PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: PIDC27250

Project Name	Kenya Youth Employment and Opportunities (P151831)
Region	AFRICA
Country	Kenya
Sector(s)	Other social services (100%)
Theme(s)	Improving labor markets (100%)
Lending Instrument	Investment Project Financing
Project ID	P151831
Borrower(s)	Republic of Kenya
Implementing Agency	Ministry of Planning and Devolution - State Department of Planning
Environmental Category	C-Not Required
Date PID Prepared/ Updated	11-Aug-2015
Date PID Approved/ Disclosed	11-Aug-2015
Estimated Date of Appraisal Completion	15-Jan-2016
Estimated Date of Board Approval	22-Mar-2016
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Although Kenya's economic growth accelerated in the past decade, the goal of a prosperous society for all Kenyans has yet to be realized. Although Kenya was classified by the World Bank in 2014 as a lower-middle-income country, it is still among the poorest 25 percent of countries in the world, with 40 percent of its population having incomes below the poverty line. The 15 to 35 age group is becoming an increasingly large part of the adult population, with its share rising from 62.7 percent in 1979 to 66.6 percent in 2009.

This rising number of young people in the working population represents an opportunity for faster economic growth if they can be productively employed. This effect is called a youth dividend, but realizing the dividend depends on whether an economy can create sufficient numbers of jobs to absorb the rising number of new entrants and whether these entrants are adequately prepared and qualified to step into these jobs. The World Bank estimates that Kenya is at the start of its demographic transition, and thus the government's policies regarding the productive employment of its young people will influence the country's future growth rates.

The high numbers of new entrants to the workforce are presently outpacing the capacity of the economy to absorb them in productive employment. GDP growth is largely driven by consumption in Kenya with low rates of domestic investment and net export growth. Economic growth is volatile and slower than in comparable countries. The economy is failing to create the jobs needed to employ the half million youths entering the workforce annually. Between 2009 and 2013, 3 million youths came of working age, but the economy was able to add only 2.6 million jobs. During that time open unemployment among Kenyan youths exceeded that in the neighboring countries of Uganda and Tanzania and also in Ghana.

Employers regard labor regulations as a constraint to employment growth in the formal sector. Before the government carried out a major revision of labor legislation in 2007, only 4 percent of firms found labor regulations to be a constraint, less than elsewhere in Sub-Saharan Africa (12 percent on average). However, by 2013, one-fifth of Kenyan firms were complaining about the regulations, which in turn probably resulted in an increase in informal employment. The regulations are particularly strict in terms of employer-employee disputes, with the number of working-days lost to such disputes skyrocketing from 15,000 in 2008 to 175,000 in 2011 according to the Kenya National Bureau of Statistics (KNBS). The minimum wage may also be pushing firms towards informality. The ratio of the minimum wage to value added per worker was found to be higher in Kenya compared to other peer countries.

While there is insufficient aggregate demand and investment leading to job creation at the moment, youth unemployment is also structural and frictional in nature. A structural mismatch exists when jobs exist but job seekers do not possess the skills required to fill them. Employers complain that young Kenyans do not possess the right technical and behavioral skills required for employment. Education and training institutions do not have the right curricula or instructors to meet this demand. In turn, the lack of market information about what skills are in demand and where jobs can be found combine to perpetuate these mismatches. Where jobs exist and skilled workers are in fact available for these jobs, the absence of market information often leads to frictional delays in matching job seekers with employers.

Employment problems are more severe for some young people than others. Youth unemployment rates measured by the 2009 Kenya Population and Housing Census were highest for younger members of the youth cohort and those in urban areas. The rate of unemployment in 2009 for all Kenyans between 15 and 64 years of age was 8.6 percent. For those aged 15 to 19, it was 15.8 percent and for those aged 20 to 24, it was 13.1 percent, whereas unemployment rates for those over 25 years of age approached those of the adult population. Unemployment rates for urban youths (15 to 24) were approximately twice as high as those of rural youths of the same age. In rural areas, the main problem is more often under-employment than open unemployment. Youths aged between 20 and 24 account for the largest number of the openly unemployed.

