

# LABOR MARKET INSTITUTIONS AND EMPLOYMENT OPPORTUNITIES IN KENYA

Paper Prepared for Festschrift Conference and Volume  
In Honor of Professor Azizur Khan

By Robert Pollin  
Department of Economics and  
Political Economy Research Institute (PERI)  
University of Massachusetts-Amherst  
[pollin@econs.umass.edu](mailto:pollin@econs.umass.edu)

March, 2009

## INTRODUCTION

For more than 40 years, Professor Aziz Khan has produced seminal research on labor market conditions in developing countries. Among his many contributions in this field, Prof. Khan has shown how to make the greatest possible use of available empirical resources in situations when the inadequacies of data are significant. Khan's ability to generate meaningful conclusions on the basis of limited data has been one part of his overall commitment to use his formidable professional skills for the purpose of promoting poverty reduction and rising living standards in developing countries. This paper is written in this tradition pioneered by Professor Khan. Indeed the work itself has benefitted at crucial points from the general guidance and specific points of advice provided by Professor Khan.

The paper comes out of a broader project that I conducted with two colleagues, James Heintz and Mwangi wa Githinji, under the auspices of the United Nations Development Program. The larger work has been published as the 2008 book *An Employment Targeted Economic Program for Kenya*. The discussion here includes two interrelated parts and purposes. The first is to provide an accurate statistical picture of conditions for non-agricultural working people in Kenya today. To establish that picture, my co-authors and I in the UNDP project benefitted from having worked closely with officials from the Kenya National Bureau of Statistics in developing methodologies for making the best use of data from the 2005-06 Kenya Integrated Household Budget Survey (KIHBS), the most extensive such project ever conducted in Kenya.<sup>1</sup>

The second part of the paper is focused on policy questions flowing from the data. Under the era of global neoliberalism, a central tenet was that enhancing "labor

---

<sup>1</sup> My co-authors and I benefitted greatly from our working as a team with Dankit Nassiuma, Vivian Nyarunda, and Robert Nderitu of the Kenya National Bureau of Statistics. In considering the issues on which I have focused in this paper, we also equally benefitted from contributions by Jeannette Wicks-Lim, Eduardo Zepeda, Jacob Omolo, in addition, again, to Professor Khan himself.

market flexibility” was the most effective means of expanding employment opportunities. The idea first developed in the context of OECD economies, where it was held that labor market “rigidities”—including strong social protections for working people and significant strength for trade unions—were the primary cause of the persistence of high unemployment in the region. The idea was then integrated into the overall IMF-World Bank policy approach for developing countries. According to this approach, economic policies in developing countries such as Kenya should focus on delivering a low inflation rate and minimal government regulations governing trade flows, financial market transactions, and labor relations. Specifically as regards employment policies, this approach held that with a flexible labor market, wages could be set at equilibrium levels, which in turn would produce maximum employment opportunities.

Global neoliberalism may well have reached its point of exhaustion by now, in the aftermath of the 2008 Wall Street collapse and subsequent global recession. But its central arguments, as regards labor market policies as well as other areas, need to be dissected as carefully as possible, in order to both understand how such a point of exhaustion may have been reached, and, more importantly, to understand what alternative policy approaches are now viable.

I thus review the IMF-World Bank type arguments in light of the labor market conditions we observe in Kenya. As we will see, it is clear that conditions for working people in Kenya are, for the most part, extremely hard, with most employed people living around or below the government’s official poverty line. However, I show that the social protections available to workers in Kenya—that is, minimum wage laws, union presence and other “rigidities”—are not responsible for this situation. Moreover, weakening or eliminating these social protections will only worsen conditions for workers and their families, and more generally spread poverty throughout the country.

The findings presented here point to the need for well-designed and executed efforts at explicitly promoting rising productivity and more supportive conditions for local producers. This paper itself delve into this positive policy agenda only briefly, by concluding briefly with some of the main outlines of an alternative approach. This positive agenda is developed at length in our book-length study. This alternative approach includes a more expansionary macroeconomic program targeted at economic growth and employment creation, public investments in infrastructure, abundant and affordable credit, and marketing support for small-scale farmers and informal businesses.

## **OVERVIEW OF KENYAN LABOR MARKET**

### **Job Classifications and Levels of Employment**

We can initially divide the total number of employed people in the Kenyan economy into three broad categories. They are:

1. *agricultural self-employed*—These are agricultural workers who are not employed as wage-laborers in agricultural enterprises.

2. *informal sector*—This includes self-employment in non-agricultural unregistered household enterprises and wage-laborers of informal employers.

3. *formal sector*—This includes the entire public sector, self-employed in registered non-agricultural private enterprises, and wage laborers of formal employers.<sup>2</sup>

As we see in Table 1, the largest category of employment, by far, consists of the agricultural self-employed. This category accounts for roughly half of the working-age population. The next largest category consists of those employed in the informal sector, accounting for nearly 36 percent of employment in Kenya. Kenya's formal sector in total accounts for the remaining 14 percent of employment.

#### TABLE 1 BELONGS HERE

Of the 13.5 million people participating in Kenya's labor force, as we can see, 12.1 million are counted as employed and 1.4 million are openly unemployed.<sup>3</sup> Thus, the open unemployment rate is 10.5 percent.

It is important to emphasize immediately two points about this unemployment rate figure. The first concerns the usefulness of the open unemployment statistics themselves. Open unemployment rates are widely cited, in Kenya and elsewhere, as the best-known indicator of the relative robustness or weakness in any given labor market. The 10.5 percent open unemployment rate for Kenya in 2005-06 does indeed convey some useful information. At the same time, it is not nearly adequate as a measure of the overall employment situation in Kenya, just as it would not be in other countries.

This is because the open unemployment rate figure does not take into account underemployment, or more importantly, poverty-level employment—that is, people who are employed but are still bringing home low incomes. This could result from some combination of two factors: 1) receiving very low hourly income from employment or 2) being employed involuntarily for a low number of hours.

---

<sup>2</sup> To clarify the distinctions between wage employees in the informal and formal sectors, the information on type of employer contained within the KIHBS is utilized. Formal employers are those that workers identify as one of the following: private sector company, government agency, state-owned company, company that is majority-owned by the Kenya government, international organization, or non-governmental organization. Informal employers are those that fall outside all of those categories, such as an individual.

<sup>3</sup> The definition of openly unemployed in the labor force survey refers to people who, during the reference period, "were without work but currently available for work and actively seeking work, or were without work because of layoff or off-season but currently available for work."

## **Incomes from Employment**

We now consider evidence on income levels for the various job categories. In considering these data, it is unfortunate that, at the time of writing, I have not been able to obtain income data for those who are self-employed agricultural workers. This means that we will not be able to discuss overall employment conditions for fully half of all working people in Kenya.

Nevertheless, we are able to report wage incomes for those working in the informal and formal sectors and business revenues for self-employed workers in non-agricultural enterprises. These figures are shown in Table 2 which reports median income figures for the largest categories of these workers in both the informal and formal sectors, then also breaks down these median income figures based on whether people live in rural or urban regions of Kenya.

### TABLE 2 BELONGS HERE

As Table 2 shows, incomes, on average, are much higher in the formal than informal sector. There are also significant income disparities among the categories of workers within each sector. Finally, there are also large disparities by region. Allowing for differences by employment categories, most private sector urban workers earn about twice as much as rural workers in the same job category. The urban/rural income disparities are small only between public sector employees.

In the informal sector, the median income for the overwhelming majority of those employed in the sector is between Ksh 2,600 and 2,900 per month. This is the pay level for both paid employees and self-employed own account workers. By region, as we see, rural workers earn a median of Ksh 2,000 per month, while urban workers receive 4,000. By definition, unpaid family workers receive no income. The self-employed working employers earn twice as much—6,000 per month. But this category of people accounts for only one percent of the Kenyan workforce.

In the formal sector, private sector workers also earn about Ksh 6,000 per month, with rural workers getting a median of Ksh 4,800 while urban workers receive Ksh 9,000. Public sector workers earn more than twice that amount—averaging Ksh 15,375 in the public sector itself, and 12,800 in the semi-public sector

In short, the most remunerative place of employment in Kenya, on average, is in the formal public or semi-public sectors. But these two categories of workers constitute only five percent of total employment in Kenya.

