



Structural Employment Challenges and Digital Economy Dynamics in Kenya Pathways to Inclusive and Decent Work

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Abstract

Kenya's labor market in 2024–2025 reflects a structural paradox: sustained economic growth alongside limited progress in generating formal, high-quality employment. While total employment rose to approximately 20.8 million, nearly 90% of new jobs were informal, constraining productivity and social protection coverage. Youth unemployment and NEET rates remain elevated, signaling systemic risks to human capital development. Concurrently, the digital economy is reshaping labor dynamics, creating opportunities through fintech, e-commerce, and gig platforms, yet introducing vulnerabilities such as income volatility, algorithmic control, and regulatory gaps. This study employs a descriptive-analytical approach using secondary data from KNBS, Central Bank of Kenya, and international policy reports to examine employment trends, sectoral drivers, and digitalization impacts. Findings indicate that Kenya's employment challenge is structural rather than cyclical, requiring integrated reforms that combine sectoral productivity upgrading, demand-linked skills development, and labor-market governance modernization. Policy recommendations emphasize leveraging the Digital Economy Blueprint to formalize MSMEs, expand digital skills, and extend social protection to platform workers, thereby aligning technological transformation with inclusive, decent work outcomes.

Keyword: Kenya; labor market; informal employment; youth unemployment; digital economy; gig work; fintech; structural transformation; decent work; employment policy.

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I. Introduction

Kenya's labor market presents a striking paradox: sustained macroeconomic expansion alongside a stubborn inability to convert growth into broad-based, high-quality jobs. In 2024, real GDP advanced yet the pace of net employment creation slowed relative to the prior year, and the overwhelming majority of new positions originated in the informal economy—where earnings are volatile, productivity is low, and social protection is thin. This pattern underscores a structural constraint: the country is adding work, but too little of it is wage-based, regulated, and productivity-enhancing (Kenya National Bureau of Statistics [KNBS], 2025).

Recent national accounts make the imbalance concrete. Excluding small-scale agriculture, total employment is estimated to have risen from roughly 20.0 million in 2023 to 20.8 million in 2024, with about 782,300 net new jobs created; approximately 90 percent of these positions were in the informal sector, while modern wage employment recorded only modest gains. The same report highlights the asymmetry between job quantity and job quality, reflecting a labor market in which own-account activity and unpaid family work absorb new entrants far more rapidly than the formal sector can expand (Amadala, 2025).

The demographic context magnifies the urgency of this imbalance. Kenya is a youthful society, and each year large cohorts of new jobseekers arrive at the labor market's doorstep. A non-trivial segment of young people remain “not in education, employment, or training” (NEET), signaling potential scarring effects that can depress lifetime earnings, erode human capital, and attenuate intergenerational mobility if transitions into decent work are delayed or precarious (UN Women, 2022).

Addressing these challenges requires more than cyclical stabilization; it hinges on policy that raises the employment intensity of growth while shifting the composition of jobs toward higher productivity. The World Bank's most recent *Kenya Economic Update* frames a three-pillar strategy: boosting private-sector

productivity across agriculture, industry, and services; connecting poor and vulnerable households to growth via skills, capital, and job access; and strengthening resilience to climate and macro shocks—together forming a bridge from GDP expansion to inclusion through employment (World Bank, 2024).

The 2024–2025 conjuncture also illustrates how macro tailwinds and sectoral heterogeneity interact with labor outcomes. Inflation eased notably in 2024, improving real purchasing power compared with 2023, yet wage employment growth remained tepid and uneven across sectors. Provisional tabulations and business reporting point to rising nominal earnings but a continued dominance of informal job creation—conditions consistent with a recovery that lifts demand without durably altering the structure of employment (Kenyan Wall Street, 2025).

