected and had a wider network of influential relatives and friends were more likely than their counterparts to get jobs. None of the respondents interviewed had accessed the job market without a helping hand.

> *"When people say that its God [who provides job opportunities for them], I don't think it is God. Your name must be there. Somebody needs to take your papers before you go for the interview."* ***(unemployed woman, urban Nairobi)***

"There are probably a few people who get *jobs through merits, but the majority they get through godfathers. I know someone who was in my class, he got an F in college but because he knew someone somewhere he secured a job in a parastatal, and he is being paid well."* ***(employed man, peri-urban Mombasa)***

Bribery and corruption are other major obstacles young Kenyans face in securing jobs. Respondents indicated that demands for bribes to get jobs were common, and the more competitive the vacancy, the greater the amount of bribe demanded. Many respondents said they had been disappointed and disillusioned by the corruption they had witnessed.

"I went somewhere in town and I wanted to get a supermarket job as a cashier. When I met the employer, he told me point blank that the salary for the position was 30,000 shilling, but for me to get the job, I had to first give him 10,000. I did not have even 1000—I had borrowed money for fare. So I requested him to allow me in, then I would give him the 10,000 [with first salary], but he refused." ***(unemployed man in rural Nakuru)***

"I have this strong desire to join the armed forces from the time I was a child ... so I have tried twice once in Kisumu and another time in Kisii. The last one I went everybody was asked to write on their feet barua ya mzazi [the content of the parents offer]. … I passed in all the tests, running, height, physical fitness. Then on the last stage we were told that those who had a letter [code word for bribe] from the parents to move aside and I went, and I could see many people wondering and shocked that there was a letter that was required and they had not been told. So I went to the last stage and we were asked to write the parents' letter on our feet. If you have 100,000 that is what you write. Then we were asked to kneel down (to expose the written amount on foot) and I could see people had large amounts like 200,000 and half a million. Then another officer came and passed behind us scanning the amounts and selecting those who had the largest amounts and asking them to move to another location. We did not know what he was doing so the rest of us were left kneeling there. After a while another officer came and told us that we had failed because our parent's letters were not heavy. I went home so disappointed and so depressed I could not eat for nearly a whole week, I just locked myself in the house. This I think is the worst problem we have, corruption of the highest order." ***(unemployed man in rural Nakuru)***

Focus group respondents also identified tribalism as a major barrier for youth in accessing jobs. Tribalism was widely mentioned by respondents from diverse tribes and regions of the country. They felt that individuals older than 40 were more likely to prefer members of their own tribe than were younger Kenyans. Many said that recruiters prefer people from their own tribes and said that at some point they had been denied a job due to tribalism.

"If you go to some companies you will find that they only employ people of the same tribe because the CEO comes from that tribe, there was one time my brother was trying to connect me with his friend who worked in one of the prominent tea estates in Kericho, and he asked my brother to take me there but unfortunately the recruitment officer was not there that day so he asked us to go and spend the night at his place. Then my brother heard his wife arguing with him and telling him that the recruiting officer did not want people from our tribe [Kikuyu] and that he was too daring to bring us into her house. My brothers know the Kalenjin language so he told me we needed to leave very early the following morning because we were in danger." ***(unemployed man in urban Nakuru)***

"There is some work just next to my place for excavating fish ponds. When they started we went there, but we were told there was no work. But since the Manger is a Digo he has gone to his home area and collected his Digo friends and relatives—they are the ones working there." ***(unemployed female in urban Nairobi)***

"In that hotel I was working in, the majority of workers are Kambas, in all departments: security, house keeping and the bosses are Kambas, so its difficult to get a job if you are from another tribe. I was just working there because it was training, so they were not paying me. When I asked for employment after my training they declined." ***(unemployed female in peri-urban Mombasa)***

Sexual harassment is also another major barrier to job market access. Both men and women reported experiencing sexual harassment in job recruitment, but it was more commonly reported by women. A number of women said they had given up on looking for a job because of repeated experiences with sexual harassment.

"I also have a friend whom we were school with, she has been looking for work for 6 years, yet she is educated, she has a degree and other post graduate qualifications but every office she goes they want to get down with her before she gets a job. She is pretty and has a good body structure. She tells me these stories crying and when she gets a job the boss start tuning her, she has a major problem." ***(employed woman, urban Mombasa)***

"Some people tend to think that men are the only people who harass ladies, but men are also being harassed by the women. Like me, the business I do, there was a woman who had made me go to her office 20 times in one month. Just sweet talking me. That is when I came to learn that she had a hidden agenda." ***(self-employed man, urban Nairobi)***

"Those who hawk food at the construction sites must sleep with the construction supervisor to be allowed to access the construction site. Then after that he will get another woman, sleeps with her then he will find an excuse to throw you out. He will start complaining that the food is little or it is not good just so that he can get another woman to sleep with. It is really difficult for women." ***(unemployed woman, peri-urban Mombasa)***

The focus group study paints a broad picture of hardship and inequality of opportunity for young Kenyans entering the job market. For those with the least power in Kenyan society, the possibility of obtaining a wage job—or even just the access to markets for a self-employed job—can seem so daunting or hopeless. Desirable jobs are already scarce and to have them rationed by connections, bribery, and tribal affiliation exacerbates the anguish young people face in seeking employment. Pervasive discrimination stacks the deck against the poor and women, threatening to exacerbate inequalities over time.