## **Labor Incomes and Poverty**

To gain some perspective on the earnings figures reported in Table 2, it will be helpful to compare them with the most recent estimates of poverty thresholds in Kenya.

The most recent poverty figures have been developed by the Kenya National Bureau of Statistics from the same 2005-06 KIHBS, and are presented in the 2007 publication, *Basic Report on Poverty in Kenya*. The report establishes poverty threshold based on individual consumption levels, rather than defining poverty based on income levels. The report argues that “consumption is a more satisfactory measure of well-being for both theoretical and practical reasons,” (page 24). In comparing consumption versus income as a poverty standard, the report finds, for one thing, that consumption levels are more stable than income levels. In addition, it is more difficult for people to give an accurate accounting of their income than to identify the goods and services they regularly consume.

Using consumption standards, the report then defines four separate poverty lines. One line is the “food poverty line.” This attempts to measure how much money it takes for Kenyans to purchase a minimally adequate level of food, defined as equal to 2250 kilocalories per day. The report then defines an “overall poverty line,” which includes the costs of purchasing a minimal level of consumption goods other than food. The costs of purchasing both food and non-food products varies substantially between the urban and rural regions of Kenya. Because of this, the Report also establishes separate poverty lines for the country’s urban and rural regions. In Table 3, I present the figures for the four official consumption poverty lines. As we see, the overall poverty lines are Ksh 1,562 per month for rural areas and Ksh 2,913 per month for urban areas.

#### TABLE 3 BELONGS HERE

We can now use these threshold figures to provide perspective on the median earnings figures informal and formal sector workers that we presented in Table 2. We must proceed with caution in making these comparisons, keeping in mind that we are comparing data on earnings from employment with consumption-based poverty lines. This means that the working people whose earnings are below the poverty line do not necessarily live in poverty, as measured by a consumption-based poverty line. Those with low earnings may be experiencing only a one-time drop-off in their income. They may also be living in families where other members bring home sufficient income to maintain the family above a poverty standard. They may also be growing their own food or receiving other types of in-kind income to supplement their earnings from employment.

Considering all these important qualifications, it will still be useful to consider the relationship between workers’ earnings and the official government poverty lines. To begin with, the urban poverty line of Ksh 2,913 per month is about 25 percent below the Ksh 4,000 in median monthly earnings of both paid employees and self-employed own account workers in the urban informal sector. Paid employees in the formal sector earn about three times the level of the Ksh 2,913 urban poverty line.

Now, of course, a high proportion of income earners have to support not only themselves with their earnings, but other family members as well. Let us assume for

illustrative purposes that, for example, the average working person in Kenya supports one other person through his/her earnings, and consider the implications. First, for urban informal paid employees, dividing their Ksh 4,000 monthly earnings among two people means that each person lives on Ksh 2,000 per month. This is about one-third below the urban poverty line of Ksh 2,913. Even with urban formal paid employees, dividing Ksh 9,000 per month among two people means that both people are living on Ksh 4,500 per month. This amount is only slightly more than 50 percent above the urban poverty line. The story is similar in comparing the incomes of rural workers with the Ksh 1,562 rural poverty line.

Among all the categories of working people in Kenya for whom we have data, the only groupings that, on average, clearly earn income above the poverty line, are those employed in the public- and semi-public sectors. In short, we see from these figures that being employed in Kenya does not ensure that one will be living out of poverty.

### **Sources of Poverty-Level Employment: Low Hours and Low Earnings**

To gain further perspective on this question, in Table 4, I report figures on employed people in Kenya whose household income levels place them below the overall consumption poverty lines—based on either the urban or rural consumption poverty lines, depending on where the households are located.

#### **TABLE 4 BELONGS HERE**

Since I do not have income data for self-employed agricultural workers, I am able to compile family income levels only for those families that include no self-employed agricultural workers. So again, due to this gap in the available data, we have to exclude about 53 percent of Kenyan households in exploring this question. Nevertheless, we are still able to observe the levels of income from employment for about one-third of all rural households and over 90 percent of all urban households.

Panel A of Table 4 shows the proportion of labor force participants who live in poor households, defining poverty according to the overall consumption line for both rural and urban areas. As we see in Panel A, of all Kenyans who are participating in the labor force but are unemployed, roughly 65 percent live in poverty. But as the table also shows, the proportions living in poverty are basically the same if a Kenyan is employed and working up to 39 hours per week. Specifically, for those working 1-27 hours per week, nearly 70 live in poverty. Among those working 28 – 39 hours per week, about 66 percent live in poverty.

In other words, excluding those in the agricultural self-employed category, we see that being employed in Kenya up to 39 hours per week itself provides no clear benefit to a working person as a means of living above the poverty line. It is true that among the labor force participants working 40 hours or more per week, the percentage living in poverty does go down, to 46.1 percent. Still, this percentage remains very high. It means

that, even among workers employed 40 hours or more per week, nearly 50 percent of them live in poverty, based on the official consumption poverty line.

This poverty figure for those working 40 hours or more per week is especially important since a large majority of Kenyans do work 40 hours or more per week. More specifically, as we see in Panel B of Table 4, there are a total of almost 4.3 million labor force participants outside of the agricultural self-employed. Of that total, 2.8 million, or roughly 65 percent, are working 40 hours or more per week.

This means, in turn, that even though the chances of living in poverty in Kenya do go down somewhat if one works 40 hours or more per week, it is still the case that the overwhelming proportion of labor force participants in Kenya who live in poverty are also working 40 hours or more per week. In fact, as we see from Panel C of Table 4, 55 percent of all labor force participants who live in poverty are also working over 40 hours per week. Only 18 percent of labor force participants living in poverty are actually unemployed.

Considering these data overall, a key message emerges. It is that the most serious problem facing Kenyans in the labor market today is not unemployment per se or even low hours per se. It is that, even among those Kenyans (apart from the agricultural self-employed) who are working long hours—i.e. 40 hours or more—the chances are very high that one will be living in poverty. This conclusion applies to working people in both rural and urban areas.

## **LABOR MARKET INSTITUTIONS AND EMPLOYMENT OPPORTUNITIES**

### **Are Labor Market Rigidities the Problem?**

As we have seen, Kenya has severe problems in terms of creating decent employment opportunities for its citizens. An explanation that economists frequently make as a cause of inadequate employment growth is that excessive labor costs are discouraging businesses from hiring more workers. By definition, excessive labor costs would result when total compensation for workers is out of line with the productive contributions that these workers are capable of making to firms that would consider hiring them. To break this problem down, high labor costs can be seen as resulting from some combination of: 1) overall compensation of workers, including wages and benefits, being excessively high; 2) productivity being excessively low; or 3) rigidities in the legal and institutional environment which prevent compensation and productivity from matching up more closely.

Variations on this argument have been made in a range of regional settings to explain the persistence of high unemployment. Perhaps most prominently, arguments about excessive wages and benefits, and inflexible labor markets have been frequently cited to explain the problems of mass unemployment in Western Europe since the 1970s. Comparable arguments have been used in sub-Saharan Africa as well, perhaps most

notably in South Africa, where the official unemployment rate at the end of 2008 was around 22 percent.<sup>4</sup>

Some analysts have begun to examine the extent to which such arguments may also apply to the Kenyan situation, after adjusting, of course, to the specifics of Kenya's economy. Some notable recent studies that focus on this question have been sponsored by the World Bank, including "Labor Institutions, Labor-Management Relations, and Social Dialogue in Africa" by Alby, Azam, and Rospabé (2005); and the preliminary Concept Note by the World Bank titled *Jobs in Kenya* (World Bank 2005a). As the authors of the 2005 Concept Note make clear, this document is very a preliminary report on a longer-term work in progress. However, to my knowledge, the full *Jobs in Kenya* study remains unpublished to date, so I will continue to make reference to the preliminary Concept Note.

The World Bank's concern over excessive labor costs and rigidities in the formal labor market come out clearly in the Concept Note. For example, the Concept Note states that:

With flexibility of the labor market a major policy concern, the question arises whether government prescribed labor mechanisms are a significant reason for wage rigidity, if any, in specific production sectors or the constrained labor mobility of Kenya?" (page 10).