Forward-looking sentiment mirrors this unevenness. The Central Bank of Kenya's market perception exercises indicate relatively stronger hiring intentions in banking—driven by branch expansion and product innovation—and seasonal upticks in agriculture tied to rainfall patterns, while many non-bank firms report caution amid elevated operating costs and cash-flow pressures. Such signals underscore that resolving pending bills, easing financing frictions, and deepening market access are prerequisites for translating growth into sustained, broad-based hiring (Central Bank of Kenya, 2025).

Beyond near-term demand management, Kenya's digital trajectory offers a strategic lever for employment-rich transformation. The national *Digital Economy Blueprint* sets out five mutually reinforcing pillars—digital government, digital business, infrastructure, innovation-driven entrepreneurship, and digital skills—aimed at diffusing productivity-enhancing technologies across sectors, lowering transaction costs for micro, small, and medium enterprises (MSMEs), and enabling new forms of work and firm formation in tradable services (Ministry of ICT, 2019).

Realizing that promise, however, depends on complementary investments and regulation. Evidence from the World Bank's analysis of Kenya's digital transition emphasizes the need to close connectivity gaps, update competition and data frameworks, and scale digital skills at all education levels and through employer-linked programs, so that firms and workers can adopt and adapt technologies that underpin job creation and wage growth (World Bank, 2019).

Labor-market governance remains equally pivotal. The *Labour Market Profile* situates Kenya's progress within the ILO's Decent Work agenda and highlights persistent gaps in rights at work, social protection coverage, and social dialogue—gaps that widen when employment is concentrated in informal or digitally mediated arrangements. Strengthening inspection, dispute resolution, and standards for platform work can help ensure that emerging jobs are not only numerous but also dignified and protected (Danish Trade Union Development Agency [DTDA], 2024/2025).

Human capital alignment is a second structural hinge. A growing body of Kenya-specific evaluations finds that multifaceted youth programs that combine technical and soft skills, job placement or apprenticeships, and enterprise support tend to outperform stand-alone training. Fragmentation across agencies and limited monitoring and evaluation, however, dilute impact and impede scale. Demand-led design, employer partnerships, and rigorous outcome tracking are critical to closing skill mismatches and accelerating transitions into stable employment (Onsomu, Munga, Ngugi, & Nyaboro, 2023).

Climate variability layers additional complexity onto labor dynamics, particularly given agriculture's central role in livelihoods and absorption. Survey evidence from the monetary authority's agriculture modules captures both upside and downside risks: favorable rains lift planting, output, and seasonal hiring; yet input-cost volatility, logistics constraints, and price swings can reverse gains and destabilize income. Climate-smart production, better input and output markets, and risk-sharing instruments are therefore not only environmental priorities but also labor-market stabilizers (Central Bank of Kenya, 2025).

Methodologically, the present analysis benefits from improved statistical visibility. KNBS's *Economic Survey 2025* and its associated employment and earnings tables enable granular tracking of wage versus non-wage work, sectoral composition, and price dynamics—inputs essential for evaluating the employment elasticity of growth and diagnosing where transitions from informality to formality are most (and least) likely (UN Women Data Hub, 2025).

These empirical and policy strands motivate three objectives for this article. First, we provide an updated, disaggregated portrait of Kenya's labor market in 2024–2025, detailing the sectoral and formal–informal composition of new jobs and the implications for earnings and security. Second, we analyze the drivers of

informality through structural transformation, human capital, and business-environment lenses, identifying where policy can raise the employment intensity of growth. Third, we translate this diagnosis into a sequenced, feasible reform pathway—anchored in the digital economy and sectoral upgrading—to convert macro stabilization into inclusive, decent employment at scale (KNBS, 2025).

The contribution is threefold. Empirically, we consolidate official statistics with forward-looking sentiment to establish a coherent baseline for labor-market decision-making in 2025. Analytically, we situate Kenya's employment paradox within comparative and theoretical frames—dual-economy dynamics, human-capital externalities, and decent-work standards—that clarify why growth without transformation perpetuates underemployment. Programmatically, we distill “what works” insights from recent evaluations to propose interventions that are both demand-linked and scalable, with particular attention to agriculture value chains, digitally enabled services, and light manufacturing (World Bank, 2024).

