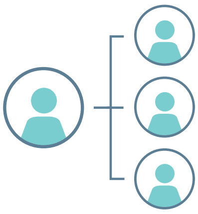
MACROECONOMIC AND SECTOR ANALYSIS

REPORT: KENYA

The African Union Development Agency (AUDA-NEPAD) through the Skills Initiative for Africa (SIFA) commissioned a study to prioritise three economic sectors in Kenya which, based on forecasts, and controlling for the impact of COVID-19, would lay the groundwork for targeted activities aimed at improving skills in the country. In order to do this, a mixed methods (quantitative and qualitative) analysis was undertaken to understand labour demand and labour supply in the country. These findings were then verified and discussed by professional representatives in the skills planning space from Kenya, who assisted in the completion of a widely validated report.

Labour Demand is defined as **the amount of labour that employers need to hire in a given time period**



Labour Supply is defined as **the amount of labour that households can provide employers in a given time period**

In most cases, it is not possible to measure labour demand and labour supply directly. Because of this, an analysis of labour supply and demand has to rely on deep understanding of all relevant quantitative and qualitative evidence at one's disposal.

Labour Demand in Kenya

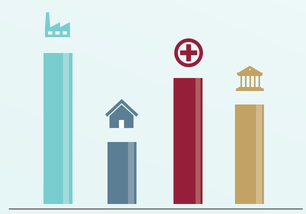
Quantitative evidence, and evidence based in the literature, were used to rank economic sub-sectors in Kenya based on whether those sub-sectors were expected to demand more labourers in the next 3-5 years. The following signals (indirect measures) were used to assess labour demand in each sub-sector:

The sub-sector is gender equitable as an employer

The sub-sector shows evidence of relatively strong GDP growth and employment growth/employment absorption

The sub-sector is going to be impacted by COVID-19

The sub-sector is identified as being a strategic priority for the government

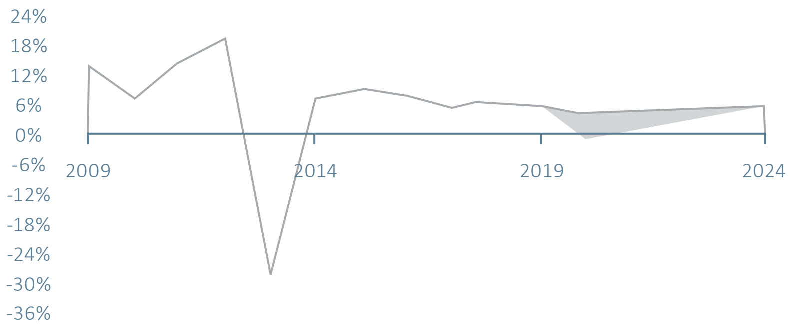


The sub-sector contributes significantly to national GDP and employment

These factors were combined together into an index using Principal Components Analysis. This index measures labour demand between now until 2024 in Kenya at a sub-sectoral level. **If GDP growth was not forecast to be the highest for a given sub-sector, it might still rank in the top 3 sub-sectors due to that sector exhibiting other signals. The evidence is all reviewed simultaneously, and not in isolation.**

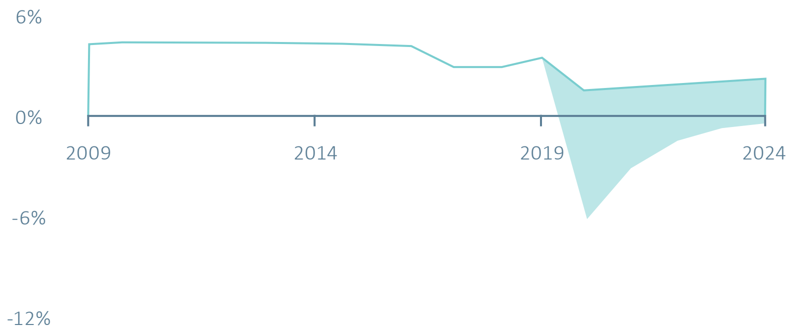
At a national level, COVID-19 is expected to have a large impact on the Kenyan economy:

Real GDP Growth (National)



A slowdown in real GDP of the Kenyan economy of as much as 1.35 million jobs in the worst-case. This has the impact of denting growth and is expected to cost labour demand in the country.