The concerns of the World Bank are also clearly shared by the International Monetary Fund (IMF). Thus, the Concept Note explains the IMF position as follows:

The main concern of the IMF ...is the escalating wage cost in the public and private sector in Kenya. In its forward looking program the IMF will work with the government to make the wage management more tractable and to address the escalating wages. The [joint World Bank/IMF project]... will consider the minimum wages and other wage guidelines and help the government put in place and operationalize systems to support this," (page 14).

These concerns of both the World Bank and IMF stem from some basic facts about the Kenyan labor market, which we have already reviewed. The most important is that, as of the most recent 2005-06, only 14 percent of employed Kenyans are working in the formal sector, with 36 percent in informal employment of some sort and fully 50 percent in agricultural self-employment. However, employment opportunities are far superior in the formal sector. As such, it is clear that the most desirable development path for Kenya

---

<sup>4</sup> On European unemployment, see, for example, Layard, Nickell and Jackman (2005), Howell, Baker, Glyn and Schmitt (2007), and Heckman's comment on Howell et al. (2007). The debate on South Africa is reviewed in Pollin et al. (2006)

would be through the expansion of decent employment opportunities in its formal economy. The issue is how best to achieve this most desirable outcome.

To some analysts, the fact that the formal sector in Kenya is experiencing stagnating employment suggests, in itself, both an explanation for the problem and a solution. The explanation is straightforward: businesses won't hire more workers because they are convinced that the costs of doing so will exceed the benefits. Businesses therefore choose either to 1) maintain their operations at a lower level than they would if the benefits of hiring more workers exceeded the costs; or 2) increase the use of machines in their operations as a substitute for employing workers as their preferred means of expanding their operations. Seen from this perspective, the solution to the problem of unemployment is also straightforward: to lower the costs businesses face in hiring more workers.

There are four possible ways in which the costs to businesses of hiring workers could fall:

- 1) workers receive lower overall compensation, including wages and benefits;
- 2) the industrial relations system and labor market regulations—including laws and regulations regarding workers' rights to organize, conflict resolution, and hiring and firing—operates with more flexibility for business;
- 3) workers perform their workplace operations at a higher level of productivity; or
- 4) the government absorbs some portion of the costs of hiring workers.

From the perspectives of both the World Bank and IMF, at least as expressed in the Concept Note, the preliminary focus appears to be on the first two ways to reduce business costs, i.e. to lower wages and benefits for workers and to increase the flexibility of the Kenyan formal labor market. We will focus on these two considerations in this section of our study. But we will conclude with some brief discussion on raising productivity and government employment subsidies—i.e. using government subsidies as a way of reducing labor costs for business.

### **Lowering Formal Sector Wages to Increase Employment**

To evaluate the net welfare effects of reducing wages in Kenya's formal economy, we need to begin by estimating how many new formal sector jobs are likely to be created through reducing wages. Once we have such an estimate, we can then assess the net benefits of such wage cuts. Let us assume for the purposes of this exercise that our aim is to increase the number of formal private sector wage earners by 25 percent. From the 2005-06 survey data, this would mean increasing employment in this sector by about 190,000, jobs from the 2005-06 level of about 770,000 to 960,000.

To proceed here, it is necessary to work within the framework of a figure for the wage elasticity of employment in Kenya. Unfortunately, I do not know of any recent studies that have estimated wage elasticities for Kenya's formal sector. However, to

establish at least a rough approximation of an elasticity, we can extrapolate from elasticity estimates that have recently been generated for South Africa and Ghana. The elasticity figure for black formal sector workers in South Africa that has been frequently used, by World Bank researchers among others, is -0.71 (Lewis 2001). That is, if wages for black formal sector workers in South Africa were to fall by ten percent, this elasticity figure suggests that employment would rise by about seven percent. In the Ghana case, a 2000 paper by Francis Teal finds that the employment elasticity in manufacturing is around -0.5.

Assuming these estimates for South Africa and Ghana are broadly accurate, it is reasonable to assume as a rough approximation that the elasticity in Kenya for formal paid employment is likely to be in the range of -0.6. This means that to generate an additional 190,000 private sector formal economy jobs strictly through a strategy of wage-cutting, wages in the private formal sector would have to fall by about 42 percent.

According to the data we reported in Table 2, the median monthly wage level in the formal private sector as of 2005-06 was roughly Ksh 6,160. The breakdown between the urban and rural regions is an urban average of Ksh 9,000 per month, and a rural average of Ksh 4,800 per month. In Table 5, I work through step by step the scenarios of cutting these wage levels sufficiently to generate, on their own, an employment expansion of 25 percent, divided equally between the urban and rural formal private sectors.

#### TABLE 5 BELONGS HERE

As Panel A of Table 5 shows, for the urban sector, the median monthly wage will have to fall to Ksh 5,220. This would bring the level of urban private formal employment to 523,550. For the rural formal private sector, the median monthly wage would have to fall to Ksh 2,784. This wage cut would increase employment in this sector to 440,296.

How significant would this wage cut be for the living standards of workers and their families? We provide a rough sense of this in Panel B of Table 5. The average formal private sector worker now supports one other person if they live in an urban area, and 1.3 other people if they live in a rural area. As such, as the table shows, for the urban worker and his/her one dependent, the one wage on which these two people live prior to the wage cut puts them at 50 percent above the regional poverty line. After the wage cut, these two urban residents would now be living at ten percent below the poverty line. The comparable situation would be more difficult still for a rural worker and the 1.3 other people depending on that worker's monthly income. Before the wage cut, these 2.3 people would be living 34 percent above the rural poverty line. After the wage cut, their reduced income level would place them 23 percent below the rural poverty line.

Now, of course, though the wages of roughly 770,000 workers would decline sharply through such a scenario, the average living standard of workers would not fall correspondingly. This is because the wage-cutting scenario would also generate about

190,000 people newly employed workers in the private formal sector. Most of these people would likely have migrated out of the informal labor market into these newly-created formal sector jobs. The wages for those coming from the informal sector to these newly-created formal sector jobs would be around 60 percent higher than what they had been earning in informal employment. This would be the key benefit from the wage-cutting scenario that we have worked through here.

In sum, the net effect of the wage-cutting scenario—including all the workers receiving either wage cuts or wage increases and the additional people who live off of these workers' incomes--would be as follows:

1. Nearly 1.7 million Kenyans would see their living standard fall sharply. This would include both the 770,000 workers and the roughly 900,000 additional people who live off of the wages of these workers<sup>5</sup>. These 1.7 million people would see their income levels fall, on average, to between ten percent and 23 percent below their respective urban or regional poverty lines; and
2. About 400,000 Kenyans would experience a large increase in income. As above, this would include both the 190,000 workers newly hired into higher-paying formal sector jobs and the roughly 210,000 people who live off of the income of these workers.<sup>6</sup> Despite these people enjoying rising incomes, they would, on average, also still be living between ten and 23 percent below their respective urban or regional poverty lines.

There is another consideration here in terms of net welfare effects. The fact that somewhere in the range of 1.7 million Kenyans will have to see a sharp decline in their living standards will of course generate social unrest. This, in turn will create an unstable atmosphere for private investors. The decline in private investment will in turn lead to a job contraction. In short, the positive employment effects that might result from a decrease in wages and living standards will be undermined by the destabilizing effects of cutting living standards.

Note, finally, that even if private formal employment could be expanded by 25 percent through wage cuts of over 40 percent, the total level of private formal employment would remain less than one million people. That is, at the current size of the Kenyan labor force, this large of a wage cut in the private formal sector would still, by itself, mean that private formal employment would remain at less than seven percent of the total Kenyan work force. Wage cuts would have to be substantially larger still for the

---

<sup>5</sup> We estimate the 900,000 figure for people living off of the wages of the 770,000 formal private sector workers as follows. We have reported that, on average, each urban private formal sector worker supports one additional person, and each rural private formal sector worker supports 1.3 other people. Total private formal employment is divided roughly equally between Kenya's urban and rural regions. We therefore assume roughly that all private formal sector workers supports 1.15 additional people, and thereby multiply 770,000 by 1.15 to generate the figure of 900,000.

<sup>6</sup> The calculations for generating this estimate are identical to those described in the previous note.

private formal sector to grow to employing more than ten percent of the total Kenyan workforce.