These stories of severe challenges faced by young people invite the question of what public policy can do to reduce such hardship. The importance of connections to obtaining a job is nearly universal, but Kenya can aspire to fight tribalism, bribery, and sexual harassment. One part of the possible policy response is to assert as matters of principle that society opposes such practices and prohibit such behavior through legislation. Kenya has in fact already adopted this approach, through the new Constitution, which asserts broad principles of equal opportunity regardless of tribe and gender, and bribery is already illegal for recruitment for public positions. Given how embedded these practices are in Kenyan society, implementing these provisions and enforcing them will require strong leadership and a longterm effort. The Bill of Rights (Chapter 4) includes the following provisions under "Rights and Fundamental Freedoms" (Part 2):

(3) Women and men have the right to equal treatment, including the right to equal opportunities in political, economic, cultural and social spheres.
(4) The State shall not discriminate directly or indirectly against any person on any ground, including race, sex, pregnancy, marital status, health status, ethnic or social origin, colour, age, disability, religion, conscience, belief, culture, dress, language or birth.
(5) A person shall not discriminate directly or indirectly against another person on any of the grounds specified or contemplated in clause (4).

While tribalism, corruption, and sexual harassment will persist for some time and may never be entirely eliminated, there are some positive signs that things are starting to change. Successive rounds of the Afrobarometer survey (2005, 2008, and 2011) show that Kenyans over time have become more likely to identify as Kenyan and less likely to identify principally as members of their tribe. Although rates of payment of bribes (also measured by the Afrobarometer survey) are largely unchanged over time, there is some indication that citizen outrage over the bribery culture has increased, as evidenced by initiatives such as the I Paid a Bribe Kenya website, through which Kenyans can anonymously report demands for bribes.

Abuses by job recruiters are likely to continue to be acute as long as good jobs remain intensely scarce. Many respondents in the focus group study aspired to modern sector wage jobs. Others, recognizing the unlikelihood of getting such jobs, saw self-employment as the best option. As noted in the first section of this report, the ranks employed in modern sector wage jobs grow by just 50,000 a year, while the number of people of working age expands by roughly 800,000 a year. Until the Kenyan economy can create jobs at a much more rapid pace—employment will continue to be rationed in large part through exploitative practices. The next section of this report examines how Kenya can achieve its job creation potential.

5. How can Kenya spur job creation?

The key question going forward is how will Kenya spur job creation in a manner that supports and sustains its longterm structural transformation process? Kenyans will continue to shift out of family farming. The first challenge is to move them into better jobs, principally high productivity wage jobs. Only through generating more high productivity wage jobs will Kenya achieve substantial growth in incomes and a reduction in poverty over the long term. Without the right policies in place, the economy will create fewer such jobs, and the bulk of Kenyans will be stuck in poorly paid self-employment and low-end wage jobs. At the same time, it is inevitable that non-farm self-employment and wage jobs associated with the informal sector will continue to be the main livelihood for millions of Kenyans for many years to come. Consequently, a second challenge is how to increase incomes for the non-farm self-employed and informal wage workers in the medium term. These two challenges are addressed here in turn.

A job creation strategy also needs to recognize that nearly half of Kenyans work on family farms, and although the ranks of family farmers are shrinking in relative terms, they will constitute the livelihoods of millions of Kenyans for years to come. Because the issues and policies for family farming are substantially different than those for other forms of employment, a full discussion is outside the scope of this study. Box 3.1 briefly considers policies to improve productivity in family farming.

High productivity wage employment should form a principal pillar of Kenya's job creation strategy. In countries like Brazil, China, South Korea and Vietnam, the expansion of high productivity wage employment has helped drive income growth and poverty reduction. Unless high productivity wage employment expands in Kenya, the scope for poverty reduction is limited.

Three broad sectors will account for the bulk of high productivity jobs: modern agriculture, skilled services such as information and communications technology (ICT), and manufacturing. Kenya has had notable success in recent years in expanding its wage-based agricultural sector—in cut flower farming, tea, and coffee—and likewise ICT has been a small but leading area of growth. Both wage agriculture and skilled services are likely to continue to be success stories for the Kenyan economy. However, what stands out in the trajectory of Kenya's economy over several decades is its failure to see a substantial takeoff of manufacturing. Thus, the bulk of the discussion presented here is framed around addressing the barriers to growth in manufacturing wage jobs.

Kenya's private sector, particularly in manufacturing, is somewhat paradoxical. Kenyan businesses are recognized worldwide for their dynamism and innovation, and the private sector is highly diverse. At the same time, growth—particularly in the manufacturing sector—has been limited. This apparent contradiction suggests that the country has a high potential for private sector job growth, if the binding constraints to job growth are loosened.

The large bulk of modern wage jobs will be created in the private sector. Thus a principal question is why more Kenyans have not found modern wage jobs in the past and what can be done to ensure that more have such jobs in the future. Within a basic economics framework, the possibilities fall into two categories, corresponding to supply and demand.

- **"Supply"** in the labor market refers to the availability of Kenyans with skills. Is the main issue that employers want to hire workers but cannot find the right numbers with adequate skills? More broadly, how are skills related to the prospects Kenyans have of getting good jobs?