Two implications flow from the evidence surveyed in this introduction. First, improving job quantity without improving job quality will not be sufficient to reduce vulnerability or raise productivity; progress requires tilting the composition of new work toward wage-paying, standards-compliant firms. Second, raising job quality at scale requires synchronized action: boosting sectoral productivity and export orientation; lowering firm-level frictions in finance, logistics, and compliance; aligning skills with demand; and extending labor protections to workers in both traditional and digital segments. Kenya's recent macro stabilization creates space for such a pivot; its digital ecosystem and entrepreneurial base offer comparative advantages to execute it (Ministry of ICT, 2019).

The remainder of the paper is organized as follows. Section 2 situates Kenya within the broader literature on structural transformation, informality, and youth transitions, highlighting lessons from comparable African economies. Section 3 introduces data and methods, combining national labor accounts with business sentiment to analyze both realized outcomes and near-term hiring intent. Section 4 presents results on employment composition, earnings dynamics, and sectoral drivers, and Section 5 synthesizes policy implications into a prioritized reform agenda and identifies data and research gaps—particularly around tracking transitions from informal to formal work and measuring decent-work attributes in platform-mediated employment (International Labour Organization [ILO], 2025).

II. Research Methodology

This study adopts a descriptive-analytical design to examine Kenya's labor market dynamics with a particular focus on structural employment challenges and the emerging role of the digital economy. The approach is grounded in secondary data analysis, drawing on official statistics, policy reports, and scholarly literature to construct a comprehensive and current profile of employment patterns, sectoral shifts, and digital transformation impacts. The descriptive component enables systematic documentation of trends in employment composition, wage dynamics, and informality, while the analytical dimension facilitates interpretation of these patterns through theoretical frameworks such as the Lewis dual-sector model, human capital theory, and the decent work agenda (World Bank, 2024).

Data sources include the *Kenya Economic Survey 2025* published by the Kenya National Bureau of Statistics (KNBS), which provides disaggregated employment and earnings data by sector and formality status. These data are complemented by forward-looking indicators from the Central Bank of Kenya's Market Perception and CEO Surveys, which capture business sentiment and hiring intentions across key sectors. Additional inputs are drawn from the World Bank's *Kenya Economic Update*, which offers macroeconomic context and policy diagnostics, and the Danish Trade Union Development Agency's *Labour Market Profile*, which situates Kenya's labor governance within the International Labour Organization's decent work framework (DTDA, 2024/2025). To capture the digital economy's influence, the study incorporates evidence from the Ministry of ICT's *Digital Economy Blueprint* and recent analyses of platform work, fintech penetration, and gig economy expansion (Ministry of ICT, 2019).

The analytical strategy combines trend analysis with thematic synthesis. Employment and wage data are examined longitudinally to identify structural shifts in job creation, distinguishing between formal and informal segments and assessing sectoral contributions to aggregate employment. This quantitative mapping is integrated with qualitative insights from policy reports and academic studies to interpret the drivers of observed patterns, including demographic pressures, skill mismatches, and technological change. Special attention is given to the digital economy as both an opportunity and a disruptor, evaluating

its role in generating new employment niches while also introducing risks of precariousness and regulatory gaps (Onsomu, Munga, Ngugi, & Nyaboro, 2023).

The study does not employ primary data collection; instead, it relies on triangulation of multiple secondary sources to enhance validity and reliability. Cross-referencing official statistics with independent policy assessments mitigates the risk of bias and ensures robustness of findings. Limitations include potential lags in official reporting and the absence of microdata to track individual labor market transitions, which constrains causal inference. Nevertheless, the chosen design is appropriate for the study’s objectives: to provide an empirically grounded, policy-relevant analysis of Kenya’s employment landscape in the context of structural transformation and digitalization (KNBS, 2025).