Other measures reflect the vulnerability of youths 15 to 24. Not only do youth in this age cohort experience higher unemployment and under-employment than older cohorts, they are also more likely to be employed in the informal sector where coverage of social protection programs providing pensions, health insurance, and job security is low. The earnings of those working in the informal sector are also lower on average than those in the formal sector. The vulnerable employment of these youth makes them a potential prime beneficiary of a program intended to improve the employment and earnings of youths. The World Bank in its earlier Kenya Youth Empowerment Project elected to increase this age range slightly to 29 to ensure coverage of vulnerable youth. The lower age limit was set at 16 to reflect the legal age for employment.

Young women face greater employment challenges than young men. Unemployment rates vary by gender, with young women accounting for a larger share of unemployment than young men. According to the 2014 Kenya STEP Skills Survey, among those with a secondary education or less, young women are more likely to experience long spells of unemployment than young men. The difference diminishes for young women and young men with a tertiary education. Household responsibilities are a factor in young women's activity rates as they are more likely than young men to have such family-related duties.

Job growth in the informal sector, also known as the Jua Kali, has exceeded that in the formal wage sector. Many of the new jobs created in Kenya in recent years are in the informal sector, which consists of the self-employed, unpaid family workers, and those working for wages in small household enterprises. The failure of the formal sector to generate sufficient wage employment to accommodate all new entrants to the labor force has led to many youths starting their own businesses. Those employed in the informal sector tend to be younger than those in the formal sector and to have less education and are estimated to account for two-thirds of non-farm employment. For youths to find a job in the formal wage sector the youth typically needs to have at least a secondary education.

Employment in the informal sector yields lower earnings and productivity than employment in the formal wage sector. The education levels of those employed in the informal sector are on average lower than those in the formal wage sector. After controlling for education, earnings in the informal sector are lower than those in the formal sector. Returns to education are lower in the informal sector, which is an indication of allocative inefficiencies. Youths dominate employment in these enterprises.

Realizing the Kenya youth dividend will be a twofold challenge, requiring policymakers to give their attention to both demand and supply forces in the labor market. Distinct strategies are needed to address the three dimensions of the youth unemployment problem - insufficient demand, structural mismatches, and frictional search unemployment - but also to increase the productivity of youths who have found employment, beginning with the large numbers who have started their own businesses or are employed in informal sector enterprises. Thus, policies are needed not only to accelerate new job creation but also to reduce structural and frictional unemployment among youths and increase the productivity of youths who have found employment.

Sectoral and Institutional Context

The Government of Kenya (GOK) is committed to increasing youth employment as demonstrated by its various policies and strategies. Since 2000, the government has shown that it recognizes the risks that youth unemployment represents for social peace and political stability by formulating policies and plans specifically targeted to young people. The core policy documents are the Kenya National Youth Policy of 2006 and the National Action Plan on Youth Employment 2008-2012, which emphasize the need for a coordinated and multi-sectoral approach to addressing the problem of youth unemployment. The post-election crisis of 2008 led the GOK to reinforce its commitment to addressing youth issues, in particular to increasing their economic participation.

In March 2008, the government launched what is commonly referred to as the Marshal Plan for Youth Employment and Development, which focused on the creation of immediate and medium-term youth employment opportunities. The Kazi Kwa Vijana (KKV) program was the main initiative under this plan, and it aimed to create 500,000 jobs per year for youths in rural and urban areas in labor-intensive public works projects implemented by various ministries. In 2014/2015, the National Youth Service (NYS) became the flagship initiative for youth empowerment, with an emphasis on promoting national service, social transformation, training and enterprise development . Its annual budget has increased tenfold in financial year 2014/2015 compared to previous years, and the number of beneficiaries has reached 22,000 per year. In addition, affirmative action to enable youth-owned enterprises to bid for government procurement contracts was initiated in 2013 through the Access to Government Procurement Opportunities (AGPO) initiative.

The government has developed a National Youth Empowerment Strategy (2013-2017) to reflect the emphasis put on youth empowerment in its second Medium-term Plan (MTP II 2013-2017). The National Youth Empowerment Strategy (NYES) is a guide to the implementation of youth-targeted empowerment interventions. It provides a unified, coherent, and stable framework for the development and empowerment of the youth at both the national and local levels. The NYES seeks to achieve transformative youth empowerment in the following areas: (i) the policy and legal framework; (ii) leadership and participation; (iii) employment and skills development; (iv) the identification and development of innovation, creativity, technology, and talent; (v) agriculture, environmental management, and sustainable development; and (vi) health, crime, and drug and substance abuse.