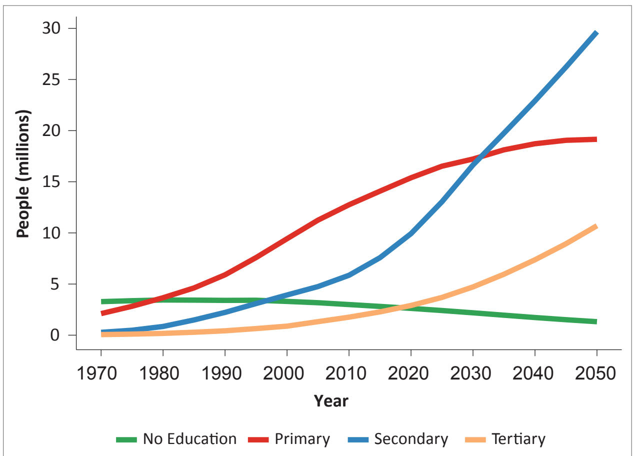
- **"Demand"** refers to job creation by Kenyan firms. Is the main issue that Kenyans have skills but that firms are creating few jobs? If so, what is stopping firms from creating more jobs? Private sector jobs will expand as the private sector grows. If the main constraint to creating good jobs is on the demand side, what is holding back growth of the private sector?

The discussion below first considers the role of skills (supply) and then considers constraints to job creation on the side of employers (demand).

5.1 The supply side: Does the workforce have the skills needed for good jobs?

Over the long term, the average level of skills in Kenya has increased dramatically. Among those who were in their 30s at the time of Kenya's independence, approximately ³/₄ had never attended school. Now, very few do not attend school at all, and in the most recent cohorts, ²/₃ completed primary school and half of primary school graduates completed secondary school. Due to policies in the last ten years that have boosted primary school enrollments, both primary and secondary completion rates are likely to see substantial gains in the next few years. Assuming completion rates continue to rise, Kenya will see a tripling of its secondary school graduates by 2030. The number in the workforce will rise from 6 million to 18 million (Figure 5.1).

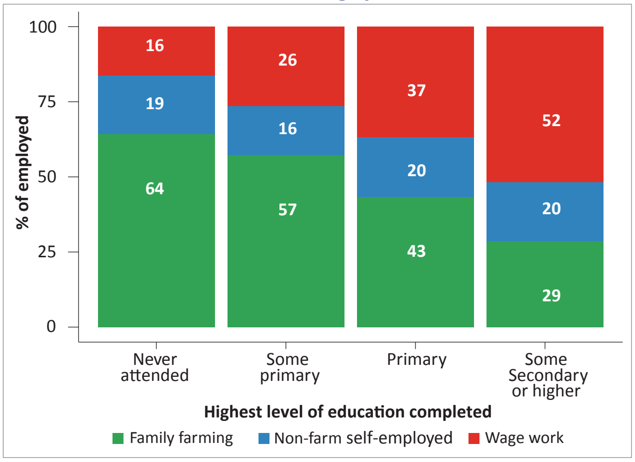
Figure 5.1: Kenya's education dividend



Source: World Bank computation based on University of Vienna analysis

An important question is to what extent education pays off in terms of jobs or earnings. This is often referred to as the "returns to education." One way education can pay off is in opening up greater possibilities of wage employment, and data does show that the probability of getting a wage job increases steadily with education level. More than half (52 percent) of those with secondary education or more have wage jobs, compared to barely a quarter (27 percent) of those with only some primary education (Figure 5.2).

Figure 5.2: More educated Kenyans more likely to have wage jobs



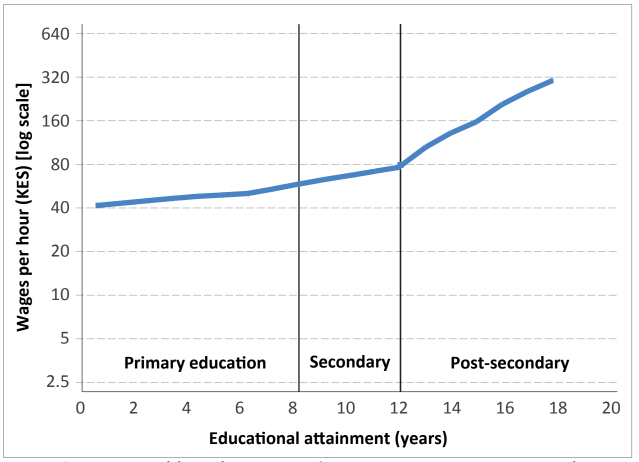
Source: World Bank computation based on Kenya census data

Among those with wage jobs, one can analyze the returns to education by considering how much wages increase with each year of education. For Kenya, the returns to primary education in the wage market are low. In other words, wages increase only slightly with each year of education (Figure 5.3). Wages increase more rapidly for each year of secondary school and most steeply for post-secondary education. This means that the payoff in the wage market from more education is very substantial at high levels, but not at the low end.[11]

The low wage returns to primary education suggest that the quality of education is limited. One way to understand the quality of primary education is through the tests in basic literacy and numeracy administered by the Uwezo organization to a random sample of schools across Kenya,

[11] *This same general pattern has been found in earlier work in Kenya based on other data. It is important to note the returns analysis here only concerns wage jobs, and it is possible that primary and secondary education pays off in terms of higher productivity in family farming or non-farm self-employment, as well as improving other outcomes like child survival.*

Figure 5.3: The returns to education are high for post-secondary education but low for primary education



Source: World Bank computation based on Kenya Integrated household Budget Survey data

Uganda, and Tanzania on an annual basis. The 2011 Uwezo results show that although Kenya students score above those of Ugandans and Tanzanians, substantial numbers of pupils from the lower socioeconomic strata perform poorly. Overall 1/3 of Standard 3 students cannot pass a Standard 2 level test. Pass rates are far lower for the poor. Less than half (49 percent) of students from extremely poor households age 10-16 can pass literacy and numeracy tests for their grade level (Figure 5.4). These results indicate a severe inequality of opportunity between children by household wealth.