III. Results and Discussion

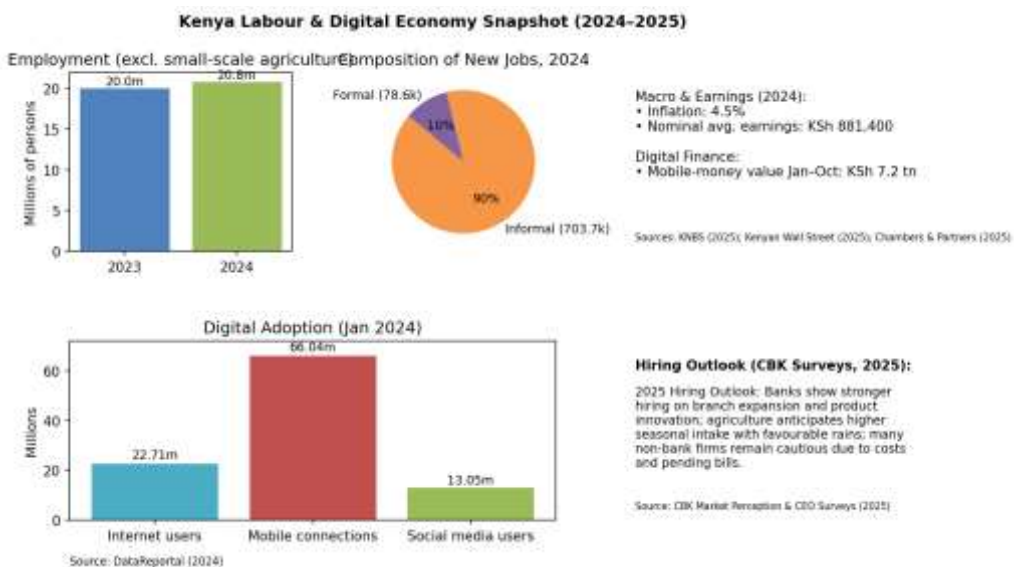
The empirical profile of Kenya’s labor market in 2024–2025 confirms a recovery marked by rising employment but persistent informality. Excluding small-scale agriculture, total employment expanded from roughly 20.0 million in 2023 to 20.8 million in 2024, yet about 782,300 net new jobs were created largely outside the modern sector, with informal positions accounting for ~90% of additions—evidence that output growth is still not translating into broad-based, formal wage opportunities (Kenya National Bureau of Statistics [KNBS], 2025).

Wage and price dynamics provide additional nuance. Nominal average annual earnings rose in 2024 while inflation eased to ~4.5% (from ~7.9% in 2023), modestly improving purchasing power; however, the composition of job creation—dominated by informal work—continues to cap aggregate productivity gains and limits the diffusion of social protection and contractual security (Kenyan Wall Street, 2025).

Sectorally, private-sector hiring clustered in manufacturing and agriculture, forestry, and fishing, followed by trade and education, while public-sector wage employment also edged up—patterns consistent with agriculture’s enduring role in labor absorption and the services sector’s contribution to value added (Amadala, 2025). The slowdown in net job creation compared with 2023, however, signals that financing costs, climate shocks, and domestic disruptions still dampened the pace at which firms converted demand into payrolls (Amadala, 2025).

Youth outcomes remain a focal pressure point. Despite moderate overall unemployment, youth unemployment and inactivity are elevated, with a non-trivial share of young people not in education, employment, or training (NEET)—a configuration that risks persistent earnings scarring without targeted interventions to speed school-to-work transitions and align skills with evolving demand (UN Women, 2022). This underscores the need for demand-linked skilling and stronger pathways into quality jobs rather than supply-driven training alone (UN Women, 2022).

Figure 1. Gig Economy & Digital Adoption



Source: KNBS (2025)

Digital adoption constitutes a structural force reshaping opportunities and risks. As of early 2024, Kenya counted 22.7 million internet users, 66.0 million mobile connections, and 13.1 million social media users, expanding the addressable market for e-commerce, fintech, online services, and platform-mediated work (DataReportal, 2024). These diffusion metrics set the context for both employment creation in digitally enabled value chains and new vulnerabilities where regulation and social protection lag.