A myriad of public offices and agencies as well as non-government and private agencies are involved in the area of youth employment, but there is excessive fragmentation and poor coordination of interventions among these implementing agencies. After the government reorganization following the 2013 elections, the Ministry of Youth Affairs and Sports (MoYAS), which previously coordinated youth empowerment initiatives, was dissolved and its responsibilities were transferred to the new Ministry of Devolution and Planning (MoDP) and the Ministry of Education, Science, and Technology (MoEST). The MoDP, through its Directorate of Youth Affairs, is now responsible for integrating youth issues into national planning and development and for implementing programs geared towards empowering youth and providing them with skills and financial resources.

Complementary institutions such as the National Youth Service (NYS), the Youth Enterprise Development Fund (YEDF), the National Youth Council (NYC), and the Kenya Association of Youth Centers have been established as semi-autonomous agencies under the Directorate of Youth Affairs within the MoDP. The MoEST, through its Youth Polytechnics (YP), is responsible for technical vocational educational training (TVET). The National Industrial Training Authority (NITA), a semi-autonomous agency under the Ministry of Labor, Social Security, and Services (MLSSS), is responsible for apprenticeships and industrial attachments. As well as these public interventions, hundreds of projects and initiatives related to youth employment are being offered by NGOs, faith-based organizations, companies, and community organizations, either initiated by development partners or funded by foreign organizations and firms.

The government is implementing a variety of different youth employment programs, but knowledge about their impact is sketchy and largely anecdotal. A recent review of youth employment initiatives has identified critical knowledge gaps, particularly regarding the effectiveness and impact of the various initiatives. The lack of impact assessments of large-scale government-run programs like TVET, the National Youth Service (NYS), the Youth Enterprise Development Fund (YEDF), and the Youth Empowerment Centers is a particular problem because substantial public funding has been allocated to these programs with no rigorous assessment of whether these programs are actually achieving their objectives.

Some progress has been made in improving the knowledge base, particularly related to training and internship programs and entrepreneurship education and training provided through donor-funded programs. The World Bank has been instrumental in adding to the evidence base about what works in youth employment promotion through the Busia Vocational Training Voucher Program and the training and private internship pilot under the Kenya Youth Empowerment Project (KYEP). These programs have been evaluated using random experimental methods and their interventions are shown to have a net positive impact on youth employment and earnings. A recent World Bank study of entrepreneurship education and training programs revealed an abundance of information about their impact, results, and good practices and found that program managers were prepared and willing to modify program designs in accordance with the evaluation’s findings.

The World Bank has added to this knowledge base with its recent study of Promoting Youth Employment and Development in Kenya which attempts to answer two key questions on how to promote the creation of sufficient jobs for youth and how to help vulnerable youth connect and retain these jobs. Its analysis using the 2010 Kenya Census of Industrial Production and the 2011 Integrated Survey of Services has identified barriers to entry from the informal sector to the formal sector that constrain employment generation. The analysis has highlighted the importance of service sector employment for women and the added value to employment generation of promoting resource mobility and the movement of labor and capital to more productive uses. On the supply side of the labor market, its analysis of the 2014 STEP skills survey focused on urban youths aged 15 to 24 years and identifies the employment challenges they face as outlined above.

The government has demonstrated its commitment to increasing the coverage and budget allocations for key initiatives and interventions that specifically affect youth employment, but more effort is needed to improve the implementation of youth employment initiatives and to increase them to a scale sufficient to address the full extent of the need. Initiatives fall into three groups: (i) those that affect labor demand; (ii) those that affect labor supply; and (iii) those that aim to improve the match between supply and demand.

Relationship to CAS

The Kenya Country Partnership Strategy (2014-2018) and this proposed Project are consistent with the government’s development priorities as defined in its Vision 2030. Vision 2030 is a broad blueprint for Kenya’s development that articulates a vision in which, by 2030, the country will be a globally competitive nation characterized by high quality of life for its people. Vision 2030, on which the CPS itself rests, is based on three pillars - economic, social, and political. The proposed project which seeks to increase employment and earning opportunities among targeted young people, is very much consistent with the social pillar of Vision 2030, which focuses on investing in people, including in the areas of education, health, and housing, with a focus on women, youth, and vulnerable communities.