Employment Growth Rate (National)



Based on this index ranking system, the three sectors exhibiting the strongest signals of labour demand are:

Construction

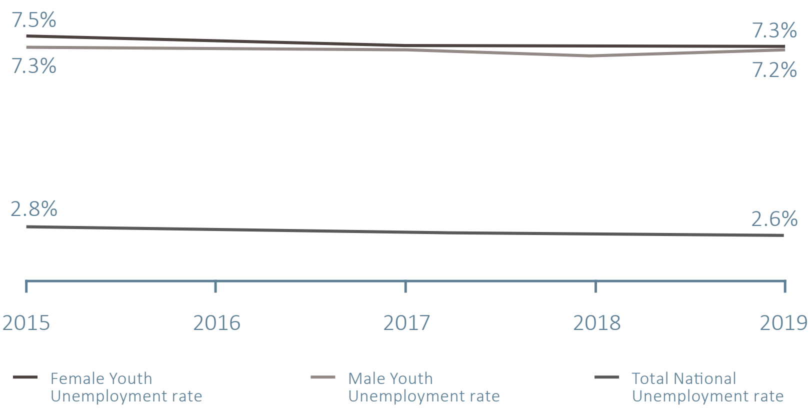
Accommodation and Food Services

Agriculture, Forestry and Fishing

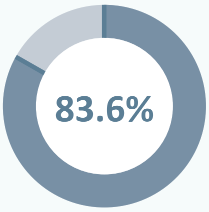
These sub-sectors all contribute greatly to the Kenyan economy, whilst also being strategic priority sub-sectors to the government.

Kenya Labour Supply Analysis

National unemployment is hovering around the 2.6% mark as of 2019 (and is forecast to increase due to COVID-19). Youth unemployment for males and females respectively is almost triple that (at 7.2-7.3%).

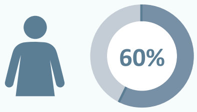


The Kenyan economy is struggling to absorb all its youth into the labour force more than its older generation. The difference between male and female is very slight.

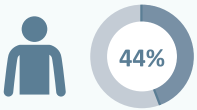


Estimate of the proportion of Kenyans employed in the informal sector (2018)

This translates to the informal sector employing as many as 14.9 million Kenyans



of females are self-employed



of males are self-employed

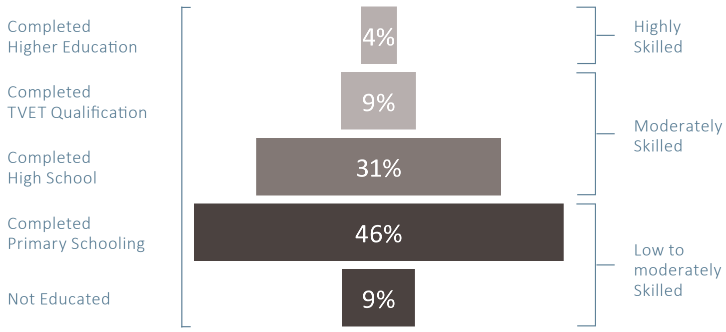
Informal employment levels in Kenya are extremely high in absolute terms and in comparison to other African countries. The proportion of workers self-employed is moderate to high in Kenya as well. Because of this:

1. Job security is potentially low in the economy, and
2. Female self-employment tends to be a pervasive issue in the country, with more women needing to work for themselves as opposed to an organization of some form.

In Kenya, as of 2018, our estimates suggest 9% of the population had not completed any form of education. In contrast, 46% of Kenyans had only completed up to primary school. Roughly 13% of the working population is highly skilled, with the remaining 87% possessing lower to moderate skills bases.