### **Industrial Relations and Labor Market Rigidities**

To what extent has the expansion of decent employment opportunities in Kenya possibly been hindered by the country's system of industrial relations, including regulations concerning hiring, hours, and firing; the extent and strength of union power in labor markets; and minimum wage standards? The World Bank's 2005 Concept Note suggests that these factors may be playing an important role in holding back employment growth in the private formal sector. Yet the evidence informing these policy concerns is mixed, including data from the World Bank's own studies.

The most extensive set of evidence that relates to these issues comes from the World Bank's 2005 study "Labor Institutions, Labor-Management Relations, and Social Dialogue in Africa," by Alby, Azam and Rospabé.<sup>7</sup> This study presents results from surveys of businesses throughout Africa, and also offers comparative statistics from other regions of the world. In Table 6 we present some of the most important data from that study.

#### TABLE 6 BELONGS HERE

As an initial methodological point, we should note that most of the evidence in the Alby et al. study is derived from surveying the owners and managers of businesses in Kenya and elsewhere. It is of course appropriate for researchers to obtain the views of business owners and managers in establishing the extent of rigidities in labor markets, and it is a common practice to do so. At the same time, we should recognize that, in general, business owners and managers are not disinterested observers on such questions. All else equal, they operate with a vested interest in promoting reductions in the regulations that limit their freedom to operate and potentially raise their costs. As such, the findings from survey questions on these matters will tend to have some upward bias—that is, overstating the impact of regulations in affecting their business operations. This does not mean that the findings cannot be valid or informative. But we do need to interpret the findings in light of this inherent upward bias.

Panel A of Table 6 gives evidence from surveys of business firm owners and managers on the difficulties and costs associated with hiring, managing working hours, and firing. The first three columns are index numbers on "difficulty of hiring," "rigidity of hours," and "difficulty of firing," with scores ranging between 0 and 100, with 100 representing the highest level of regulation. The fourth column, "rigidity of employment index," is an average of the first three index numbers.

---

<sup>7</sup> The full-length version of this study is summarized in a November 2006 World Bank policy note of the same title.

From these four columns of figures, it is clear that Kenya ranks very low in terms of the rigidity of employment conditions, at least as perceived by the country's business owners and managers. Considering the overall "rigidity of employment index," Kenya's index number of 24 places it substantially below the averages both for sub-Saharan Africa, at 56, and Latin America and the Caribbean, at 44. As we see in the last column of Panel A, Kenya is also well below the averages for these two regions in terms of firing costs.

This clear finding from Panel A—that Kenya has less rigid labor market conditions than the averages for sub-Saharan Africa and Latin America—becomes less evident in considering the findings from Panels B and C of Table 6. Here we see that, compared with other sub-Saharan African countries, Kenya ranks relatively high in terms of hiring and firing procedures as significant obstacles to conducting business and "development" more generally. In other words, these findings seem to conflict with the figures in Panel A, even though both sets of figures are taken from the same World Bank research paper by Alby et al.

It is not clear from the Alby et al. paper itself whether the data provided in Panels A-C all come from the same survey of business owners and managers. If they are in fact coming from different surveys, this could explain at least part of the discrepancy in the rankings on Kenya relative to other countries. But even if all these data come from the same survey, it is possible that the disparities in responses result from differences in how particular questions were worded.

In any case, if we focus only on the results we report in Panels B and C, the findings still do not support a conclusion that labor market rigidities in Kenya operate as significant barriers to employment expansion. Thus, even the figures where Kenya comes out least favorably—that is, in the findings on number of firms citing layoffs and labor market regulations as significant obstacles—we still see only 21-22 percent of business owners citing this as a problem. This means that close to 80 percent of firm owners/managers do not see labor market regulations as a significant problem. In the case of hiring procedures, as we see in Panel B, again more business owners/managers in Kenya see this as a problem than their counterparts in other sub-Saharan African countries. But still, only about five percent see the hiring procedures as a problem—in other words, about 95 percent of owners and managers do not see hiring procedures as a problem.

Considering the overall weight of evidence presented by the Alby et al. study, and evaluating these findings in light of the propensity for some upward bias that is inherent in surveying business owners and managers on these questions, it is reasonable to conclude that most business representatives in Kenya consider labor market regulations around hiring, firing, and hours to be relatively minor barriers to expansion, if they are barriers at all. There is clearly a subset of managers that consider these regulations to be a significant problem. But those business owners who feel that way represent a small minority of all business owners/managers operating in Kenya's formal sector.

## **The Impact of Labor Unions**

The World Bank's Concept Note suggests that labor unions may be operating as a significant source of labor market rigidities in Kenya. But the evidence suggests that, as with the regulations on hiring, firing, and hours, this is unlikely to be a significant barrier to the expansion of decent employment. If for no other reason, this is because unions represent a small and diminishing portion of Kenya's labor force. In Table 7, we report figures from the same 2005 World Bank study by Alby et al. As we see there, union membership in Kenya fell from 700,000 in 1985 to 436,036 in 2000, a decline of 38 percent. As we also see in the table, the decline in union membership in Kenya corresponds with a pattern for other sub-Saharan African countries over roughly the same period.

TABLE 7 BELONGS HERE

In terms of providing more recent figures on unionization in Kenya, the 2005-06 KIHBS does include a question on whether people were members of a "trade union or welfare association." These results can be broken down according to whether people are employed in agricultural self-employment or the formal or informal sectors. From these survey data, there is no way of separating out union membership from membership in "welfare associations." Nevertheless, the results from the survey convey some broad patterns:

1. Membership in unions and welfare associations are concentrated in Kenya's formal public sector;
2. It is likely that about 70 percent of public sector employees are unionized, with the largest grouping being teachers and civil servants below the senior level; and
3. Union membership in the private formal sector is probably around 20 percent of total employment in that sector.

Overall then, the evidence suggests that, as of 2005-06, about 25 – 30 percent of Kenya's formal sector wage workers are unionized. This would mean that about four percent of Kenya's total workforce—including those in the informal sector and agricultural self-employment—are unionized. At the same time, the Alby et al. study reports that 58.5 percent of Kenyan firms report that non-unionized workers also benefit from union-negotiated contracts (page 25). Thus, the scope of union influence may extend beyond its small base of members in the private formal sector.

Still, other evidence suggests that the scope of union power remains modest. Among other factors, the decline in union membership since the mid-1980s suggests that, to the extent that unions may have the capacity to operate as a rigidity in Kenya's formal labor market, the disruptive force of this rigidity should clearly have diminished sharply,

not increased, since the mid-1980s. Consistent with this, the Alby et al. study also reports that in 2003, 93.6 percent of firms surveyed in Kenya reported losing zero work days due to strikes and labor unrest (page 40).

More generally, a careful 2005 econometric study by Manda, Bigsten and Mwabu, observes as follows:

The trade unions' main aim is to improve the welfare of its members by negotiating higher earnings for its members, better conditions of service, and increasing job tenure. To achieve these objectives, unions need a strong financial base and bargaining power. However, in Kenya, unions are generally financially weak and are occasionally faced with internal leadership struggles. Their main source of finance is membership fees, which are not high enough to sustain drawn-out strikes. Also, their ability to strike is limited by control of union activities by the government through legislation, and by threat of de-registration...Unions can still influence the level of earnings and working conditions of their members through collective bargaining, although the unions sometimes lack resources to hire negotiators with skills and abilities to match the full-time negotiators of the employers (2005, page 1693).

Manda et al. conclude from their econometric analysis that unions in Kenya do help formal sector workers obtain a wage premium in addition to getting protection from excessively long hours of work and from arbitrary job loss. At the same time, they find that elite-level workers in Kenya do not join unions, and thus, the gains generated by unions are received primarily by less-skilled production level workers.

We should also add that, as a general matter, it isn't necessarily the case that relatively high rates of unionization should necessarily serve as a barrier to expanding decent employment opportunities in Kenya or, more generally, to promoting the country's overall economic progress. Indeed, in 1995, the World Bank's own *World Development Report* noted that it is "possible to identify the conditions and policies under which free trade unions can advance rather than impede development." Following up on this, a more recent World Bank publication of 2002, *Unions and Collective Bargaining*, recognized that "high unionization rates lead to lower inequality of earnings and can improve economic performance in the form of lower unemployment and inflation, higher productivity and speedier adjustment to shocks"<sup>8</sup> (Freeman 2005, page 134).

