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**UNDERSTANDING UNEMPLOYMENT IN KENYA: A DUAL-SIDED  
ANALYSIS OF DEMAND SIDE AND SUPPLY SIDE CONSTRAINTS**

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DOI: <https://doi-doi.org/101555/ijarp.1258>**ABSTRACT**

Unemployment in Kenya is a persistent, complex challenge despite numerous policy interventions. This paper examines the question of whether the scarcity of jobs in Kenya is due to demand side constraint, supply-side issues, or both. This study adopts a qualitative and comparative approach based on Secondary data (eg, from KNBS, Controller of Budget, county reports and national statistics), Empirical and academic literature (2012-2025, focusing on the recent evidence), Government policy documents and budget reviews, and Media reports to fill in the gaps (eg, on budget absorption). The analysis examines the trends across counties and over time to identify the constraints using both theoretical and Kenyan empirical data. Using empirical data sourced from 2022 to 2025, official statistics and academic literature, the findings prove that unemployment is determined by an interlocking set of demand and supply constraints. On the demand side, poor formal job creation amid low absorption of county development budgets and limited access to credit limit job creation. On the supply side, there are skills mismatches, structural inequalities (gender, displacement, regional disparity) and geographic disparities, which reduce employability. The paper argues that for meaningful solutions to be established, there is a need for integrated policy action by the National and County governments, Educational Institutions, and the Private sector in order to address both sides at once.

**KEYWORDS:** Unemployment, Demand Side Constraints, Supply Side Constraints, Youths.**INTRODUCTION**

Kenya continues to grapple with the high level of unemployment and underemployment, especially among the youth, despite the continued reforms and investment in education.

According to KNBS data, Kenya created 782,300 new jobs in 2024, out of which only 78,600 were in the formal sector (KNBS, as cited in Business Daily, 2025). The majority of new jobs, around 703,700 were in the informal sector (about 90%) (Business Daily, 2025; Tuko, 2025). The formal sector grew by about 2.4%, bringing its number to about 3.21 million wage employment positions (Business Daily, 2025; Tuko, 2025). Overall employment had increased to 20.77 million in 2024 compared to 19.99 million in 2023 (Business Daily, 2025). This fact further indicates a weak engine of formal job creation with the employment in the informal sector absorbing most of the new job creations (Business Daily, 2025; Tuko, 2025).

Programs such as Ajira Digital and the Kenya Youth Employment Opportunities Project (KYEOP), Affordable Housing Construction projects, and Kazi Mtaani have achieved impact in pockets, but unemployment remains particularly high among youth, women, displaced population and in certain counties like Nairobi, Kisumu and Mombasa which are also underperforming in terms of development spending. This raises a core question: which side of the labor market is more binding, demand or supply, or are both equally constraining?

### **Demand Side Theories**

Demand-side unemployment occurs when the economy does not create enough jobs for all those workers willing to work. Key drivers include:

**Macroeconomic constraints:** Slow economic growth lowers incentives for firms to expand and hire. This could lead to persistent unemployment.

**Inadequate investment in infrastructure:** Poor road networks, electricity and ICT increase operational costs and discourage firms from operating and or expanding. This will in turn reduce employment opportunities.

**Credit constraints:** Access to cheap and timely credit facilities like business loans is another constraint. Small and medium enterprises (SMEs) frequently struggle with high-interest rates and difficulty to get the loans.

In Kenya, most counties are not allocating the statutory 30 (%) of their budget to development projects. In FY 2023/24, county governments spent KSh 109.23 billion in developing which was 57.5% of the development budget whereas the average allocation to development across counties was 33.8% (StatsKenya, 2025). Some counties allocated very little to development, for example, Nairobi allocated around 20% (StatsKenya, 2025).

Absorption of allocated development funds is also problematic. According to reports, Nairobi City and Kisumu had only 29% absorption of their development budgets (K24, 2025). In the first half of FY 2024/25, absorption rates were low in the counties: for example, Mandera had 32%, Elgeyo Marakwet, Lamu, Nakuru, and Kitui each had 5% (AllAfrica, 2025). Overall, development expenditure from all the counties in that period constituted only 16 percent of the total amount of annual development budget (AllAfrica, 2025; Capital FM, 2025; Tuko, 2025).