Our own estimates suggest that most Kenyans tend to be moderately skilled, with 57% of the population having completed secondary schooling. However, this moderately skilled group is also the category most underemployed in the country (27% of people who have completed secondary schooling are underemployed). According to some estimates, the number of Kenyans who had completed some form of TVET qualification by 2017 is:

1.7 million

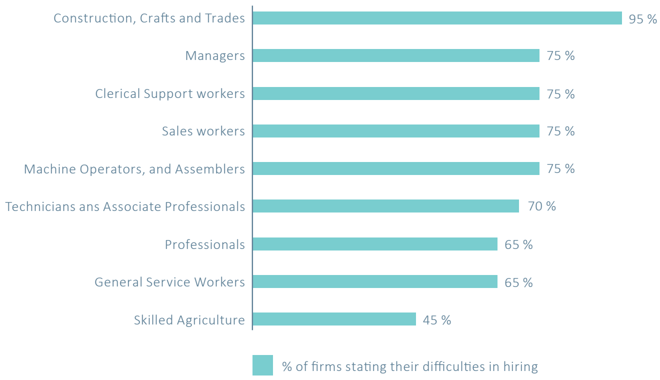


This suggests a large, moderately to highly skilled labour force which is potentially not being utilised to its full potential. Interestingly, TVET graduates in Kenya are the least underemployed in percentage terms, signalling the efficient use of the majority of graduates.

According to the STEP employer survey conducted in Kenya, hiring constraints in Kenya related directly to:

- A lack of adequately skilled applying candidates, and
- A mismatch between what firms need versus what the labour supply in the country offers

In terms of skills gaps, the survey also suggested that artisanal skills, as well as professional skills exist in Kenya, across the construction, manufacturing and agriculture sectors, as well as in general service industries:



Beyond the skills gaps identified by the STEP analysis, another study conducted by the ILO (along with AUDA-NEPAD and the AU) has pointed out that the three sectors most impacted by the pandemic will be the manufacturing, accommodation and food services, and education sectors.

Post-COVID, employers and employees surveyed by ILO representatives agree on the following skills which need to be improved:

- Technical, job-specific skills
- CT skills related to digital communications, and
- General ICT skills relating to computer literacy

Because of the severe impact of COVID-19 on businesses, more than 50% of employees were unable to receive such training which would ensure higher levels of job security moving forward into a post-COVID Kenyan economy. The major constraint to rolling out this training, as the vast majority of employers point out, is due to budget constraints.

Validation discussion points

The validation workshop conducted in July of 2020 revealed extremely valuable insight regarding the Kenyan economy:

- Broadly, the three sub-sectors highlighted in terms of having high levels of labour demand are correctly identified.
- The construction sub-sector has experienced a major mismatch between what employers may require and what candidates have in terms of skills. This is likely because the TVET system does not adequately cater to practical skill development specifically.
- The agriculture sub-sector, although focusing on land-based agriculture processes, is opening up to more blue-economy activities as well.

Conclusions and recommendations

Based on the discussions and a balanced view of quantitative and qualitative evidence, the three sectors that SIFA should focus on are indeed the:

1. Construction sub-sector,

2. Accommodation and Food Services sub-sector, and

3. Agriculture, Forestry and Fishing sub-sector.

- TVET qualifications in the Construction sub-sector tend to be mismatched to practical aspects of work in the sub-sector. Therefore, skills interventions in the construction sub-sector can:
  - Focus on reskilling low-skilled individuals who require more practical training on artisanal activities (bricklaying, tiling, roofing, woodwork, and heavy earthmoving equipment usage).
  - Improve/Offer qualifications associated with technology (draughting, architecture and industrial engineering) in conjunction with private sector training.

- Skills gaps associated with the accommodation and food services sub-sector relate directly to soft skills and to the use of ICT in the sector. This leaves room to provide TVET-based training in hospitality management and culinary activities, in e-commerce and logistics (to assist in food delivery), and in marketing and ICT communications (accommodation-specific).
- Business management courses related to bringing one's company out of COVID-19, if still functioning, should also be considered in the short-term.

- Technical skill bases relating to the use of modern farming equipment seem to be very low, especially at the upper end of the skills base. Linking agriculture students to private sector employers with learnerships will assist in eradicating this skills deficiency. Training in these technological skills can be supplemented by helping to plug skills gaps in the following areas of study:
  - Climate-friendly agriculture practices,
  - Crop and livestock efficiency studies (agricultural sciences),
  - Blue economic activity,
  - Agribusiness and agri-entrepreneurship, and
  - E-agriculture services.

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