>> Box 5.1: Reinvigorating family farming

The fact that nearly half of working Kenyans are on family farms argues strongly for a renewed effort to improve the productivity of smallholder agriculture. This report focuses on wage and non-farm work, which are the growing categories of employment in Kenya. Although family farming is in decline as a share of employment in Kenya, it remains the main livelihood for 46 percent of working Kenyans.

Over the long term, Kenyans will continue to move out of family farming, and agriculture will become concentrated in larger farms. Following the pattern of other countries, by employing more capital and taking advantages of economies of scale, Kenyan agriculture will be able to produce more with fewer people. In the medium term, however, smallholder agriculture will continue to be the main livelihood for millions of Kenyans.

The broad formula for making small farms more productive is well known. It includes improving the institutions relevant to smallholder agriculture as well as targeted public investment. Improvements in property rights would help productivity. Likewise, reform of the relevant marketing boards could improve incentives for producers. Important public investments include those in rural roads to connect farmers to markets, as well as irrigation and agricultural extension services.

On the institutional side, in many rural areas land rights remain tenuous due to decades-long disputes over land ownership. Over the long term, land reform, which resolves these disputes and clarifies ownership, will help raise productivity by creating incentives for investment in family farms and facilitating the function of land markets. The new Kenyan Constitution calls for new land tenure reforms.

Important investments that will increase output on family farms include developing rural roads and irrigation systems as well as improving farming techniques through agricultural extension. Of particular importance is public investment in rural roads. Transportation costs remain high in Kenya, restricting the ability of smallholders to access wider markets.

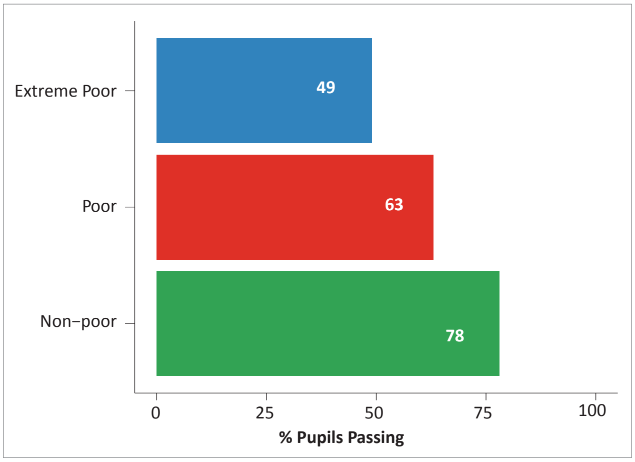
Underinvestment in public goods relevant to agriculture characterizes Kenya's historical experience, as groups in power have directed investments to their friends and family. This was true particularly the 1980s and 1990s, when the government neglected infrastructure, and investments favored those linked to the political elite.

The last decade has seen a resurgence of public investment, particularly in rural roads. To a large extent, Kenya has spent the last several years playing catch-up after the neglect over the previous two decades. Continued investments along the same lines are likely to yield payoffs in improved farm incomes.

Evidence suggests that rural farm productivity is already showing the benefits of policy changes over the last decade. Panel data from the Tegemeo rural household survey shows that the maize productivity of smallholder farms has increased, which appears to be a consequence of partial liberalization of maize and fertilizer marketing as well as public investments relevant to agriculture.

Source: World Bank

Figure 5.4: Poor students are much less likely to pass basic literacy and numeracy exams



Source: World Bank computation based on Uwezo testing data

This brief analysis of education paints a mixed picture. On the one hand, Kenyans who graduate from elite secondary schools, and especially those who complete post-secondary education (just over 1 percent of Kenyans), have strong job prospects in both the public and private sectors. The high wages that graduates with post-secondary education can command indicate that the highly skilled are scarce relative to demand. At the same time, even after the large expansion of education, ⅓ of Kenyan children still fail to finish primary school. The low returns to primary education as reflected in the poor performance on basic skills test results suggests that the education system is failing to prepare millions of less advantaged Kenyan youth for good jobs.

Kenya can build on its impressive gains in educational attainment over the last several decades to make education work for all Kenyans, not just those at the high end. The most important objectives to ensure that young Kenyans have the skills for good jobs are: (i) achieving universal primary completion; (ii) increasing completion rates for secondary school; and (iii) increasing the quality and relevance of education at all levels.

Other measures may offer a second chance for those who dropout of school early and are out of work. Such approaches can include allowing for primary/secondary equivalency certificates through the formal education system. Skills and vocational training and apprenticeships all require a certain education foundation that only the education system can provide. Literacy and numeracy programs, equivalency degrees, and accelerated learning programs can also teach basic skills to youth who did not acquired them by the time they left school. (Further discussion of training programs can be found in the section on non-farm self-employment later in this report).