### **Supply Side Theories**

Supply side constraints refer to the ability of job seekers to match the skills, location, or attributes that employers demand in a Key factors include:

**Skills mismatch:** Many graduates do not possess technical, digital or soft skills that are demanded by employers. The Federation of Kenya Employers (FKE) underlines gaps in technical, digital, and soft skills of graduates highlighting that employers have routinely experienced graduates with limited industry relevant competencies and skills (FKE, 2023).

**Quality of education:** Too much emphasis on theoretical aspect, less on practical observation; less emphasis on vocational or industrial training.

**Structural inequalities:** Systemic and structural inequalities may also contribute to unemployment. Women, displaced people and marginalized youth are faced with additional barriers in their job-seeking efforts.

**Geographic mismatch:** There are general mismatch of job opportunities between urban and rural areas. Jobs are usually concentrated in urban areas, while many workers live far from these areas.

Even with the increased access to education in Kenya, the alignment of the skills the graduates possess and what is needed in industry is weak, and there have been shortcomings in ICT, communication, and entrepreneur skills, which are often cited (KLMIS, academic studies).

### **Hybrid Models or Interactive Models**

Hybrid frameworks (such as those used by ILO) argue that both demand and supply factors interact: weak demand negates opportunities even among qualified persons, while supply

limits job seekers from capitalizing on new jobs when demand rises. Thus, policy must be aimed at both sides in order to have a lasting impact.

## **DISCUSSION**

### **Demand Side Analysis**

#### ***Formal Job Creation vs Informal Job Creation***

In 2024, **782 300** jobs were generated in Kenya, only **78 600** (about 10%) are generated in the formal (modern) sector whereas the remaining **703 700** (about 90%) are generated in the informal sector (Business Daily, 2025; Tuko, 2025; Kenyans.co.ke, 2025). This imbalance points to the weak ability of the formal sector to employ additional labor.

#### ***County Development Expenditure as Labor Demand***

Development spending works as a key demand driver particularly for construction, infrastructure and local work. In FY 2023/24, the counties spent KSh 109.23 billion on development and this represented 57.5% absorption of development budget and development allocation averages endorsed at 33.8% (StatsKenya, 2025). Some counties such as Nairobi allocated only about ~20% towards development (StatsKenya, 2025).

Budget absorption problems also weakens demand. For instance, Nairobi and Kisumu only absorbed about ~29% of planned development budgets (K24, 2025). In the first half of FY 2024/25, Mandera recorded 32% absorption rate whereas counties such as Elgeyo Marakwet, Lamu, Nakuru and Kitui had close to ~5% absorption rate (AllAfrica, 2025; Capital FM, 2025; Tuko, 2025).

### **Access to Credit & Dynamics of Private Sector**

SMEs, which are likely job creation engines, often face high borrowing costs, rigid collateral requirements and limited financial inclusion. This limits their growth and ability to hire.

### **Perceptions & Labor Force Participation**

A negative perception of declining job opportunities may discourage job-search or investment of skills, particularly among the youth. While the evidence from surveys in Kenya is limited, anecdotal and sectoral reports indicate that the effects of discouragement on workers could be important.

## **Supply Side Analysis**

### ***Skills Mismatch***

Employer surveys show that there is a lack of digital, technical and soft skills among graduates needed in the marketplace today. These mismatches are more serious in the rural areas and on those who graduated from under-resourced institutions.

### ***Structural and Social Inequality***

*Gender disparity:* Women often suffer from heavier burdens of care and have less opportunity to form networks and are restricted by their social contexts when compared to men.

*Displacement / marginalization:* Persons from conflict or displacement zones may not have training or institutional support which may support them in getting jobs.

*Urban vs rural divide:* Rural youth can be affected by poor infrastructure developments and connectivity and limited access to job opportunities in comparison to their peers living in urban areas.

### ***Geographical/ Spatial Mismatches***

There is a high job concentration in urban areas like Nairobi, Mombasa et.c disadvantages workers who live in rural areas which are far from job hubs. High costs of commuting or barriers of relocation hinder access to the job opportunities in the urban areas where they are located.