The fintech engine illustrates the scale of digitalization’s impact on market participation. Mobile-money transactions reached KES 7.2 trillion in the first ten months of 2024, amid continued product innovation and regulatory modernization, while digital lending expanded with dozens of licensed providers—developments that lower transaction costs for MSMEs and can spur job creation via improved working capital and market access (Chambers & Partners, 2025). In parallel, venture funding and corporate investment into payments and cloud infrastructure have accelerated, suggesting spillovers into technical, sales, compliance, and operations roles across the ecosystem (SDK Finance, 2025).

Table 1. Hiring Outlook (CBK Surveys, 2025)

Sector	2025 Hiring Outlook (qualitative)	Evidence/Source
Banking/Finance	Stronger hiring: branch expansion, product innovation	CBK Market Perception & CEO Surveys (2025)
Agriculture	Higher seasonal intake with favourable rains	CBK CEO Survey (Apr 2025)
Non-bank private (mixed)	Cautious due to costs, pending bills; largely unchanged	CBK Market Perception Survey (2025)

Notes: Values compiled from KNBS (2025), CBK surveys (2025), DataReportal (2024), Chambers & Partners (2025). Gig economy and VC figures are indicative from Aljum Africa (2025) and SDK Finance (2025).

At the same time, the gig/platform economy is scaling rapidly but unevenly. Estimates indicate ~1.2 million gig workers in 2023 and a market value of ~\$345 million, with ride-hailing and online professional services comprising the largest shares; yet earnings volatility, capital costs borne by workers, and exposure to algorithmic rating systems constrain income stability and bargaining power (Aljum Africa, 2025). Complementary analysis highlights limited social protection, ambiguous employment status, and payment risks on digital platforms—features that can undercut decent-work standards if left unaddressed (International Labour Organization [ILO], 2024).

Forward-looking demand signals reinforce this duality. CEO and market-perception surveys point to stronger hiring intentions in banking—driven by branch expansion and product innovation—and agriculture, buoyed by favorable precipitation; conversely, many non-bank firms report caution amid high input costs and pending bills, factors that suppress broad-based recruitment (Central Bank of Kenya [CBK], 2025). The implication is that macroeconomic stabilization, while necessary, is insufficient without micro-level fixes to cash-flow and cost pressures that condition hiring.

Recent policy and investment moves suggest an enabling environment for digitally delivered services and data-center-anchored ecosystems. Kenya continues to attract global cloud, AI, and semiconductor-related commitments, while its growing undersea cable capacity strengthens the country’s position as a regional digital hub—developments that can catalyze BPO, software, and cloud operations jobs if paired with talent pipelines and data-governance certainty (International Trade Administration, 2024). These dynamics complement the Government’s Digital Economy Blueprint, which envisages coordinated progress across public-service digitization, digital business, infrastructure, innovation, and skills (Ministry of ICT, 2019).

Yet the skills frontier is moving quickly. Employer surveys and HR analytics point to acute gaps in AI, cybersecurity, and cloud capabilities, even as automation and AI begin to reconfigure white-collar roles—a transition that heightens the urgency of reskilling, apprenticeships, and work-linked learning to maintain employability and raise job quality in digital occupations (Techish Kenya, 2025). Parallel sector-level analyses emphasize that mobile-enabled digitalization can lift productivity across agriculture, GVC participation, and public-service efficiency, provided that policy keeps pace on competition, spectrum, and data frameworks (GSMA, 2024).

Synthesizing these findings, three structural mechanisms explain why growth has not yielded sufficient formal jobs and how the digital economy can bend the curve. First, the informality trap persists because

most new enterprises remain small and under-capitalized, with limited access to finance, markets, and compliance tooling; digital payments, e-commerce logistics, and e-invoicing can lower these barriers, but complementary measures are required to incentivize formalization (World Bank, 2024). Second, skill mismatches constrain firms' ability to expand wage employment in higher-productivity segments; demand-linked training and certification tied to employer consortia can accelerate placement and reduce on-the-job remediation costs (Onsomu, Munga, Ngugi, & Nyaboro, 2023). Third, labor-market governance has not fully adapted to non-standard, platform-mediated work; extending rights at work, social protection portability, and dispute resolution to digital workers can raise the floor on job quality as digitalization proceeds (Danish Trade Union Development Agency [DTDA], 2024/2025).