Although improving skills is important for job creation in the long run, in surveys of firms, few identify skills as their binding constraint to growth. In the World Bank's most recent (2007) Enterprise Survey, lack of a skilled workforce did not rank among the top constraints cited by firm owners and managers. The total number of modern wage jobs is growing by just 50,000 per year, and these slots are easily filled by the significant number of highly educated Kenyans who graduate each year. Given this slow rate of job growth, the low level of school attainment and quality for the larger mass of Kenyans is not currently a substantial constraint. Nonetheless, if the other key constraints are lessened, and job creation is energized, it is likely that skills will become a more binding limitation on job growth.

5.2 The demand side: Constraints to job creation by employers

The main constraint to creating good jobs in Kenya today is on the demand side. Firms are not hiring more workers into modern wage jobs because their businesses are not growing sufficiently. Thus the question of how to spur creation of good wage jobs can be answered by determining how to boost private sector business growth. In other words, the way to create more jobs is to make it possible for Kenyan companies to prosper and grow.

The obstacles to job creation can be assessed using surveys of Kenyan companies. In these surveys, firm managers and owners were asked what they saw as the principal obstacles to growth. Recent firm surveys in Kenya include the World Bank's Enterprise Survey in 2007 and a similar survey by the McKinsey Global Institute in 2011. These surveys have a weakness, which is that they can only survey existing firms. As a result, they reflect obstacles faced by firms that are able to operate within the constraints of the Kenyan economy. They do not reflect concerns of firms that have gone out of business or those that never entered Kenya because of the current set of obstacles. Nonetheless, they do provide a rough guide to barriers to job creation faced by the existing private sector.

Firm surveys in Kenya point to 3 main barriers to job creation: (i) potential political and macroeconomic instability; (ii) weaknesses in transportation and electricity; and (iii) corruption. More than half of manufacturing firms report each of these factors to be major or very severe constraints. Tackling these barriers could form the core of a job creation strategy for the country. A fourth element of a job creation strategy—which derives not from the firm surveys, but from the broad experience of successful economies around the world—is the importance of making cities work for everyone, as they will be the centers of wage job creation.

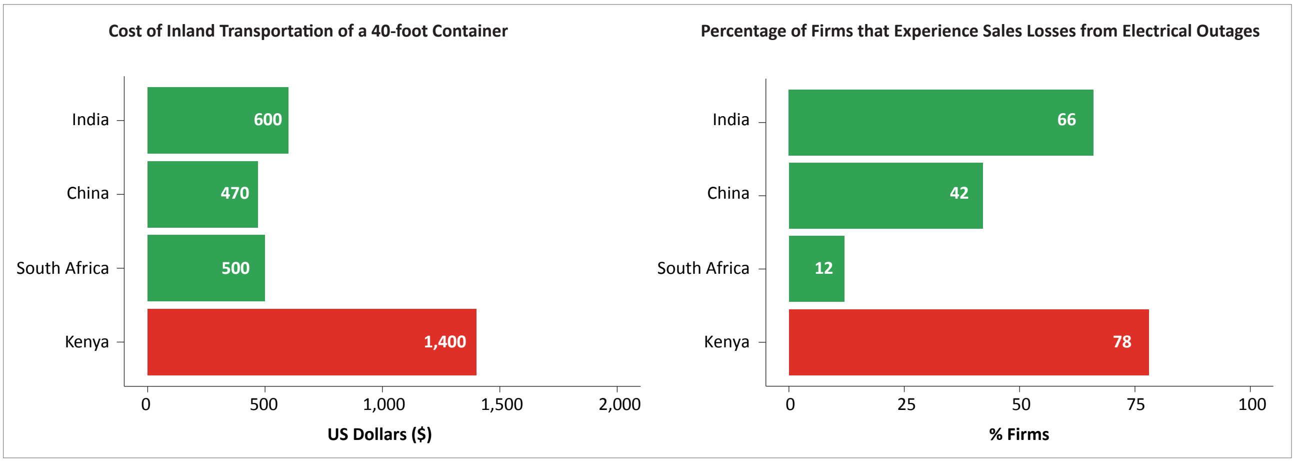
Political and macroeconomic instability present a substantial barrier to job growth in the short term. The Enterprise Survey was conducted in 2007, before the last elections and the ensuing post-election violence. Political and macroeconomic instability do not rank in that survey as major concerns. However, in a more recent survey conducted of employers in Kenya in 2011 by the McKinsey Global Institute, these risks emerged as pre-eminent concerns, with 74 percent citing macroeconomic conditions and instability among the top three obstacles to growth. Likewise, 44 percent mentioned political instability. As the first half of this KEU notes, Kenya faces elevated risks as it heads toward the March 2013 elections and the political transition thereafter. In the past, Kenya's growth has suffered during election years, and over the past three decades, Kenya has had its lowest growth periods—on average about one percentage point below the long term average—in or just following an election year. The single most important step Kenya can take to spur job creation is to achieve a peaceful political transition in 2013.