### ***Constraints of the Education System***

Despite increasing graduation and education rates, curricula are often theoretical and not aligned with the market need. Vocational and apprentice opportunities are underutilised. Entrepreneurial training is not consistent across regions. This may result in skills mismatch at labour market greatly disadvantaging many youths.

## **Synthesis & Key Insights**

In weak development investment counties, even qualified job seekers find few opportunities. In cities where demand is stronger, many job seekers still cannot access due to skills, location, and or network constraints.

Although informal employment absorbs many workers, it tends to offer unstable incomes, low rates of productivity growth and low rates of upward mobility.

A low absorption of development budgets has worsened demand gaps as many counties legally obliged to spend 30% on development fail to perform or utilise their development funds.

Programmes focused on supply alone will flounder without demand expansion; on the other hand, demand expansion without improve employability risks positions remaining unfilled.

## CONCLUSION AND RECOMMENDATIONS

### Policy Recommendations & Oversight

#### *Leadings in Oversight & Coordination*

The *Ministry of Labour & Social Protection* should spearhead a joint task force that would include:

- Ministry of Education
- Ministry of Industrialization, Trade & Enterprise Development
- National Treasury
- Council of Governors
- Private sector/ industry associations
- Civil society organizations (youth, women, groups of people displaced)

The strategy must be dual sided in nature to provide the strategies that would address the demand side and supply side constraint:

#### **A. Demand Side Interventions**

##### **1. Enforce and Support County Development Spending**

Ensure counties meet or exceed a 30% requirement, provide capacity support and introduce accountability measures where they have weak absorption.

##### **2. Accessible Finance to SMEs & Startups**

government to fast track and expand credit guarantee schemes, ease collateral requirements, give subsidies, especially towards specific target group on youth and rural entrepreneurs,

##### **3. Public Private Partnership (PPPs)**

More private actors should be involved in the development of infrastructures, ICT, energy and local public works to stimulate job creation and investments.

##### **4. Countercyclical Public Investment**

During periods of downturn, priority should be directed to labour-intensive sectors such as roads and water, rural infrastructure to ensure that aggregate demand is upheld.

## **B. Supply Side Interventions**

### **1. Curriculum Reform & Practical Training**

Revamp curricula in schools, colleges and universities to reflect the market needs (emphasis on technical, digital and soft skills). Expand Apprenticeship and on-the-job Training. This has been partly addressed through the application of the CBC curriculum which promotes the acquisition of practical skills and competencies.

### **2. Regional Training Hubs**

Vocational/technical institutions should be developed by the government in underserved and marginalized counties so as to reduce locational barriers.

### **3. Specialized Support of Marginalized Groups**

Tailored programs for women, displaced persons and rural youth with a focus attention on mentoring, job matching, training subsidies and childcare support should be developed.

### **4. Entrepreneurship & Innovation Ecosystem**

Establishment of incubators, seed funding and innovation hubs to make this job creation sustainable from within communities.

## **Monitoring, Evaluating & Data Systems**

### **1. National employment observatory.**

Establish a real-time data aggregation platform on county and national labor data - formal/informal job fads, skills gap, demographic breakdown

### **2. County Performance Scorecards.**

Track Metrics (e.g. Share of development spending, Absorption rate, Jobs growth by Sector, Youth employment etc.) and make them publicly available.

### **3. Ongoing Employers Surveys & Skills Audits**

Work with academia, private sector, and think tanks on a regular basis to determine labor demand, skills gap, and inform policy iteration.

### **4. Performance Contracts & Mechanisms of Accountability**

Tie performance of counties and national leadership to job development and employment - clear incentives and penalties.

## **CONCLUSION**

Kenya's unemployment challenge is multi-dimensional: lack of formal job creation, low level of development spending and financial exclusion is limiting demand, whereas skills mismatch, social inequalities and geographical disparities is limiting supply. Real progress will require

coordinating interventions on the demand and supply side of the issue. National and county government alignment, responsive education systems, private sector involvement and inclusion of marginalized groups are all crucial in delivering a proper solution to the unemployment challenge being encounter in Kenya presently. With strict monitoring and accountability, Kenya can make it possible to shift to a more inclusive and more resilient labor market.

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