## **Minimum Wage Laws**

---

<sup>8</sup> The references to these World Bank studies can be found in Freeman (2005).

In March 2008, the Kenyan Parliament enacted new employment laws, which will, among other things, change the ways that minimum wage orders are set as they are implemented.<sup>9</sup> Under the old arrangement, Kenya operated with a wide array of minimum wage orders that applied to different sectors, regions of the country, and job categories. In all, there were 45 separate minimum wage standards. The figure doubled to 90 if we also count the fact that there are separate rates depending on whether a housing allowance is included.

How have minimum wage standards affected to date affected the actual wages paid to workers in Kenya? In considering this question, we again focus on conditions for paid workers in the modern private sector. As we saw in Table 1 above, there were in 2005-06 about 10.3 million Kenyans earning income either through agricultural self-employment or in the informal sector. However, we know that, at least with respect to those employed in informal arrangements in both agricultural and non-agricultural settings, labor market regulations would be enforced in rare exceptions only. Indeed, the lack of regulatory standards is one of the main defining features of an economy's informal sector. There were also another roughly 650,000 paid employees in Kenya's public and semi-public sectors in 2005-06. However, with public sector employees, their wage rates are not set directly by market forces but rather by government standards. The situation is similar for semi-public sector employees. Hence, in asking to what extent the country's minimum wage standards might affect the operation of labor markets, the most relevant context in which to consider the question is within the formal private sector, accounting for about 770,000 workers in 2005-06.

What has been the impact of minimum wage standards on the actual wage levels paid in the formal private sector? We can obtain a sense of this by examining Figures 1-3, which show the actual distribution of wage rates in the modern private sector during the 2005-06 labor force survey along with the range of average minimum wages for 2005. We present the wage rate figures in monthly, daily, and hourly terms, to match the time frames in which the Kenyan government sets minimum wage standards.

Beginning with the data on hourly wages in Figure 1, we see that there is little correspondence between the range of average minimum wage rates and the actual level of hourly wages that workers received in 2005-06. In particular, we see that about 73 percent of hourly workers in the private modern sector are paid below the lowest average figure for the statutory minimum wage. From this figure, it appears that the minimum wage mandate has little, if any, influence on where actual wages are set in the formal private sector.

#### FIGURE 1 BELONGS HERE

However, most workers in Kenya's modern private sector are paid on a daily or monthly basis, not on an hourly basis. It is therefore important to see how the daily and

---

<sup>9</sup> See Anne Klunueh, "New Laws to Transform the Workplace," *Business Daily Africa*, March 16, 2009.

monthly wages that are paid match up against the minimum wage standards for these pay periods. We observe these relationships in Figures 2 and 3. As we can see from these two figures, there is greater correspondence between the actual market wages paid and the range of average minimum wages applied to the daily and monthly pay periods. Still, even with these two figures, between 43 – 50 percent of private formal sector workers are earning wages below the lower-range average for the statutory minimum wage. These findings suggest that, as of 2005-06, the minimum wage laws are exerting little influence in actual wage-setting within the formal private sector.

#### FIGURES 2 and 3 BELONG HERE

Are the minimum wage laws in Kenya acting as a rigidity, impeding the expansion of decent employment opportunities in the country? If somewhere between 40 – 70 percent of private formal sector workers are paid below the average minimum standards, it is difficult to see how these standards are serving as a significant barrier to employment expansion. Of course, we have seen that wages in the formal sector are maintained at a substantially higher level than the informal sector. However, the evidence we present here makes clear that this differential is not due to formal sector businesses being required to uphold minimum wage laws. Private formal sector businesses are consistently violating the minimum wage laws. The higher wages in the private formal sector are rather the result of significantly higher levels of productivity, sales, and profitability in the formal sector.

Given their current ineffectiveness in setting actual wage floors, is there a case for repealing these laws altogether, as had been proposed in the debate on the new employment laws? In fact, the 2005 levels for the minimum wage were serving a useful function in establishing a decent standard that would enable working people and their families to live above the poverty line. Consider the 2005 average monthly minimum wage for Nairobi, which was Ksh 7,296. If we allow that, on average, this monthly wage payment was used to support one person in addition to the wage-earner herself, that would mean that these two people would each live on Ksh 3,648 per month (i.e. Ksh 7,296/2). A monthly income level of Ksh 3,648 would place a resident of Nairobi at an income level about 25 percent above the overall urban poverty line of Ksh 2,913.

Given these figures, to conclude that the minimum wage should be eliminated or significantly reduced from its current levels is to therefore also conclude that the Kenyan economy is unable to pay even those workers with jobs in the formal private sector a wage that will keep them and their families out of poverty. Rather than seek to eliminate or weaken a minimally decent wage standard in an effort to promote employment growth, it would seem preferable, at least as an initial endeavor, to pursue alternative policy approaches for expanding decent employment, including raising productivity, increasing access to credit, improving marketing capacity, and maintaining a more competitive exchange rate. At the same time, the degree of detail involved in setting minimum wages

according to job categories and regions is excessive. The beneficial effects of minimum wages would be strengthened by a more simplified system.<sup>10</sup>

We should note finally on this issue some general findings from the recent professional literature concerning the effects of minimum wage standards on employment and poverty in developing countries.<sup>11</sup> A summary of this recent literature have found the following two major conclusions:

1. There is no statistically robust effect on employment levels of higher minimum wages, assuming the minimum wage mandates are set at a level consistent with a country's level of productivity and overall development. This does not mean that higher minimum wages in developing countries positively promote higher employment. The findings rather suggest that any negative employment effects appear weak. This is especially true after one also factors in other forces contributing to a country's formal sector employment levels, such as the level of investment and aggregate demand. Moreover, a higher minimum wage may itself contribute both to stronger investment and aggregate demand. One possible channel for this effect is that a higher minimum wage will promote more cooperation between employers and workers, which, in turn, will encourage higher productivity and a more stable investment climate.

2. Because higher minimum wage rates (consistent with a country's overall level of productivity and development) will bring more income to low-wage workers and their families, without necessarily reducing the total number of low-wage jobs available, it follows that a higher minimum wage can be an effective tool for reducing poverty. The chain-of-effects is straightforward: a decent minimum wage standard can bring more money to low-wage workers and their families without reducing the overall number of jobs available to them. This was the main conclusion of an important study by Lustig and McLeod (1997). Their main conclusion has been affirmed by many subsequent studies.

## **UNIT LABOR COSTS, PRODUCTIVITY, AND GOVERNMENT SUBSIDIES**

The evidence presented here does not support the general approach of Kenyan policymakers attempting to push down the country's wage levels or reducing the role of unions or minimum wage standards as measures to reduce average unit labor costs faced by the country's businesses. But this does not mean that Kenya should neglect measures that could reduce unit labor costs. It rather suggests that the preferred ways of reducing unit labor costs for businesses are by raising productivity or through providing subsidies to businesses that are aggressively hiring workers into formal sector jobs. These measures should be undertaken within an overall policy framework focused on increased public infrastructure investments, expanding support for private businesses, and a growing

---

<sup>10</sup> This is the key conclusion of the 2004 IPAR Discussion Paper by Omolo and Omati, "Is Minimum Wage Policy Effective in Kenya?"

<sup>11</sup> Some of the key recent research studies include Alatas and Cameron (2003), Cukierman, Rama and van Ours (2001), Forteza and Rama (2006), Infante, Marinakis, and Velasco (2003), Islam and Nazara (2000), Lustig and McLeod (1997), Rama (2001), and Saget (2001).

domestic market. By way of offering a sense of the approach I am advocating, I will describe briefly the role of a hybrid employment/credit subsidy program as an instrument for reducing labor costs for businesses.