Weaknesses in transport and electricity are a second severe constraint to firms, and thus job growth. Supply chain problems due to transport problems often result in firms holding large inventories. Manufacturing enterprises in Kenya hold on average 47 days worth of inventory of the most important inputs they need for their production. This is substantially higher than China, India, Tanzania, and Uganda. Transport costs, measured as the cost of inland transportation of a 40-foot container, also remain very high in Kenya relative to most comparator countries (Figure 5.6). High transport costs are driven by several factors, including poor infrastructure, the cartel structure of the trucking industry, long waits at weighbridges and the port of Mombasa, and demands for bribe payments.[12]

Despite improvements in power generation in the last decade, inadequate electricity is another substantial barrier for job creation. Close to 80 percent of firms in Kenya experience losses resulting from power interruptions. On average, losses from power disruption average 7 percent of sales. By comparison, only 40 percent of Chinese firms report losses from power outages, and fewer than 13 percent of firms in South Africa. Due to power shortages, two out of three firms in Kenya own or share a generator, and use it for 16 percent of their electricity needs. Owning a generator is costly, requiring both expensive fuel purchases and substantial capital investments, which average 3-5 percent of the total value of machinery and equipment. Additionally, obtaining a power connection is still difficult in Kenya, and consequently, the country ranks 162 out of 185 in the ease of Getting Electricity in the World Bank's 2012 Doing Business rankings.

[12] *See Box 6.4 of the June 2012 Kenya Economic Update for a discussion of these issues.*

Figure 5.6: Weak transport and electricity are principal constraints to job creation

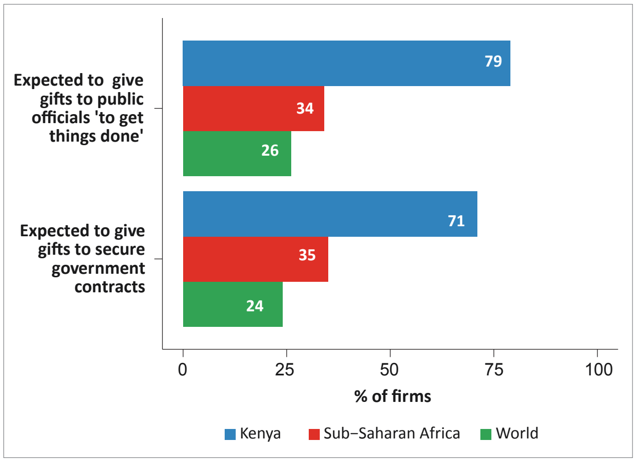


Source: World Bank computation based on Investment Climate Assessment

Notes: Transportation costs average export and import costs

A third drag on job creation comes from kickbacks on government contracts and pervasive demands for bribe payments. In the Enterprise Surveys, Kenya stands out for its high level of business-related corruption. Overall, 71 percent of firms say they need to give gifts to obtain government contracts, and the average amount paid is 12 percent of the value of the contract. Likewise, 79 percent say they have to give gifts to public officials to "get things done." On both counts, corruption rates are much higher in Kenya than in the world and Sub-Saharan Africa as a whole. Firms report that on average 4 percent of the value of their sales is directed towards bribe payments.

Figure 5.7: Kenya's firms are much more likely to face demands for bribes



Source: World Bank computation based on Enterprise Survey data

Corruption smothers job creation in multiple ways. First, it attracts qualified Kenyans into rent-seeking activities rather than job-creating entrepreneurial activity. Second, it discourages firms from growing and expanding their workforces. Third, it directly diverts funds that could otherwise be used to hire workers. The effect on growth is likely to be substantial over the long run but it is difficult to quantify. Based on the responses in the Enterprise Survey, it is possible to roughly estimate the total funds paid in kickbacks on public procurement as well as bribe payments by firms to "get things done." By these calculations, total kickbacks paid on government contracts are approximately 36 billion Kenyan shillings, and other bribe payments paid by firms total 69 billion Kenyan shillings. If these funds were used to hire workers at the average formal sector wage, they could be used to create nearly 87,000 and 166,000 jobs, respectively. By this calculation, the total cost of corruption affecting businesses amounts to more than 253,000 jobs. This is close to the number of urban unemployed youth in Kenya (age 15-34). In other words, if firms were able to redirect all the funds they use for bribes to salaries, they could hire almost every young unemployed Kenyan.[13]

[13] *This calculation of the "job cost" of corruption is necessarily highly approximate. Each element of the calculation is based on reliable data, but the underlying assumptions are simplified. The 12 percent average payment for government kickbacks in the Enterprise Survey may be more or less than the average paid across all government contracts. Likewise, based on the 4 percent of sales average bribe bill reported in the Enterprise Survey, it is assumed that 4 percent of all household consumption expenditure (with the exception of expenditure on education and agricultural production) ultimately funds bribe payments. Overall, because this calculation does not take into account the broader growth effects of corruption, 253,000 is likely to be a lower bound on the "job cost" of corruption.*

A fourth issue for job creation is the importance of making cities work for everyone. As the analysis earlier in this report shows, the country is undergoing a wave of urbanization, as Kenyans move into the towns and cities—particularly Nairobi—in search of opportunity. Large towns and cities are centers of innovation and engines of job growth, and they will continue to draw Kenyans looking for better lives. As cities expand, it is important for the government to invest in urban infrastructure, so that they continue to flourish as drivers of job creation.

5.3 Raising productivity of non-farm self-employment

Even in the best case scenario, as Kenya's service economy expands, an increasing number of Kenyans will make their living in non-farm self-employment. This category covers the work known in Kenya as *jua kali*, as well as what is typically described as informal work. This group accounts for 18 percent of workers nationwide, and this type of work will persist as the central livelihood for many Kenyans for some time. With a growing labor force, even if Kenya tackles the obstacles discussed above and succeeds in expanding wage work, non-farm self-employment will continue to grow for decades.