The proposed Project is also aligned with the World Bank’s Kenya Country Partnership Strategy (CPS) 2014-2018. The CPS identifies three domains in which the World Bank Group (WBG) will support the Government of Kenya. In particular, the second area of engagement, Domain 2: Protection and Potential, aims "to protect the vulnerable and help them [to] develop their potential, which is critical to sharing in prosperity." Moreover, the CPS acknowledges that "the burgeoning youth population brings opportunities and challenges for the WBG support in education, jobs, and skills" and commits the World Bank to help the Government of Kenya in its efforts to reduce joblessness. The Bank expects to continue its work as needed on youth employment, including exploring other interventions to help to ensure that young people are properly prepared for work. Through the proposed project, the World Bank will support the government's efforts to equip young people with skills and competencies that are in demand in the changing market and therefore increase their prospects of finding and keeping gainful work and to help youths to launch new business startups and to expand the potential of informal sector enterprises to create jobs.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The proposed Project Development Objective (PDO) is to increase employment and earnings opportunities for targeted youths.

The beneficiaries of the project will be youths aged between 16 and 29 years of age who are jobless and have experienced extended spells of unemployment or who are currently working in vulnerable jobs defined as those working on their own account, a contributing family member, or working for wages in a household enterprise with fewer than 10 workers. During preparation the target group will be further refined to promote access for women and disadvantaged youth.

Key Results (From PCN)

The PDO will be measured by the following key performance indicators (KPIs)

a.Number of beneficiary youths receiving life skills, technical, and entrepreneurship training, and work experience.
b.Number of beneficiary youths who start a new business that operatesfor 12 months or longer.

Progress in achieving the PDO will be recorded using administrative data provided by the Project's management information system.

To track progress toward achieving the PDO and the KPIs during Project implementation, the following intermediate results will be monitored:

a.Number of beneficiary youths receiving life skills, technical, and entrepreneurship training, and work experience.

b.Number of jobs created by beneficiary youths in new business startups that last for 12 months or longer.

c.Number of beneficiary youths in vulnerable employment who receive training or other small business development services.

d.Number of beneficiary unemployed youths receiving information on job vacancies.

e.Number of beneficiary youths receiving other business development services.

f.Number of craftsmen who participate in additional training and obtain master craft certification.

g.Number of beneficiary youths in vulnerable employment who receive small business development services and help to access financing.

III. Preliminary Description

Concept Description

The Project proposes a market-driven approach to increasing the employment and earnings opportunities of youth beneficiaries. Positive values for the Project's KPIs will be achieved by strengthening and expanding active labor market programs that have already been carefully evaluated in Kenya and similar country settings and have been shown to be effective in increasing youth employability and promoting job creation and productive employment. Active labor market programs include all social expenditures other than education aimed at improving the prospects of beneficiaries finding gainful employment or otherwise increasing their earning capacity.

The Project will address employment issues for youths on both the supply and demand sides of the labor market as well as issues affecting the intermediation of these markets. The issues affecting youth employment and the realization of Kenya's youth dividend include: (i) slow macroeconomic growth and job creation; (ii) labor regulations that discourage job creation in the formal wage sector; (iii) the resulting large share of employment in the informal sector with its low productivity and earnings; (iv) the lack of the technical and behavioral skills sought by employers among job seekers; (v) training institutions that lack the curricula and instructional capacity to meet the demands of the market; and (vi) the absence of adequate labor market information to match labor demand and supply and to enable the planning of future investments in skills development.

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The four components of the Project will focus on youths who are experiencing difficulty in finding employment and youths who are employed in the informal sector with its low productivity and earnings. Component 1 will address issues on the supply side of the labor market involving insufficient skills and job readiness by offering training and work experience modeled after the Kenya Youth Empowerment Project (KYEP). Component 2 will address issues on the demand side of the market by helping youths to launch new business startups and to expand the potential of informal sector enterprises to create jobs. Component 3 will aim to expand the availability of and access to labor market information for employers, job seekers, training institutions, and policymakers. Component 4 will strengthen institutional capacity for the implementation of Project services, support youth labor market policy development through studies and workshops, provide project management, and carry out monitoring and evaluation activities, including an impact evaluation of the interventions supported under Component 2. Component 4 will also finance further analysis of Kenya's current labor regulations and their impact on youth employment.