### **Government Subsidies for Employment Creation**

In principle, there are significant advantages in general to lowering unit labor costs through government subsidies. The key advantage is that workers are not being asked to experience pay cuts in order to encourage businesses to hire more of them. In general, I share the favorable evaluation of employment subsidies expressed by Jeffrey Lewis of the World Bank, in his research on the employment situation in South Africa. Lewis concluded with respect to South Africa, but also more generally, that “employment subsidies can be used as a strategy for increasing employment without producing negative consequences for productivity and competitiveness.”<sup>12</sup> Lewis makes clear that employment subsidies are a distinctively supply-side approach to expanding job growth through promoting more labor-intensive production methods. At the same time, Lewis holds that “employment subsidies and demand-side job creation policies are not mutually exclusive.”

However, there are serious issues to address in attempting to implement an effective employment subsidy program. The two broad forms that these measures can take are either as a general or a marginal employment subsidy. A general employment subsidy would apply to all workers, both new and already employed—businesses would receive government support, either through direct grants or tax benefits, based on the total number of workers on their payroll. A marginal subsidy would apply only when new workers are hired from a previously established base of employees. A general subsidy program would obviously be much larger in scope, and correspondingly much more expensive, than a marginal subsidy program. It would also reward businesses simply on the basis of their existing employment levels. But a marginal subsidy program, which does not face these problems, would also be much more difficult to administer. Such programs require that there be some measurement of what employment would have been without the subsidy program. As such, they create incentives for firms to under-report employment. They therefore also would place large administrative demands on the government.

Given these and related concerns, a hybrid credit/employment subsidy program offers the most effective approach in the Kenyan situation. The organizing principle of such an approach is that that commercial banks would connect with the country’s microfinance institutions, to promote growth in small- and medium-sized businesses, as well as rural smallholders. These smaller enterprises will tend to hire a relatively high proportion of new workers as their level of business operations grows. This is how a credit subsidy program can also be regarded as a means of subsidizing employment. Relative to more standard general and marginal employment subsidy measures, this

---

<sup>12</sup> Lewis (2001), p. 35. Lewis’s overall discussion of this issue is on pages 34-39 of his study.

proposal has three advantages: 1) It has features of both a general and a marginal employment subsidy program; 2) It is capable of operating on a large-scale basis in Kenya without requiring correspondingly large direct government expenditures; and 3) It can serve both to stimulate aggregate business investment on the demand side of the economy, while also promoting more labor intensive production methods on the supply-side.

More broadly a hybrid credit/employment subsidy program for Kenya can serve as one cornerstone of a broader program aimed explicitly at targeting the expansion of decent employment opportunities in Kenya as the centerpiece of economic policy in the country. For such a new policy framework to be successful, it will need to be built on a foundation of empirical understanding of actual labor market conditions in the country and how various laws and institutions affect those conditions. As such, the career-long contributions of Professor Aziz Khan on employment issues in developing country will stand as a major resource for all economists and policymakers seriously committed to dramatically improving employment opportunities and reducing poverty in Kenya.

#### REFERENCES

- Alby, Philippe, Jean-Paul Azam and Sandrine Rospabé (2005) "Labor Institutions, Labor-Management Relations, and Social Dialogue in Africa." Washington, DC: World Bank.
- Alatas, Vivi and Lisa Cameron (2003) "The impact of minimum wages on employment in a low income country: An evaluation using the difference-in-differences approach." Policy Research Working Paper 2985, Washington, DC: World Bank.
- Cukierman, Alex, Martin Rama and Jan van Ours (2001) "Long-run growth, the minimum wage and other labor market institutions." Unpublished paper.
- Forteza, Alvaro and Martin Rama (2006) "Labor market 'rigidity' and the success of economic reforms across more than 100 countries." *The Journal of Policy Reform* 1: 75-105.
- Freeman, Richard (2005) "Labor market institutions without blinders: The debate over flexibility and labour market performance." *International Economic Journal* 2: 129-145.
- Freeman, Richard B. (1993) "Labor market institutions: Help or hindrance." *Proceedings of the World Bank Annual Conference on Development Economics*. Washington DC: World Bank.
- Government of Kenya (2007) *Basic Report on Poverty*, Nairobi: Kenya National Bureau of Statistics.
- Heckman, James (2007) "Comments on 'Are Protective Labor Market Institutions at the Root of Unemployment: A Critical Review of the Evidence' by David Howell, Dean Baker, Andrew Glyn and John Schmitt," *Capitalism and Society*, 2:1, article 5.
- Howell, David, Dean Baker, Andrew Glyn and John Schmitt (2007) "Are Protective Labor Markets at the Root of Unemployment? A Critical Review of the Evidence," *Capitalism and Society*, 2:1, article 1.
- Infante, Ricardo, Andrés Marinakis and Jacobo Velasco (2003) "Minimum wage in Chile: An example of the potential and limitations of this policy instrument." International Labour Organization Employment Paper 52, Geneva: ILO.

- Islam, Iyanatul and Suahasil Nazara (2000) "Minimum wage and the welfare of Indonesian workers." International Labour Organization Occasional Discussion Paper, Jakarta: ILO.
- Layard, Richard, Stephen Nickell and Richard Jackman (2005) *Unemployment: Macroeconomic Performance and the Labour Markets*. Oxford: Oxford University Press.
- Lewis, Jeffrey D. (2001) "Policies to Promote Growth and Employment in South Africa." World Bank Discussion Paper 16, Informal Discussion Papers on Aspects of the Economy of South Africa, Washington DC: World Bank Southern Africa Department.
- Lustig, Nora and Darryl McLeod (1997) "Minimum wages and poverty in developing countries: Some empirical evidence" in Sebastian Edwards and Nora Lustig, eds. *Labor Markets in Latin America*. Washington, D.C.: Brookings Institution Press, 62-103.
- Manda, D.K., Arne Bigsten and Germano Mwabu (2005) "Trade Union Membership and Earnings in Kenyan Manufacturing Firms." *Applied Economics* 15: 1693-1704.
- Omolo, Jacob and John Omiti (2004) "Is Minimum Wage Policy Effective in Kenya?" Institute of Policy Analysis and Research Discussion Paper 54, Nairobi: IPAR.
- Pollin, Robert, Gerald Epstein, James Heintz and Leonce Ndikumana (2006) *An Employment-Targeted Economic Program for South Africa*. Brasilia: International Poverty Centre of the United Nations Development Program and Northampton, MA: Edward Elgar Press.
- Pollin, Robert, Mwangi wa Githinji, and James Heintz (2008) *An Employment-Targeted Economic Program for Kenya*. Brasilia: International Poverty Centre of the United Nations Development Program and Northampton, MA: Edward Elgar Press.
- Rama, Martin (2001) "The consequences of doubling the minimum wage: The case of Indonesia." *Industrial and Labor Relations Review* 4: 864-881.
- Teal, Francis (2000) "Real wages and the demand for skilled and unskilled male labour in Ghana's manufacturing sector, 1991-1995." *Journal of Development Economics* 2: 447-61.
- World Bank (2005a) "Jobs in Kenya: Concept Note." Manuscript. Washington DC: World Bank.

**Table 1.**  
**Population and Labor Force in Kenya, 2006-07**

|   |                                  |
|---|----------------------------------|
| <b>Population</b>   | 35.6 million                     |
|   |                                  |
| <b>Labor Force Participation Rate of Primary Working-Age Population (15-64 years)</b> | 13.5 million<br>71.8%            |
|   |                                  |
| <b>Total Employment</b>   | 12.1 million                     |
|   |                                  |
| <b>Distribution of Employment by Sectors</b>  |                                  |
| Agricultural Self-Employed  | 6.0 million (50.0%)              |
| Informal (includes Non-Ag. Self-Employed, Paid Employees, and Other Employees)        | 4.3 million (35.7%)              |
| Formal (includes Non-Ag. Self-Employed, Paid Employees, and Other Employees)          | 1.7 million (14.0%)              |
| Undetermined  | 0.04 million (0.3%)              |
|   |                                  |
| <b>Open Unemployment (relaxed definition)</b>   | 1.4 million                      |
| <b>Open Unemployment Rate</b>   | 10.5% (1.4 million/13.5 million) |
|   |                                  |

Source: From Pollin et al. 2008. Authors' calculations based on 2005/2006 KIHBS.