Non-farm self-employment—also referred to as household enterprises—have largely been neglected by both policymakers and researchers. Household enterprises were largely seen as the symptom of failed development policy. Only recently has a new consensus recognized that "informal is normal" in Kenya and many other countries, and that policy should consider how to improve the welfare of those in non-farm self-employment. Consequently, although a number of studies are underway, research thus far provides few clear guidelines on how to improve the productivity of such enterprises. Going forward, greater use of rigorous impact evaluations are needed to understand what works for improving household enterprises productivity.

Household enterprises face three main barriers: harassment by authorities, access to finance, and lack of skills. These three areas present the main opportunities for increasing the productivity of non-farm self-employment.

Table 5.1: The "Job cost" of bribes in Kenya

Source of funds	Total Value (KSH 2011)	Corruption costs	Market value of corruption (KSH 2011)	Opportunity cost of corruption in yearly jobs
Public Procurement	298,587,883,000	12%	35,830,546,000	87,000
Private Sales	1,714,879,791,000	4%	68,595,192,000	166,000
Total	**2,013,467,674,000**		**104,425,738,000**	**253,000**

Source: World Bank computation

Notes:

1) Public procurement figures are from Public Procurement Oversight Authority: Total value of public procurement in Central government estimated as 10% of GDP, taken from: http://www.ppoa.go.ke/downloads/Procurement%20Journal/issue_no._5.pdf

2) Household final consumption expenditure (representing 80% of GDP) is used to estimate private sales. This excludes the share of household consumption in agriculture and education.

3) Estimates of the financial burden of corruption on firms in Kenya were taken from the Kenya Investment Climate Assessment. This report found that Kenyan firms pay 12 percent of the value of a public contract as informal payments. In addition, the report found that the costs of informal payments to officials to deal with rules and regulations cost 4 percent of annual sales.

4) The opportunity cost calculations are based on dividing the total "market value of corruption" in each category by average modern sector wage earnings. Average modern sector wage earnings are KSH 413,010 per year (for both private and public sector), according to the the 2012 Economic Survey (KNBS).

Abuse and harassment by the police of household enterprises is extraordinarily common. This is particularly the case for traders, who make up a large portion of the non-farm self-employed. One study of women street vendors in Nairobi found that "Harassment is the main mode of interaction between street vendors and authorities" (Muiruri 2010). The study found that demands for bribes by police—amounting to 3-8 percent of income—as well as sexual abuse are common. Summarizing the difficulties of the street vendors, the study found the following:

> *"The most significant challenges on the street were the different types of harassment especially from the city authorities over licensing, taxation, site of operation, sanitation and working conditions. Various forms of harassment were reported including, beating, confiscation of goods, corruption, evictions, fines, arrests and imprisonment."*

Similar findings emerge from studies of household enterprises in other contexts. In particular, space for informal traders is often neglected in urban planning. The combination of a lack of fixed space and legal marginalization leave many household enterprises vulnerable to exploitation by authorities.

A second challenge faced by household enterprises is access to financing. Those working in non-farm self-employment typically cite lack of access to capital as a major constraint. A few studies have shown that providing cash grants can increase entry into self-employment, but evidence is more limited on the effects of: (i) cash grants on increasing household enterprise productivity; and (ii) the effects of micro-credit on either entry into self-employment or household enterprise productivity.

One recent rigorous study in Kenya offers some positive evidence on providing access to savings for women in non-farm self-employment (Dupas and Robinson 2009). In the study in a rural area of western Kenya, women market vendors offered access to savings accounts in substantial numbers used the accounts, saved more, and increased their productive investment and private expenditures. In contrast, no effect was found for male bicycle-taxi drivers offered the same accounts. This finding also suggests that saving and investment constraints may be binding for self-employed women (but not men), since women may have greater problems saving on their own, due to pressures to share their savings with others.

The ability of public policy to address financing constraints for household enterprises may be limited, but innovative private sector solutions have emerged. Grant programs are likely to be difficult to scale up, and micro-finance programs present substantial administrative challenges. At the same time, the private sector in Kenya has begun to provide solutions that ease finance constraints for micro-enterprises. Most importantly, the rise of Kenya's home-grown mobile money system has been a very positive development, as it has provided entrepreneurs with a mechanism for the safe storage and transfer of funds. (This phenomenon was discussed in the December 2010 Kenya Economic Update). Additionally, private sector innovations such as small scale lending from Equity Bank have helped increase access to finance. Both developments are likely to have boosted the productivity of household enterprises.

A third challenge for household enterprises is lack of skills. Formal schooling typically provides limited education that is directly applicable to household enterprises. A number of different approaches have been attempted to improve skills for the self-employed. Broadly, these have included training in business skills, training in technical skills through apprenticeships or vocational training, and training in behavioral skills. In broad summary, rigorous evaluations are scarce (particularly in Africa), and when rigorously evaluated, programs in all three categories typically are found to have limited effects. Although apprenticeship and vocational training programs are widespread, the evidence is particularly weak on their effectiveness. The most consistent positive effects have come from programs that train the self-employed in business skills like bookkeeping and market research. Serious evaluations of such programs typically do find effects on business practices, but this does not always translate into higher earnings, even with intensive training.