Component 1: Increasing Youth Employability. This component will contribute to the achievement of the Project's PDO by providing young people with: (i) access to traditional apprenticeships and work experience in the informal sector and (ii) access to training and work experience in the formal wage sector. The component will reflect the principles of the KYEP model with the goal of securing employment and higher earnings for youth beneficiaries. The Kenya Youth Empowerment Project (KYEP) offered youths a package of training services that included training the behavioral skills that employers expect in the workplace, technical skills, and entrepreneurship and business skills. The project provided beneficiaries with three months of training followed by three months of work experience and on-the-job learning in either a formal or an informal sector enterprise. This package of training and work experience - the KYEP model - produced a statistically significant increase in employment and earnings that was sufficient to pay back the cost of the intervention in 10 months for young women and 14 months for young men.

Component 2: Job Creation. This component will contribute to the achievement of the PDO by helping young entrepreneurs who wish to create new business startups and employment and by increasing the productivity and earnings of established informal sector enterprises. To meet the PDO, this component will promote entrepreneurship and the expansion of productive employment for new business startups and for established informal sector enterprises wishing to grow and increase their market share and earnings. It will do this for both target groups by: (i) helping young people to access small business incubators including those promoting ICT startups; (ii) providing youth entrepreneurs with access to small business development services; (iii) facilitating their access to public and private financing agencies, including government funds targeted to young people such as the Youth Enterprise Development Fund (YEDF), the Uwezo Fund, and the Women’s Enterprise Fund (WEF); (iv) training young people in how to access government procurement and affirmative action programs; and (v) providing young entrepreneurs with information on potential market niches for new enterprises, market and product trends, and links to value chains. In order to address the issue of the outdated technology used by many master craftsmen, the component will consider pilot testing a tool library from which they will be able to rent tools and machinery as needed. The Ministry of Devolution and Planning (MoDP) will implement this component in partnership with the Micro and Small Enterprise Authority under the Ministry of Industrialization and Enterprise Development.

Component 3: Labor Market Information. This component will help to build Kenya’s labor market information system with the goal of increasing lab or market efficiency and reducing structural and frictional unemployment. The Ministry of Devolution and Planning (MoDP) will implement this component in partnership with the Ministry of Labor, Social Security, and Services (MLSSS). Among possible investments, the expansion of access to labor market information to young job seekers, employers, training institutions, and policymakers is considered a high priority. Information on occupational employment trends, job vacancies, earnings, and skill requirements, for example, can help training institutions and youths to make better decisions about what skills to invest in for the future. Information on where the jobs exist and on the qualifications of job seekers can reduce frictional unemployment as youths and employers search for one another. Information on labor demand and policies in other countries can improve the decisions of those who wish to work abroad.
Component 4: Capacity Building, Labor Policy Development and Studies, Monitoring and Evaluation, and Project Management. This component to be implemented by the MoDP will finance the capacity building needed for the implementation of the Project. A capacity-building plan will need to be developed for the MoDP and its implementing partners to identify: (i) any gaps in capacity that need to be filled; (ii) where the training will be delivered; (iii) who will be trained; and (iv) a proposed budget. To inform this plan, an assessment of the institutional capacity available for the implementation of the Project will need to be prepared during the preparation of the Project. This assessment will be completed during Project preparation along with the capacity-building plan and the budget.
PCU headed by a Project Manager will have day-to-day responsibility for Project implementation. Its staff will include technical specialists from the MoDP, implementing partners, and consultants.

The Project will finance the costs of consultants, the purchase of equipment and furnishings, and operating costs with the expectation that the government will provide counterpart financing to cover the government employees to be seconded to the PCU.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		✕	
Natural Habitats OP/BP 4.04		✕	
Forests OP/BP 4.36		✕	
Pest Management OP 4.09		✕	
Physical Cultural Resources OP/BP 4.11		✕	
Indigenous Peoples OP/BP 4.10	✕		
Involuntary Resettlement OP/BP 4.12		✕	
Safety of Dams OP/BP 4.37		✕	
Projects on International Waterways OP/BP 7.50		✕	
Projects in Disputed Areas OP/BP 7.60		✕	

V. Financing (in USD Million)

Total Project Cost:	150.00	Total Bank Financing:	150.00
Financing Gap:	0.00		

Financing Source	Amount
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	150.00
Total	150.00

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