**Table 2.**  
**Incomes from Informal and Formal Sector Employment**

**Informal Sector**

|                                     | Number and Percentages of Workforce | Median Monthly Incomes— Wages or Business Revenues (in ksh) | Median Monthly Incomes by Region (in ksh) |       |
|-------------------------------------|-------------------------------------|---|---|-------|
|                                     |                                     |   | Rural                                     | Urban |
| Paid Employee                       | 2,174,563<br>(18.0%)                | 2,880   | 2,000                                     | 4,000 |
| Self-Employed, Own Account Worker   | 1,406,445<br>(11.7%)                | 2,600   | 2,000                                     | 4,000 |
| Self-Employed, Unpaid Family Worker | 228,028<br>(1.9%)                   | 0   | 0   | 0     |
| Self-Employed, Working Employer     | 116,753<br>(1.0%)                   | 6,000   | 4,083                                     | 7,800 |

**Formal Sector**

|   | Number and Percentages of Workforce | Median Monthly Incomes— Wages or Business Revenues (in ksh) | Median Monthly Incomes by Region (in ksh) |        |
|---|-------------------------------------|---|---|--------|
|   |                                     |   | Rural                                     | Urban  |
| Paid Employee, Private  | 771,078<br>(6.4%)                   | 6,160   | 4,800                                     | 9,000  |
| Paid Employee, Public   | 518,858<br>(4.3%)                   | 15,375  | 14,672                                    | 16,132 |
| Paid Employee, Semi-Public<br>(includes employees of state-owned and majority controlled enterprises) | 128,304<br>(1.1%)                   | 12,800  | 4,600                                     | 18,700 |
| Self-Employed, Own Account Worker   | 114,869<br>(1.0%)                   | 6,000   | 4,857                                     | 6,755  |

Source: From Pollin et al. 2008. Authors' calculations based on 2005/2006 KIHBS.

**Table 3.**  
**Consumption Poverty Lines in Kenya**  
**(monthly levels of spending, in ksh)**

|                           | <b>Food Poverty Line</b> | <b>Overall Poverty Line</b> |
|---------------------------|--------------------------|-----------------------------|
| <b>Rural Poverty Line</b> | 988                      | 1,562                       |
| <b>Urban Poverty Line</b> | 1,474                    | 2,913                       |

Source: Kenya National Bureau of Statistics, *Basic Report on Poverty in Kenya*

**Table 4.**  
**Sources of Poverty for Labor Force Participants:**  
**Insufficient Hours of Employment versus Low Earnings**  
*(does not include agricultural self-employed)*

**A) Proportion of Labor Force Participants Living in Poverty**

|                       |       |
|-----------------------|-------|
| Unemployed            | 65.9% |
| 1-27 Hours/week       | 69.8% |
| 28-39 hours/week      | 65.6% |
| 40 or more hours/week | 46.1% |

**B) Breakdown of All Labor Force Participants,  
According to Hours Worked per Week**

|                       | <i>Number of labor force<br/>participants in category</i> | <i>Percentage of labor force<br/>participants in category</i> |
|-----------------------|---|---|
| Unemployed            | 628,409   | 14.6%   |
| 1-27 Hours/week       | 492,773   | 11.4%   |
| 28-39 hours/week      | 404,722   | 9.4%  |
| 40 or more hours/week | 2.8 million   | 64.6%   |
| TOTAL                 | 4.3 million   | 100%  |

**C) Breakdown of Labor Force Participants in Poverty,  
According to Hours Worked per Week**

| <i>Number of hours worked/week</i> | <i>Percentage of poor workers in<br/>category</i> |
|------------------------------------|---|
| Unemployed                         | 18.0%   |
| 1-27 hours/week                    | 15.0%   |
| 28-40 hours/week                   | 11.5%   |
| Over 40 hours/week                 | 55.5%   |

Source: From Pollin et al. 2008. Authors' calculations based on 2005/2006 KIHBS.

**Table 5.**  
**Scenarios for Expanding Formal Private Employment by 25%**  
**through Wage-Cutting**

*(Assume wage elasticity of demand for formal private employment at -0.60)*

**A) Wage Levels Necessary for 25% Employment Expansion**

|  | Urban Private Employment              | Rural Private Employment              |
|--|---------------------------------------|---------------------------------------|
| Total employment in 2005-06  | 418,840<br>(3.5% of total employment) | 352,237<br>(2.9% of total employment) |
| Actual Median Monthly Real Wage  | 9,000                                 | 4,800                                 |
| Monthly Wage Level Needed to Increase Employment by 25% (42% Wage cut) | 5,220                                 | 2,784                                 |
| New Employment Level Resulting from 42% Wage Cut                       | 523,550                               | 440,296                               |

**B) New Wage Levels and Poverty Thresholds**

|  | Urban Private Employment  | Rural Private Employment  |
|--|---|---|
| Average number of people supported by 1 wage earner  | 2.0   | 2.3   |
| Actual income level relative to regional poverty threshold<br><br><i>urban threshold=ksh 2913</i><br><i>rural threshold=ksh 1562</i> | 50% above poverty threshold<br><br><i>(ksh 9,000/2 people)/ ksh 2913</i>  | 34% above poverty threshold<br><br><i>(ksh 4,800 /2.3 people)/ ksh 1562</i> |
| Income level after wage cut relative to overall poverty threshold  | 10% below poverty threshold<br><br><i>(ksh 5,220/ 2 people)/ ksh 2913</i> | 23% below poverty threshold<br><br><i>(ksh 2,784/ 2.3 people)/ ksh 1562</i> |

**Table 6.**  
**Industrial Relations and Labor Market Rigidities in Kenya**

*Summary of World Bank Survey Evidence*

**A) Rigidity of Employment Index**

|  | <b>Difficulty of Hiring Index</b> | <b>Rigidity of Hours Index</b> | <b>Difficulty of Firing Index</b> | <b>Rigidity of Employment Index</b> | <b>Firing Costs (weeks)</b> |
|--|-----------------------------------|--------------------------------|-----------------------------------|-------------------------------------|-----------------------------|
| <b>Kenya</b>                           | 22                                | 20                             | 30                                | 24                                  | 47                          |
| <b>Sub-Saharan Africa</b>              | 53                                | 64                             | 50                                | 56                                  | 59                          |
| <b>Latin America and the Caribbean</b> | 44                                | 53                             | 34                                | 44                                  | 70                          |

Note: Index components are scored between 0 and 100, with 100 representing the highest level of regulation. The “Rigidity of Employment Index” is the average of the first three indices.

**B) Hiring and Firing Procedures:**

**Number of Firms Citing Item as Significant Obstacle**

|              | <b>Hiring</b> | <b>Layoff</b> |
|--------------|---------------|---------------|
| <b>Kenya</b> | 5.2%          | 20.9%         |
| Ethiopia     | 0.5%          | 9.8%          |
| Nigeria      | 4.8%          | 10.6%         |
| Uganda       | 4.1%          | 8.3%          |
| Zambia       | 1.0%          | 26.7%         |

**C) Number of business firms citing labor regulations as significant obstacle to development (percentages)**

|              |              |
|--------------|--------------|
| <b>Kenya</b> | <b>22.5%</b> |
| Ethiopia     | 4.6%         |
| Tanzania     | 12.1%        |
| Uganda       | 10.8%        |
| Zambia       | 16.9%        |