A promising training approach in Kenya, the Technical and Vocational Vouchers Program (TVVP), is currently being examined with a rigorous impact evaluation. The program provides beneficiaries with vouchers to purchase the training they want either from government/public or private sector operators. Initial analysis has found that giving young Kenyan adults vouchers does boost enrollment in training programs. The study has also found that recipients offered a choice between government and private training (rather than being restricted to government training) are more likely to enroll and less likely to drop out. Future analysis will examine the effects of the program on earnings and other outcomes.

As a whole, the existing body of knowledge on non-farm self-employment points to two conclusions. First, microfinance programs and training approaches like TVVP are very worth pursuing through rigorously evaluated pilot programs but are largely unproven as vehicles to improve the productivity of household enterprises—particularly given the administrative challenge of scaling up such programs. Second, the single most important action that governments can take to improve the welfare of the self-employed is to accept them as part of the legitimate economy and recognize that "informal is normal." This meansencouraging urban authorities to provide space to household enterprises to operate and protecting such enterprises from pervasive harassment.

5.4 Creating good jobs: The way forward

This special focus began by highlighting that the nature of work is changing in Kenya, and jobs are important for living standards, productivity, and social cohesion, in the framework of the 2013 World Development Report. As Kenyans move off family farms and to the cities in search of good jobs, their future will be determined by whether the country succeeds in generating good jobs. The WDR framework shows how the benefits of "good jobs" go beyond the individual worker and extend to the society as a whole. In terms of living standards, jobs which increase the incomes of women can have benefits for children's health and education. For productivity, jobs in cities that catalyze knowledge spillovers can raise productivity across firms. For social cohesion, jobs which provide an alternative to idleness and violence among youth can have payoffs for society. All of these dynamics reinforce the importance of Kenya achieving job growth.

The analysis in this report highlights five elements to a job creation strategy to boost wage job creation. These five components are as follows:

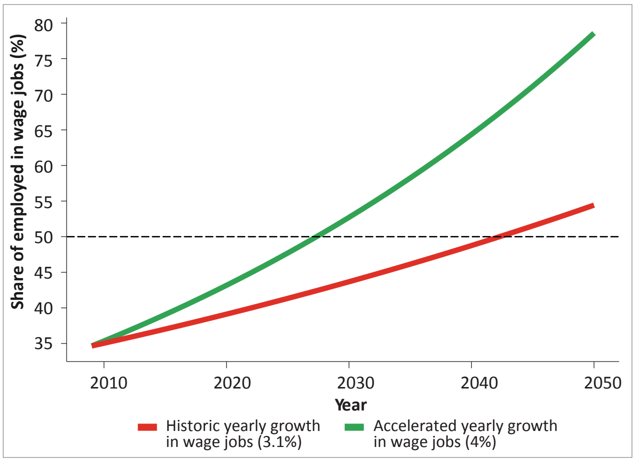
(i) maintain political and macroeconomic stability
(ii) reduce the costs and improve reliability of transport and electricity
(iii) eliminate job-smothering corruption
(iv) invest in cities so that they continue to flourish as centers of innovation and job creation
(v) upgrade skills and make schools work for all Kenyans

Although this report emphasizes the central role of modern wage jobs, it also emphasize the need to promote the welfare of the growing ranks of the non-farm self-employed.

Currently comprising nearly 1 in 5 workers, the ranks of this sector are likely to grow as the shift out of family farming continues. Authorities can directly support this sector principally by recognizing them as part of the legitimate economy and providing such enterprises space to operate.

A job creation strategy oriented towards modern wage jobs will also boost the welfare of the self-employed and those working in the informal wage sector. This is for two reasons. First, many of the issues addressed by the 5-point strategy above directly affect those outside the modern wage sector. In particular, as the focus group interviews presented in this study illustrate, the culture of corruption harms job seekers at all levels. Likewise upgrading skills across the economy will benefit all young Kenyans. Second, growth of modern wage jobs will generate demand for the goods and services provided by those in the self-employed and informal wage sectors.

Figure 5.8: With accelerated wage job growth, most Kenyans could be in wage work by 2030



Source: World Bank computation based on Kenya census data

To a substantial extent, the country is already pursuing elements of the strategy laid out here. The importance of achieving a peaceful political transition in 2013 is widely recognized. During the last few years, the country has made important investments in the road network as well as power generation and the electricity network. The need to focus on school quality is the consequence of the largely successful efforts in the last decade to expand school access. Though corruption has proved harder to root out and remains a key challenge.

Kenya has the potential to take advantage of its demographic opportunity and provide good wage jobs for the coming bulge in Kenyans of working age. The country lies at a crossroads. Given the shrinking numbers of young people working on family farms and the inevitable pull of urban life, it is very likely that fewer and fewer Kenyans will make their living on family farms. The country's success in addressing impediments to job creation will determine whether new entrants to the labor force end up mostly in non-farm self-employment or in better paying wage jobs. Two scenarios for Kenya's future in 2030 are presented in Figure 3.20. In one, wage job creation stagnates at its current rates, and non-farm self-employment absorbs most of the demographic bulge. (These calculations are for wage employment as a whole, not just modern wage employment.) Under this scenario, less than 40 percent of Kenyans will have wage jobs in 2030. In the alternative scenario, wage employment creation accelerates, and by 2030, a majority of both men and women will hold wage jobs. The country will need to overcome key barriers for job creation to achieve this second scenario.