Policy articulation at the trade–labor–technology nexus is therefore pivotal. Recent international guidance tailored to Kenya's context argues for amending labor laws to include digital workers, deploying decent-work toolkits for platform businesses, and pursuing regional standard-setting that harmonizes protections across borders—measures that can preserve flexibility while curbing a race to the bottom in platform labor (World Economic Forum, 2025). Aligning these steps with investments in digital public infrastructure and MSME digitization would help convert diffusion of technology into diffusion of formal jobs.

Taken together, the results indicate that Kenya's employment challenge in 2024–2025 is structural rather than cyclical: job growth is positive but concentrated in low-productivity, low-protection segments; digitalization is amplifying both opportunity and risk; and the bottleneck lies in firm capabilities, skills, and labor standards, not only in aggregate demand. While the evidence base remains strongest at the macro and meso levels—pending richer microdata on worker- and firm-level transitions—the convergent signals across official statistics and market surveys provide a robust basis for policy design and sequencing (UN Women Data Hub, 2025).

Implication for the agenda: raising the employment intensity of growth now hinges on coupling sectoral productivity upgrading (agri-food, tradable services, light manufacturing) with digital-economy enablers (payments, logistics, data, cloud) and labor-market modernization (skills pipelines, portable protection, platform standards). If executed in tandem, these levers can shift the composition of job creation toward formal wage employment, reduce vulnerability, and anchor a trajectory of inclusive, productivity-led development.

IV. Conclusion and Recommendations

The analysis reveals that Kenya's labor market in 2024–2025 is characterized by positive employment growth but persistent structural weaknesses. While total employment increased to approximately 20.8 million, the overwhelming share of new jobs—around 90 percent—remains in the informal sector, limiting productivity gains and social protection coverage (KNBS, 2025). Youth unemployment and NEET rates continue to pose systemic risks, signaling the urgency of interventions that accelerate school-to-work transitions and align skills with labor-market demand (UN Women, 2022). The digital economy emerges as a double-edged sword: it offers new employment niches through fintech, e-commerce, and platform work, yet introduces vulnerabilities such as income volatility, algorithmic control, and regulatory gaps (ILO, 2024). These findings underscore that Kenya's employment challenge is structural rather than cyclical, requiring coordinated reforms that go beyond macroeconomic stabilization.

Recommendations center on three interdependent pillars. First, accelerate sectoral productivity upgrading in agriculture, tradable services, and light manufacturing to raise the employment intensity of growth. This includes climate-smart agriculture, value-chain integration, and export-oriented industrial policies supported by infrastructure and logistics improvements (World Bank, 2024). Second, invest in human capital systems that are demand-linked, combining technical and digital skills training with apprenticeships, job placement, and entrepreneurship support. Evidence suggests that multi-component programs outperform stand-alone interventions, particularly when embedded in employer networks (Onsomu et al., 2023). Third, modernize labor-market governance to extend protections to non-standard and platform-mediated work. This entails updating labor laws, enabling portable social security, and establishing dispute-resolution mechanisms tailored to digital work arrangements (DTDA, 2024/2025). Complementary measures include incentivizing MSME formalization through simplified compliance and digital finance adoption, while leveraging Kenya's Digital Economy Blueprint to scale connectivity, innovation, and regulatory readiness (Ministry of ICT, 2019).

In sum, Kenya's pathway to inclusive, employment-rich growth lies in synchronizing structural transformation with digitalization and labor standards. By coupling sectoral upgrading, skills alignment, and governance reforms, policymakers can convert demographic and technological shifts into engines of decent work, productivity, and resilience.

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