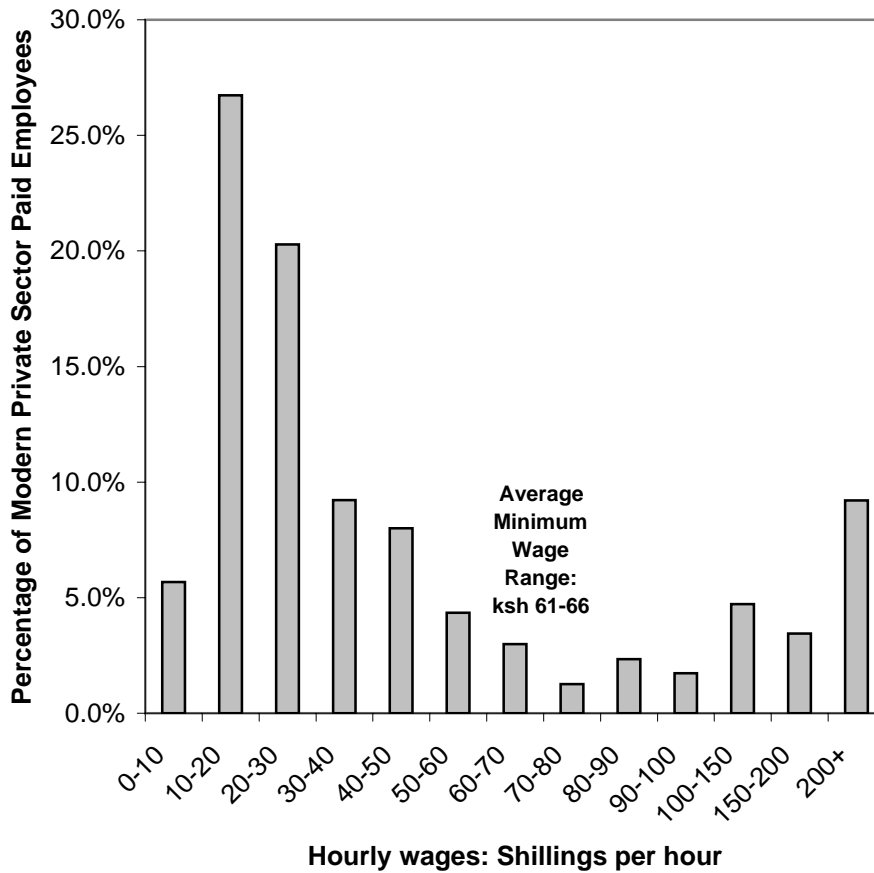
Source for Panels A-C: Alby, Azam, and Rospabé (2005).

**Table 7.**  
**Recent Union Membership in Selected Sub-Saharan Countries**

|              | <b>First available year</b> | <b>Last available year</b> | <b>Change in membership<br/>1985 - 2000</b> |
|--------------|-----------------------------|----------------------------|---|
| <b>Kenya</b> | <b>700,000 (1985)</b>       | <b>436,036 (2000)</b>      | <b>-37.7%</b>                               |
| Tanzania     | 470,000 (1995)              | 311,096 (2001)             | - 33.8%                                     |
| Uganda       | 102,000 (1989)              | 63,000 (1995)              | -38.2%                                      |
| Zambia       | 320,000 (1985)              | 242,752 (2001)             | -24.1%                                      |
| Ghana        | 700,000 (1990)              | 572,598 (1998)             | -18.2%                                      |

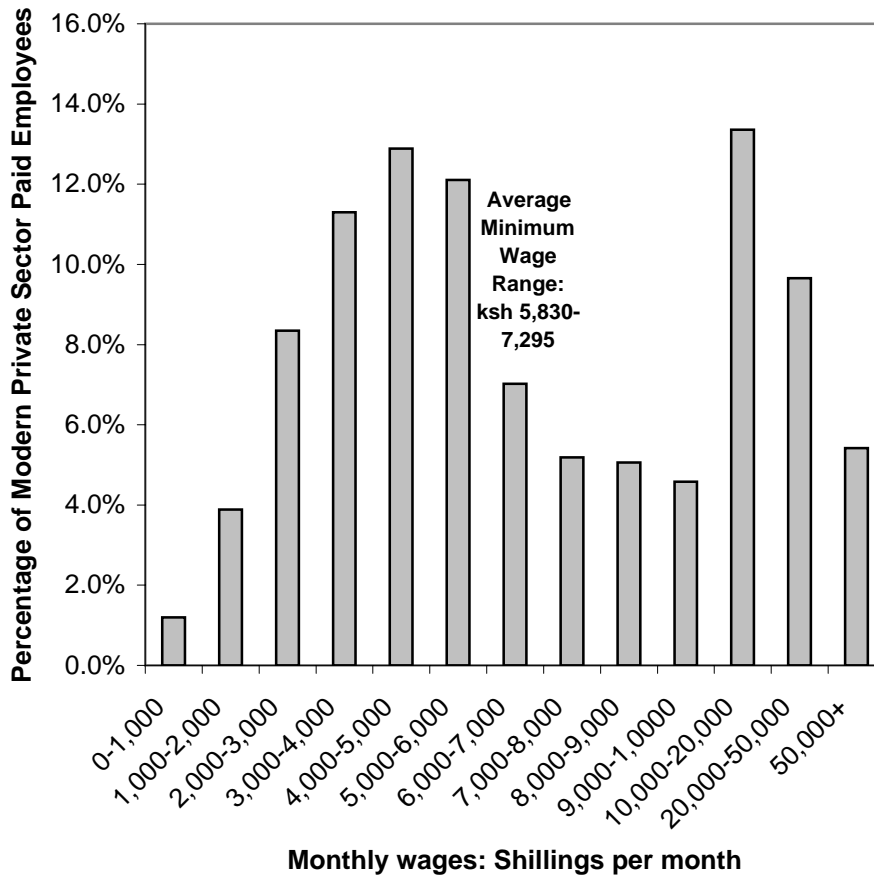
Source: Alby, Azam, and Rospabé (2005).

**Figure 1.**  
**Hourly Wages:**  
**Distribution of Total Wage Payments in Modern Private Sector**  
**and Average Minimum Wage Range, 2005/06**



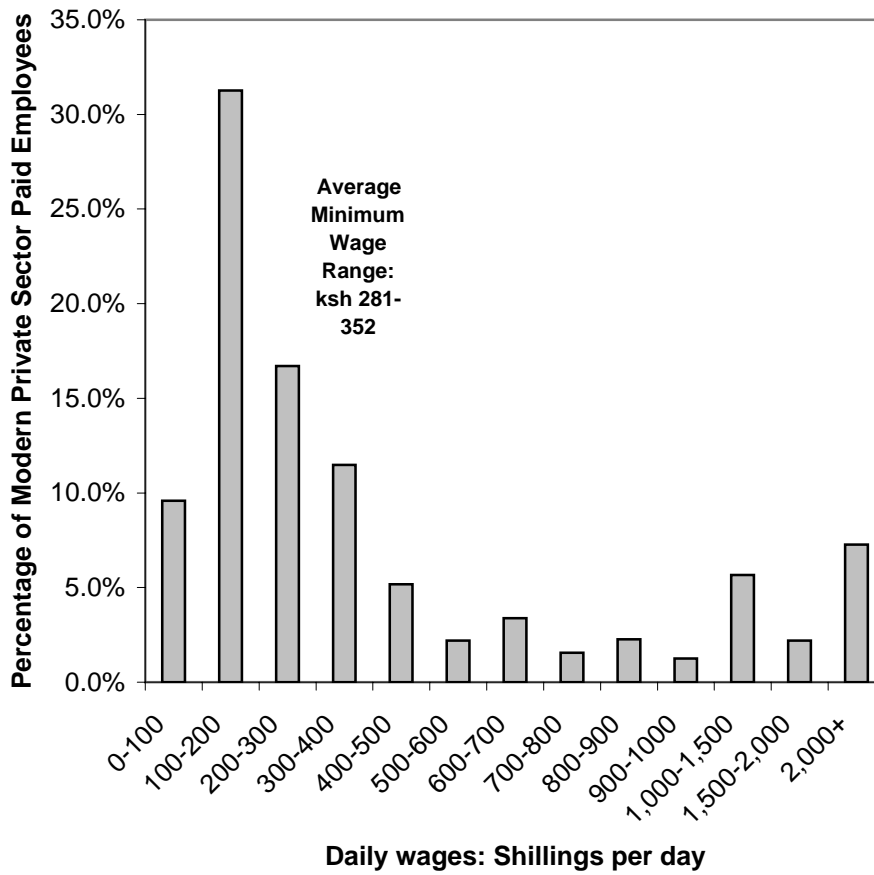
Sources: 2005/06 Kenya Integrated Household Budget Survey

**Figure 2.**  
**Monthly Wages:**  
**Distribution of Total Wage Payments in Modern Private Sector**  
**and Average Minimum Wage Range, 2005/06**



Sources: 2005/06 Kenya Integrated Household Budget Survey  
 Note: Wage payments include basic salary and allowances.

**Figure 3**  
**Daily Wages:**  
**Distribution of Total Wage Payments in Modern Private Sector**  
**and Average Minimum Wage Range, 2005/06**



Sources: 2005/06 Kenya Integrated Household Budget Survey